



Discurso del ministro Downer en la Cámara de Comercio Argentino-Australiana.

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INEDITO

Buenos Aires, 27 March 2001

www.asiayargentina.com

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(Introductory words not recorded)

We came to a point where we thought that as a country we could do a lot better than we were doing. After all we have a vast land mass, which means we have cheap land, we're very rich in natural resources, and we have a high level of education in Australia, so we have a highly educated workforce. We didn't think, though, as we got to the early 1980s that we were doing as well as we could as a country.

We have really gone through a process of continuing - and at times very difficult - economic reform, according to a particular model on how to run an economy, ever since the early 1980s. Our model is basically the liberal market, capitalist, competitive model. Sometimes it is referred to outside of countries like Australia, the United States and Britain as the "Anglo-Saxon" model. Well, we don't call it that ourselves, we just think - this is a very simple point, and one I made to the President today - that there was never a liberal market economy that was poor, and that has been the guide for us. There have been plenty of closed economies or semi-closed economies that have done very poorly, some that have done extremely badly, and some that are in or around that part of the world. But we never saw an open, liberal economy that was a poor economy.

So what we started to do was make a whole series of structural changes from the early 1980s. The first significant change - and I'm not giving you advice that you should do this - was that we floated the Australian dollar. So the Australian dollar is entirely determined by international market forces. From time to time there is an intervention by our Central Bank, which is called the Reserve Bank of Australia. But that intervention is only for market smoothing operations, it doesn't to change the general direction of the exchange rate.

The second thing that we started to do was to deregulate our financial sector. Mind you, this might have started a little earlier, but what we importantly did through the 1980s was the deregulation of our financial sector to make it more competitive. We used to keep out foreign banks from Australia, because we thought "Banking and finance is very sensitive and we shouldn't allow foreign banks to get in too aggressively into our wholesale and retail banking in Australia". We decided after a while that maybe that wasn't right. One of the problems we had was that our banks weren't sufficiently competitive because there wasn't enough outside competition for those banks. So we opened up our financial sector to competition. A lot of foreign banks came into Australia and they are now still able to operate both at the retail and wholesale levels. In Australia, foreign banks are able to open up branches if they want in competition with the existing Australian banks. They don't very often do it, but the fact that they could do it is an extraordinary discipline on Australian banks. Now I've spent a bit of time talking about the financial sector reform because I do think it is enormously important to have an efficient financial sector. And governments will never make the financial sector efficient; we all know - and I am a politician and a Minister - we all know governments wouldn't have a clue on how to run banks and financial institutions, I respectfully leave that to business itself. The only proviso is that it is very important to have a proper prudential supervision of financial institutions, and I don't think we did that very well during the 1980s, and some of our banks got into a lot of difficulties in the late 1980s. But that has been tightened up a great deal in Australia now and so the quality of prudential supervision by the Central Bank and other public authorities operates in a framework where beyond that, and beyond the basic rules of the market, there is just open competition. And that applies to the insurance sector and various other markets, from the stock market through to futures markets and all of those sorts of things. That was the second very important reform we made in our country, to restructure our financial sector.

At the same time, we did something that I think as a country was very courageous politically, and that was that we embarked on the great adventure of substantially reducing tariffs. In the earlier part of the 20th Century we operated, particularly for our manufacturing sector, behind high tariff walls - you know, 40, 50% tariffs. We decided that wasn't going to work for us, and so particularly during the 1980s, into the 90s and up until now we have been basically dismantling the tariff walls in Australia. That has been incredibly successful. I know that there are critics of this policy in Australia, and there are some who challenge it, but at the end of the day it has in fact been very successful. Because what it has done is to force our businesses to become outward looking instead of inward looking. It has forced them to say "If we're going to survive, we've got to get into the international marketplace, but to get into the international marketplace we're going to have to become more competitive." And that doesn't mean just reducing costs, by the way, it also means using means using your brain and making sure that you come up with higher quality products.

For example, in our automotive industry, which used to have tariff protection of 50 or 60 percent - now it is 15 percent, which is one of the highest rates of protection of any industry, but it has come down enormously - we used to make a lot of cars and they were basically very bad. Now we make a lot of cars and they are basically very good and we export more cars than we do wool (in value, obviously). We export cars to your next door neighbour, Brazil, and to the Middle East, Asia, the United States and so on. We could never have done that before we reduced tariff barriers because there was never any incentive for our automotive industry to be competitive, and to have high levels of productivity and produce quality products. Because we are never going to be a low-wage country; we are a very high-wage country, and therefore we need to concentrate on high productivity and high quality products - with a good design, those sorts of things. I often say to people, "How is it that a country like Germany, which must have amongst the highest wages in the world, can be such a massive car exporter?" And the answer is "Because although the cars are very expensive they are believed to be very good." (Personally, I think they are very good.) In our case we had to move the quality of our manufacturing very substantially up, and so the reduction in tariffs, the opening of manufacturing to the international marketplace, have forced businesses to improve the quality of their products, and it has proved pretty successful. And so that was the first wave of changes that we made in Australia.

The second wave of changes has equally been focused on this question of competitiveness and productivity. We've had very rigid labour markets in Australia - a very, very long tradition of labour market rigidity. And that doesn't mean a lot in other countries because different countries do these things in very different ways. But basically what we said is that we will reduce the rigidities in the labour market to allow there to be much more labour flexibility. Now, not just flexibility in wages, but flexibility in working hours, flexibility in the details of work: when people take their vacation, what hours they go to work, what hours they come home. All of these things have been made a great deal more flexible. Which has had the effect of not only making people more relaxed about their work, because they are able to adjust their times and hours in a way that suits their broader lifestyles, but it has ensured that there has been substantial improvement in productivity.

So we have focused on making these changes for a long time, but the last and very important point about it is that we have also had to focus on the role of government in this process. Now I've been talking about how we have been basically getting government out of the marketplace. Government has not been the solution to the problem - government, in the main, has been the cause of the problem. When it comes to government, though, it must provide education services, it must provide for the defence of the nation, it must ensure that things like transport and communications are properly provided for, a good health system - in our case quite an extensive social security system - and all those sorts of things. And these are big money, they are enormously expensive things to do. So we say that the performance of government has a significant bearing on the economy.

What we have to ensure is that government doesn't spend more than it earns, just as a business shouldn't be spending more than it earns. Government should not be accumulating debt endlessly, and placing more and more costs, just of debt servicing, on taxpayers down generations. Particularly in the last 5 or 6 years we have really addressed this issue. Five years ago we had a budget deficit of 11 billion dollars; in the last year we've run a budget surplus of around 6 or 7 billion dollars. We have got rid of our deficits and started to generate surpluses and we have paid off vast chunks of government debt. So the government debt now, as a proportion of GDP in Australia, is only around 4 or so percent. And we believe - all going well - that in the next 3 or 4 years we will be able to eliminate government debt altogether, which will be the first time Australia has eliminated government debt since 1901, when the six original colonies of Australia came together to form the one nation. It is our ambition to eliminate government debt altogether, and we'll see that we do. And how have we reduced government debt? We reduced government debt not exclusively, but predominantly with the proceeds of privatisation. Because we took the view that governments weren't very good at running businesses, and so we'd better get the private sector to run businesses, and we privatised a large number of government-run enterprises. And not only did we privatise them and used the proceeds - particularly in recent years - to reduce government debt, but we also created competitive markets. Because it is our view that not only should you have private companies operating in business - as you certainly should - but they must be in a competitive market. Otherwise the private companies will just start extracting monopoly rates from the marketplace and generate great inefficiencies.

Now, those companies that once - in our case - had monopolies or virtual monopolies or oligopolies were terribly unhappy when they were told we were going to create competitive markets. But the fact is that, for the

consumers, prices have come down enormously, the quality of services and products has increased vastly. Our air services have become very much cheaper, the number and variety of flights has changed very much for the better. Telecommunications have become a great deal more competitive. We've seen much cheaper phone calls provided, much more extensive services provided, and so the list goes on. Of course, this has an overall effect on the economy, since the government has gone out of a lot of these areas, sold the assets and used that money to pay off debt. So all of this reform process has served us very well.

The last change that we made - and there will be many more that we'll have to continue to make in the years ahead, because this is a process that never ends - was a change to our taxation system. I won't bore you with the details of those changes, but basically we introduced a broadly-based value added tax system, we abolished our old sales tax that we had before that, and we reduced the burden of income tax. So our VAT, or as we call it in Australia the Goods and Services Tax, is of 10%, which is pretty low by the standards of the world. And we have been able to reduce income taxes somewhat. The integrity of our tax system of course is a very important issue. It is a very sensitive issue in every country. If you charge people too much tax then they will invest a great deal of money trying to avoid paying tax altogether. If you have a tax system which is poorly designed there will be an enormous number of loopholes in that tax system, and clever accountants and lawyers will be able to construct schemes to avoid paying taxes or else minimise the payment of tax. So those sorts of issues have been enormously important to us, and whilst I don't know that the Australian people would always say that they like the Australian tax system, we think it basically serves our interest very well.

So when I make this speech to you today I guess I feel I am putting a very positive interpretation on the way Australia is going. And we've certainly seen good results from all of this reform. We've seen our economy for 14 consecutive quarters in a row grow by more than 4% a year. That is a very high rate of growth for an industrialised economy, for a developed economy. We've also seen very significant growth in our productivity in Australia in recent years. We have, actually, in the very last quarter, seen negative growth in Australia, but we see this as a one-off factor brought about in particular by the Olympic Games, which were just at the beginning of the quarter, and when they finished there was a bit of a loss of activity, as you can imagine. And the changes we made to the tax system made some sectors of the economy, particularly in housing, bring a lot of activity forward in advance of the tax changes, and so of course there was less activity through the latter part of last year.

But generally speaking, on average, our performance has been better in the last few years than it has ever been before. And that is because we have made this enormous - if you like, very rational - commitment to economic reform.

Let me make one other point, speaking here as a politician - you must be told this, because if you are ever thinking of going down this path it is worth reflecting on it - a lot of this reform is not popular. It actually is not a great vote winner. It is always a vote winner to appease producer interests, and to appease the interests of those who squeal. That is always perceived to be good politics. Don't let the noisy get too noisy - oil squeaky wheels, we sometimes say. So we actually do have a few squeaky wheels in Australia, because we haven't been doing that, and maybe politically we need to do a little bit more of that between now and the next election. Time to get out the oil and do a little oiling of squeaky wheels. But let me just say that we have been very dedicated and we will continue to be very dedicated to the reform program, and in doing that we have spent a fair amount of money in looking after the people who are the losers in that process. For some people there is a disadvantage that comes with reform, and therefore there need to be packages put together to help those people. That can be quite costly, but it is better to do that than to avoid the process of reform altogether. Because if you avoid the process of reform altogether, then you will be damned to a very difficult future. If you try to compensate, in one way or another, the losers from the reform process, you might be able to afford it, and that is certainly the approach we've taken in our country.

Let me finally say that this enormous restructuring of the Australian economy over the last 20 or so years has been very good for the psyche of the nation, in that it has helped us engage much more with the outside world and with globalisation. There was a time when we used to be predominantly an agricultural and mineral producer, and we still are a significant agricultural and mineral producer, but agriculture today in Australia is only about 3% of GDP. The information and communications technology sector is very much bigger in Australia than agriculture - it's about up to 7 or 8 % of GDP. Our mining sector too is I think about 12% of GDP. Services are about 64% of GDP. And in terms of information and communications technology, which is so much at the heart of high

productivity - one of the reasons the United States economy grew so fast over the last few years was because of the introduction of information and communications technology - we've seen that in Australia as well. Today it is a very big sector of our economy, and the level of penetration of personal computers and Internet and so on in Australia, and the application to business of this technology, has been one of the highest in the world - the 5th or 6th highest in the world. It's been quite successful. I think it's the liberal market that has encouraged that. A lot of this technology is imported, particularly computer hardware - computer software we are a net exporter of, we write a lot of that stuff and then export it. But we have become a much more outward looking, engaged country than we used to be. Trade as a proportion of our GDP has nearly doubled over the last few years.

That brings me finally to Argentina. As a result of all of these changes - and as a result of changes here in South America as well, and particularly in Argentina, with the gradual opening up and liberalisation of your economies - we have started to become much more involved with you, and I think that is something that for us is enormously welcome. Some of you here represent Australian companies or Australian investors, and Australia is the 7th largest foreign investor here in Argentina, even though Australia is only the 14th biggest economy in the world. The significant amount of investment that there is in the mining sector, but not just in mining, in agribusiness, in cinemas, in ports in Buenos Aires, and so the list goes on - it very much reflects the much more outward looking approach there is in Australia, and the desire of Australians to engage much more fully with this part of the world.

So I very much hope that we are at the beginning of a period of enormous economic engagement between Australia and Argentina, and a real flowering of our political relations as well. And for that reason I am here and I must say I very much appreciated the opportunity to come to Buenos Aires, to meet people and to hear the good news about how Australian business is doing here. I know you're going through a difficult time in Argentina; I think however you should take a message of hope away from me, and that is that we look upon other countries in the world in the medium term. We go through good years and bad years, good months and bad - everybody does. No matter how much economic reform we've had in Australia, we've had our good months and our bad months as well: we've actually been going through a more difficult period in the last few months. But you always have to look at things in the medium term, and it is our view that the medium term prospects of this country are excellent.

This is a country with an extremely educated population and workforce; this is a country with an enormous wealth of natural resources. You have close and easy access to the rest of Mercosur, in other words vast markets, and with enormous potential through ideas such as the Free Trade Agreement of the Americas, your link to the European Union and so on, which make Argentina a country with enormous potential for a country like ours. We wish you well through your difficult period right now. You will obviously get through it, and your government - I know from talking to them - has an enormous degree of determination to work its way through it. I'm sure they will be supported by the business community here - business communities do sometimes support governments through difficult times. I think that you should take it from me that the view we have in Australia is that the medium term outlook for Argentina is extremely good and we look forward to being a close friend and a partner of Argentina.

Thank you very much.

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