

POLITICS AND THE ECONOMY

Sir Arvi Parbo

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Preface

Sir Arvi Parbo is not involved in party political activities.

His friends delight in telling him that he does not understand politics, a fact which, as he concedes, is probably true, since what is said to be good politics, quite often makes no sense to him at all.

He believes that, in politics pursued on party lines the participants are at times obligated to support attitudes and policies regardless of whether or not they agree; there is pressure to pursue positions or to adopt tactics to gain an advantage over the opposing party, even if these are not in the long-term interest of society. This is what one of his friends calls the democratic disease!

Sir Arvi wants to be free to deal with issues on their merits, regardless of whether it suits the purposes of one political party or another. To this end, he is continually reminded of the Bismarck quote "if one wants to retain one's respect for politics or sausages, one should not know too much about how either is made."

Whilst not party political, he is a strong supporter of the democratic private enterprise system, not because of ideology, but because of the personal experience of having also lived under two other very different systems of government.

He believes that the attempts in recent years for the state-owned economies of the Soviet Union, China and elsewhere to move towards private enterprise are no more than belated recognition that it is the only system compatible with human nature and capable of delivering a high standard of living in an environment of freedom of body and spirit.

Whilst a strong supporter of our system, he is very much aware that amongst the many freedoms it generates are the freedom to make mistakes and the freedom to pursue nonsense causes. He



believes that some of the nonsense issues are such that they detract from and even endanger the system.

On the 5th May, 1989 Sir Arvi delivered a speech to the Melbourne Branch of the Liberal Party of Victoria, stating that the views he expressed were not particularly tailored to that particular audience, and that he would express the same views to a gathering of the Socialist Left or to the Supreme Soviet. But as he says, "so far I have not been

invited to address either the Socialist Left or the Supreme Soviet!"

Following, is the transcript of that thought provoking address given on the 5th May:

What appears important to different people seems to relate to what they do. Politicians talk about "political reality" as superseding everything else; if you are not elected, other things do not seem to matter much. People in the industrial relations area regard what they call "industrial reality" as governing everything, which usually means awarding with great uncton the lion's share to the lion! You might therefore say that when I am holding up "economic reality" as the key concern, I am simply reflecting my own background. This is probably true to some extent, but I submit to you that, in the end, economic reality is what governs all our lives, including those of politicians, union leaders, industrialists, and everyone else - even social workers. We can ignore this reality for a time - at a cost - but we cannot avoid it for any length of time. The cost of ignoring it in the short term will eventually have to be paid. Regrettably, it is never paid by those in power who make economically bad decisions but by the citizens: by you and me.

The quality of life in its many facets - material, social, cultural, intellectual, psychological,

religious, family and so on - depends on a strong economic base. All their supporters demand more resources. To use our economic performance as an indicator of achievement and well-being is not an expression of greed or a mindless quest for material possessions, but simply a shorthand way of expressing our ability to achieve high standards across the whole spectrum of human activity. Also, the weaker the economy the more possible it is that the democratic system will break down.

It is difficult to imagine a country in more advantageous circumstances than we are.

We have the stewardship of a huge continent. We have the *ability to produce far more food and fibres*, such as wheat and wool, than we need.

We have a great *abundance of virtually every mineral* and a high potential for finding more. We have *far more than adequate land* and an excellent climate, no pollution problems worth speaking about, relatively few natural disasters, no real racial problems, a *literate population* and freedom from terrorism. We are part of the Western Pacific region, *economically the fastest growing area in the world*, with no quarrelsome neighbours or discernible military threat at present. We have a *truly democratic political system*, an impressive record of economic development, high living standards, and a proven ability to establish and operate world scale enterprises. *We should be the envy of most of the people elsewhere in the world.*

One of our major concerns is to convince the world that a small group of just over 16 million people *deserve to be the guardians of such good fortune*. We can do so only by making wise use of the advantages and by gaining the respect of the world for the way we conduct ourselves. *Building a strong and prosperous economy is a vital part of gaining this respect.*

A strong economic base will also enable us to gain respect through *establishing a defence capability which we do not have today*. We would be extremely foolish to assume that the present lack of identifiable external threat will last forever.

Instead of being strong, the Australian economy is at present in deep trouble.

In addition to importing investment goods which will subsequently earn their keep, we are also consuming considerably more than we are producing. The continued functioning of Australia depends on a *massive inflow of overseas money to pay for the difference*. While this inflow enables us

to keep going, it also adds to the *already excessive and growing overseas debt* which in turn makes the problem worse.

In June 1980 our net overseas debt was 6.3% of GDP - that is 6.3% of what we produce annually. By June 1985 it had leapt to 25% and is *now over 30% of GDP*. In these terms it has *risen by five times in less than a decade*. In money terms we have gone up 14 times from a net debt of about \$7 billion to *what will be around \$100 billion by the middle of this year*. (The gross debt is well over \$100 billion.) The debt is *increasing at the rate of \$50 million a day*. During the next hour and a half - it will have increased by \$3 million!

Some of us in the business community have come to feel a little like Cassandra!

You may remember from your classical education that in Greek mythology Cassandra was the Princess of Troy who was given the gift of prophecy by her suitor, Apollo. But, she turned him down so Apollo, being a god, and seeking revenge, caused her not to be believed. She kept on, to no avail, warning about the calamities she could see ahead.

A number of people started to express concern about Australia's overseas debt as *long as five years ago*. In this case it has been not so much a matter of not being believed than of being *over-shadowed by the so-called political realities; the overwhelming desire not to upset the voters.*

After a brief period of realistic public appraisals of the situation by Paul Keating, the Prime Minister and the Leader of the Federal Opposition in mid-1986, there was *virtually no mention of the debt problem by either major political party in the July, 1987, Federal election campaign*. The issue was simply avoided. Following the subsequent unexpected upturn of commodity markets, we were advised last year by the Government that all problems had been as good as solved. *It has dawned only quite recently on the broader community that, while benefiting from a major commodity boom, we have been at best only maintaining our position and most likely actually going backwards*. What will happen when the commodity markets turn down, as they certainly will at some time in the future - perhaps in the near future? In the middle distance there is the additional problem of Bass Strait oil production running down which, in the absence of major new oil discoveries, will need to be *replaced by imports*.

My analogy of the Australian economy is that of an egg standing on its end, and the

sharp end at that.

It is absolutely vital that we should face up to this very serious problem. There is a great danger that, with another Federal election looming, the major parties will once again sweep the unpleasant matters under the carpet. The Treasurer, in his April Economic Statement devoted all of three sentences to it. The Leader of the Opposition in his Address in Reply was more outspoken. It remains to be seen how the issue will be dealt with at election time. Meanwhile, the cost of not dealing adequately with the economic reality keeps mounting. You and me and our children will be handed the bill.

It is a sobering thought that the reason this might happen is that the politicians believe *we the voters, do not want to face up to the problem.* If this is true then in the end we ourselves are to blame. Do the politicians *under-estimate us, or have they read us right? Are we really so foolish that we think hiding our heads in sand will make the reality go away?*

There is no need for us as a nation to be negative about the future. *The solutions to our problems are in our own hands.* There are recent examples of countries which have succeeded spectacularly, starting from a far less advantageous position than ours. The challenges before us are in fact *great opportunities* to change the life of Australians *very much for the better.*

Our basic need is for much better performance. This includes working harder, but it means much more than that. It means improving our skills, removing artificial obstacles to the efficient functioning of the economy and, above all, developing a community attitude which supports and applauds achievement. It means *encouraging, not discouraging the natural desire of individuals to improve themselves.* It means making the most of our advantages and abilities *in a common sense environment.*

In evaluating our performance we must compare ourselves not with what we did previously, but with our competitors around the world who, of course, are improving their performance all the time. The target is moving continuously.

Our competitors are the best in the world.

To succeed we need to match them and, indeed, be better than they are. This will make very high demands on the quality, determination, and skills of Australians.

This is the common thread through all our considerations of the future; we are very much a

part of the world. We will succeed or fail depending on how we compare with the rest of the world. There is nothing we can do to escape this reality; there is nowhere to hide from it.

It is true that progress has been made in recent years towards these goals, and that the Federal Government can take a substantial part of the credit for this. I do not in any way wish to minimize these achievements, but it is also true that we are a long way from where we need to be. Governments tend to follow the policy of gradualism because this *minimizes the internal political risks.* On the other hand, gradualism means a *high external risk* that the changes *do not occur fast enough.* Our critically important transport sector is so far a perfect example of this.

A fresh approach is clearly necessary.

It seems to me that to make real progress in many such issues needs an *openly and strongly bipartisan political approach.* Not only must the interests of the nation be *put above petty political bickering* but what needs to be done must be presented in the true light as *great opportunities.*

In Australia we still have a tendency to look to someone else to solve our problems. We tend to think of the economy as something which is separate from us as individuals, *and which is primarily the responsibility of the government.* We expect government, industry or unions, or other parts of the economic and social machinery to do things for us while we, the citizens, *sort of look on.* We have the tendency to behave as spectators instead of participants.

Many of us have developed an entitlement mentality; the way to get what you want is to demand it in a loud voice. The transformation of Australia into a performance-oriented society requires a major change in this attitude.

Superior performance is not achieved by governments, the industry, the unions or any other part of the machinery; *it is achieved by individuals.* The advantages we have as a country do not entitle us to anything; *on the contrary, they represent an obligation to make full and wise use of these advantages.*

We need single-minded dedication towards continually improving our performance, such as been shown to succeed for example in Japan, South Korea, Singapore and Taiwan. We need to understand that *building a successful economy is not a one-off task* which can be accomplished in a year or two, after which we can all relax and retire for the equivalent of the long weekend on the beach. On the contrary, *it is an on-going task which is never finished,* requiring persistent high

level effort day after day, week after week, month after month, year after year. *It is something like walking up a down escalator: you've got to keep walking even to stand still and you've got to walk pretty fast to make progress.*

We are a long way from having such dedication in Australia. In fact we have very active interest groups under various names which *do not care or at best, do not understand about the other consequences of pursuing their single interest ambitions, and at worst are strongly and openly anti-development.*

These groups represent a disparate and amorphous adversary culture. In its milder forms this reflects genuine concern about the community, the less privileged, the environment and so on; we are better off as a result.

In its more *extreme form* we find groups which are politically focused, ideological, or just bitter and power-seeking, which are out to exploit the *idealism of some and the apathy of the rest.* The groups embrace the high moralist, the radical chic, elements of the old left and many in the well meaning, educated middle-classes. Many of their elements have moved from rational and concerned debate to the *politics of protest* and, ultimately, *veto.* This includes the *extreme* so-called environmentalists, whose mission in life is not to ensure good care of the environment *but to prevent any activity at all.* Virtually any new projects of substance, from mining developments to paper mills, to new train proposals, to space ports and so on, are *automatically opposed as a matter of principle.*

Dr Goebbels, the celebrated master of the art of getting people to believe the outrageous, would be proud of the way such opposition is marketed today. The principle that the bigger the untruth the greater the acceptance continues to hold.

A very dangerous feature introduced in recent times has been that major new developments have been increasingly and successfully used by special interest groups as *political footballs.* Such developments are difficult enough to get off the ground in a fully supportive atmosphere. It is to be hoped for the sake of all of us that our political leaders will come to see that *the future of Australia depends on bipartisan support of the developments we desperately need.*

In Australian Rules football a new specialization by some players has developed in recent times, to which commentators have given the name of "roving negators." Their job is to tag the star players of the opposition, to do nothing positive themselves, but simply to negate their opponent's performance. In economic activity we are also constantly

tagged by such roving negators who seem capable of moving quickly all over Australia.

To return to Greek mythology: Prometheus stole fire for mankind from the supreme god Zeus and taught mankind many things to help them improve their life. For punishment he was chained to a rock where each day a vulture came to feed on his liver, which was then restored for the vulture each succeeding night. There are famous paintings depicting this legend.

It is perhaps too dramatic to use this as a direct comparison with modern day negators, but it is certainly true that a small but very active part of the community is busy out there devising punishments for those who are trying to improve our life.

Some Ministers and departments work hard to build and improve while others work equally hard against them.

A free democratic society must, of course, allow for all kinds of views and all forms of expression, however irrational and undesirable these may seem to some of us and even to the vast majority in the community. There can be no argument about that. There is, however, cause for great concern that many such groups are *increasingly aided and abetted through funding and support by governments in a blatant attempt to gain votes.* Thus we have the spectacle of some ministers and departments working hard to build and improve the economy, and others in the *same government* working, with considerable success, equally hard against it.

As a final analogy from Greek mythology, you may recall that King Sisyphus offended the gods and was condemned to roll a large stone to the top of a hill. Each time it reached the summit it rolled back down to the plain. The poor chap had to start rolling it up again so that his punishment was constant, eternal, and no doubt hugely frustrating. Some of the ministers dedicated to improving the economy must feel like that. I know that some of us in business and industry often do! The great rock represents *the burden of unnecessary constraints, limitations, road blocks, excessive regulations, unproductive practices and at times just bloody minded obstruction which make Australia's economic regeneration so hard to achieve.*

The really worrying aspect of what is happening is that in circumstances where the country's highest priority should be to encourage activities helping to overcome the current account deficit, and where all our efforts should be dedicated single-mindedly to getting back on our

economic feet, not only those anti-everything but *even some people in government seem to be quite unconcerned about it.*

Far from mounting the supreme effort which is necessary, we continue shutting our eyes to the problem.

As an example, gold production in Australia has experienced ninefold growth since 1980.

One important reason for this extraordinary performance which made an invaluable contribution to the current account has been the *taxation system applying to gold mining* which has directly encouraged reinvestment of the profits in the industry. *The price of gold has also been important, but has been only a part of the explanation as shown by the experience in Canada where the growth during the same time has been only threefold.*

Contrary to the mistaken belief of many, profits from gold mining in Australia are not tax-free. They are taxed in the hands of the shareholders when they receive their dividends or realize capital gains.

The difference between gold mining taxation and general industry taxation is that there has been a strong incentive for gold companies to plough back profits into further investment, which is exactly what is needed. *The system applying to the rest of industry actually discourages company savings.* It encourages paying high dividends (with a tax rebate to recipients) and *borrowing or otherwise raising money for new investment.*

The Government's White Paper On Taxation in 1985 concluded that an integration system (which is very similar to that now applied to gold mining) is the optimum for company taxation, and that the present imputation system should be regarded as a step towards it. One would therefore think that in the circumstances we find ourselves, the Government would be working very hard to *extend the gold taxation system to all industry.* Instead, it has decided to take the retrograde step of subjecting gold mining from 1991 to the second best imputation system.

It has been said *that to bring about the positive changes is too difficult and too complex.* Personally I have complete faith in the ability of our leaders and the administrators in Canberra to overcome any problems. *We know that they are very good at this, because they admit it themselves.*

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There are some positive signs on the horizon.
Australians should be encouraged to save more of their income for investment in productive activities.

Our savings rate for a country in our circumstances is *far too low*, and much of the saving there is, is invested in non-productive assets, either because this is part of our culture, or because these assets promise superior returns. A very important step in extricating ourselves from the unpleasant economic situation is to encourage Australians to save more of their income for investment in productive activities.

This needs a *change of attitudes*, the creation of conditions which make saving more attractive than spending, and an environment which encourages investment in productive enterprises. One of the pleasing consequences of the recent bad economic news is that public comment, including comments by some senior ministers in Canberra, has become supportive of encouraging saving. While there has also been some negative comment from Government, let us hope that the positive view can be put into a form which conforms to the political reality as seen by both sides of politics. If so, it will be one of the best things we will have done to help ourselves.

A finish on an optimistic note!

I want to finish on an optimistic note. I am an optimist by nature, otherwise I could not have spent my working life in the mineral industry.

I think that this country has a great future. We can make it a resounding success if we dedicate ourselves to achieving this.

I think that Australians are *people of much common sense who will not be misled by the extreme ideologies or excesses of either the left or the right*, or attracted to causes which make no sense when examined in the overall context of what Australia needs. I think that Australians have the good sense to see the roving negators for what they are; *not only non-contributors but a dreadful burden on the community.* The negators do not disadvantage just business and industry; *they work against the best interest of us all.*

The future is in our own hands.

I believe that our young people are amongst the brightest and the best anywhere, anxious to make their contribution, needing only guidance and encouragement. The country will be in good hands when in due course they take over responsibility. Our main concern should be that we should not need to be ashamed of the legacy we leave them.