



PRIME MINISTER

TRANSCRIPT OF INTERVIEW WITH ANDREW OLLE, PAUL LYNEHAM & JIM MIDDLETON, 4 CORNERS, 17 APRIL 1989

E & O E - PROOF ONLY

OLLE: Within the next 12 months and possibly a lot sooner Australians must choose their next Prime Minister. There are just two serious contenders for the position and tonight they're both here in our Sydney studios for job interviews. The direct comparison should help us ensure the country's placed in the very best of hands. To ensure the questioning's in the very best of hands I'm joined by ABC televisions' Chief Political Correspondents', Paul Lyneham and Jim Middleton. Last week's economic statement and the critical weekend by-election have given a sharp focus to the performance of our alternative Prime Ministers. As we all know the incumbent won't go face to face with his opposite number so you'll have to settle for back to back. While we're talking to Bob Hawke, John Howard is waiting in the wings, out of ear shot, in the proverbial sound proof booth. Well Prime Minister that seems as good a place as any to start. Why won't you debate head on with John Howard? I mean you've had -

PM: I do it in the Parliament when he's prepared to face me in the Parliament, which is very seldom. I'm not going to give this man who can't get great standing in his own Party an additional platform. There is no need to. I'll be judged on the performance of this Government.

OLLE: Maybe you don't need to but you used to relish such encounters. I mean are you no more confident about that -?

PM: Before I was Prime Minister - I do a lot of things differently since I've been Prime Minister, Andrew, as you probably know.

OLLE: It's just that he's just outside there. It seems like -

PM: Look let's get on with it. Why waste time on that.

OLLE: Alright you're clearly not going to move on that. Let's look at Greensborough. You've won but it was hardly a terrific result for you, was it, 16% loss of primary votes?

PM: Well let's judge it against the assessments that were made by the National Party and the Liberal Party before the by-election. The National Party said and one of the leading figures in the Liberal Party said they expected a swing of between 15 and 20%. They got about 5. Now a traditional by-election swing, given the circumstances of the VEDC, the Fordham resignation, the National Safety Council of Australia fiasco and high interest rates, I'll settle for that win thank you.

MIDDLETON: It is nevertheless an erosion of votes. Is perhaps one of the problems that you've confused the voters of Australia? On the one hand you're continuing to ask them for restraint but by the same token you've just given them or are just about to give them some more money. That confusion part of the problem?

PM: I don't know whether it's confusion but it is true that we've asked the voters to restrain over a fairly long period of time. But it's also the case that last year I promised them, to continue after this year to promise them that by the 1st of July we'd be giving them significant tax cuts which will ensure an improvement in their real standards of living. We're doing that in a situation and in a way which we believe should not involve a significant increase in demand because the other factors which have had the economy boiling away will not be there to the same extent. We won't have the great increase in the terms of trade, we won't have investment at the same high levels, for example, and we won't have housing construction at the same high levels so we're paying for the tax cuts out of the accumulated decisions we've made before which gave us the significant budget surplus. So there may be some confusion. They certainly don't like the high interest rates but the fact is that we can't have them lower at the moment while we get the level of activity down.

MIDDLETON: It does sound a little bit like a reward for being good.

PM: It sounds much more like what it is and that is the delivery of a promise specifically made last year. That is that if there was wage restraint during 1988-9 Jim, and there has been, and if we could negotiate wage restraint for '89-90 which we have done, then I promised that there would be significant tax cuts from July 1. There is nothing more complex than that. It's the delivery of a relevant economic and political promise. That is if we had not done what we have done, that is promise significant wage (sic) cuts, workers having exercised wage restraint, then in the economic circumstances they would've been able to obtain a massive increase in wages. So what we're getting is a buy-off of a massive increase in wage costs by the delivery of a specific and responsible promise to deliver tax cuts.

LYNEHAM: But many Australians Prime Minister believe I think that we are now closer to the banana republic than we were in '86 when Paul Keating issued that -

PM: I don't really believe that and if they do they are wrong. The evidence is overwhelmingly against that. What we had then was a massive decline in the terms of trade which slashes -

LYNEHAM: It's worse now.

PM: No. The terms of trade have improved, more than improved ...

LYNEHAM: inaudible

PM: But what you've got to understand about the current account is that that is made up very substantially of a massive increase in investment. The investment levels of Australia now are the highest as a proportion of gross domestic product they have been for the 40 years that comparable records have been kept. So we're restructuring Australian industry, there is a massive re-equipment going on, and that will mean that in the period ahead you're going to have an Australian sector, an industrial sector, which is going to be more able to compete with imports and also provide more exports. And remember that the level of manufactured exports has increased in each of the last two years by 20%, we're going to do better than that in the future I believe.

LYNEHAM: Well if the tax cuts and the wage increases are not going to fuel demand and make our trading position even worse, why have you felt the need to urge Australians to either save that money or buy Australian made -

PM: Well obviously we'd be best - I mean I don't want to see demand burst out but for the reasons I've put before the factors that have been putting demand at a high level are not going to be repeated. But it would still be better for Australians - for those Australians who can - and I realise not all can - to save rather than spend. But it remains true that obviously with a deficit on the external account it would be much better if Australians could buy Australian rather than to buy imports and so I've asked that they do that. I mean there is just no argument amongst any economist about that. We'll all be better off if all off us - and myself included - you, Australians out there, all your viewers, if we can spend the additional disposable income we've got, buy Australian.

OLLE: All that you've said so far Prime Minister the economic statement that Paul Keating brought down last week has had a somewhat frosty reception I think it's fair to say across the community. Is the problem that people simply think that you're giving back what's rightfully theirs anyway?

PM: No I think there was some degree of cynicism engendered by absolutely wrong interpretations as to timing. But I don't know what you do in this circumstance. When I promised 12 months ago that I'm going to deliver tax cuts on the 1st of July I do it then I'm accused of cynicism and I'm going to have an election. Of course the bloke who talked about there being a July election is the fellow that you're going to have on after me. Now what his reasons were for doing that I'm not quite sure but perhaps it's because he wanted to shore up his position and they couldn't have a change of leadership right on the eve of an election, I don't know. But all it was was the delivery of a promise. Now if I hadn't delivered the promised that I'd made 12 months ago I would've ben accused of breaking a promise.

OLLE: Well there's another promise we have in front of us now. Mr Keating says there's going to be a sharp deceleration in demand. When and what impact do you think it will have?

PM: There are signs already Andrew, of demand decelerating. It is apparent to some extent in the housing statistics. I think that you'll see in the third quarter firmer evidence of the decline in demand. So what we've got to do - and on our record we're entitled to be judged that we can do it - is to make sure that we get the level of demand coming back sufficient to help us on the current account and the level of imports but not so far back as to stop growth and stop employment. Now on 6 years performance we're entitled to be judged as capable of doing that. We will.

MIDDLETON: The Treasurer also suggested there'd be a halving of demand. Normally one would think of that as being a recipe for recession and indeed -

PM: Not if you know your statistics. Just remember what the statistics are. In the last 12 months, and this is on the basis of the national accounts which came out the previous week, demand had grown by 8% - these are the figures that Paul had in mind - demand had grown by 8%, production, Australian production, had grown by 4%. The difference between the 8% growth in consumption, the 4% growth in production, was imports. So what he was saying quite rightly is that you could have consumption coming back by the sort of order he was talking about and that would still be consistent with significant growth but more containable growth. His figures are right.

MIDDLETON: With this big slowing in demand isn't that going to for the first time put a dent in one of your proudest records, that of job creation?

PM: It will mean that the rate of employment growth won't be so high. But just remember what the figures are. In this last year we've had employment growth of 3.8% which is together with what we've done in the previous five years responsible for the fact that we are creating jobs 4 times

PM (cont): faster than Mr Howard did in his period in Government and twice as fast as the rest of the world. So we can afford the rate of employment growth to come back but still have a situation where we can take account of the growth in the workforce.

OLLE: So now it is going to be harder for people to find jobs though isn't it? Who's going to feel the pinch first, do you think?

PM: You always want to look on the dark side, I know Andrew, but the point is that you've got to look at the alternatives. See people are saying that rates of interest are too high. If you brought back the rate of interest now, if you eased monetary policy, then of course what you would do would be to have a flood of imports and then you would have a situation where you'd have to massively put the brakes on. In this way we'll continue to do what we've done for six years in changing economic circumstances. Remember what happened in 85-86. We lost \$11B of national income when the terms of trade turned against us and we were still able - with the cooperation of the trade union movement - to avoid recession and keep employment going. Now we've got an overheated economy so the task which we will achieve is to bring back the level of activity sufficient to lower imports down but to keep employment growth growing. We will. Our record shows that we are entitled to be judged as capable of doing that.

LYNEHAM: But isn't that one reason why people are confused? When we were getting poor terms of trade we were told to tighten our belts. When they're throwing money at us by the bucket load we're told that we can't handle that, we've got to tighten our belts?

PM: There is nothing difficult about that. If you've lost \$11B of national income - as we did in our 85-86 period with a decline in the terms of trade - then you're \$11B worse off. Now the situation we've got that all economists - it doesn't matter where they are politically - recognise that we've got an overheated economy because with the turn around of terms of trade we've had an enormous increase in income coming into the country, we've got employment rising, we've got investment at a 40 year high, the highest it's been since records have been kept for 40 years. Now those combinations of circumstances have an economy operating that strongly that we're sucking in too many imports so in that situation of course you've got to exercise restraint, get things down. But we can do that in a way which is increasing the real disposable income of people because we're doing that, it's a paid for tax cut out of the surplus that we've been able to generate by the decisions we've taken up to this point. That is with the tax cuts that we're giving we will still have in 89-90 the same level of surplus that we had before and we've done that all in the circumstance where I remind you of what we've done in the period. We inherited a situation where the deficit as a proportion of the gross domestic product was

PM (cont): 4.2%. We've translated that to a surplus of 1.7%. Now that 6% turnaround represents a turnaround of \$20B approximately. Now that's enabled us to increase by 26% in real terms the expenditure on social welfare, to move the proportions of outlays that go to social welfare, from 50% to 56%, do all those things and accumulate this surplus out of which we'll pay for the tax cuts. So there is no pressure from what we've done for an increase on interest rates because the public sector borrowing requirement will remain at zero and there'll be no pressure on inflation because the trade union movement have accepted a wages outcome for 1989-90 of 6 1/2%.

LYNEHAM: And will they stick with 6.5%?

PM: They will, and what I will defend as vigorously as I can is the integrity of the trade union movement. Every employer in this country knows, and I think you appreciate Paul, that they could be getting very very much higher wage outcomes now. The employers have been knocking down the door of the ACTU trying to give wage increases. They've held it to 7% in this last year, they've agreed to 6.5% in 1989-90, they will stick to their bargain.

OLLE: Won't the unions be more tempted to take that money though if they get knocked back?

PM: Knocked back by whom?

OLLE: When they have to justify their restructuring to qualify for this -

PM: They have given their undertaking and you are entitled, I believe, you are entitled to judge them on their record. Every employer, every economist in this country knows that in this last 12 months instead of getting a 7% increase in wages they could've gone into double digits. The last three years of the chap that's coming on after me, when he was Treasurer, in the last three years under that government, double digit wage increases under them. In more buoyant economic circumstances now, 7% and they've agreed to 6.5%. On their record they're entitled to be believed. It's their restraint which has produced 1.3 million more new jobs, a rate of job growth twice as fast as the rest of the world. They've done that, why shouldn't they be believed now when they say that they'll agree to 6.5%? Because what you've got to remember is what we've done is to deliver on average a 12% increase in disposable income but with only 6.5% coming from it from wages. That's the additional cost on employers, the rest has come from a combination of tax reductions and increases in family allowances.

MIDDLETON: And you can guarantee that in these overheated circumstances that if the unions don't restructure as they're supposed to do, that they won't get that second round, that second part of the plan?

PM: Quite clearly they've given the promise, and this is entirely hypothetical. If they weren't to keep their promises then the situation would change. You're talking about your fellow Australians, people who could've got much greater wage increases but have been prepared to have real wage reductions so that we can have another 1.3 million of our fellow Australians in work. Why in the name of all that's fair and decent and reasonable, when they've done that, when they've put another 1.3 million of their fellow Australians into work by accepting a real wage reduction over this period, why don't you believe them now? The fair and reasonable thing Jim is to say, well my God, they've accepted a real wage reduction over this period, they've allowed Australians to have a rate of employment increase four times as fast as under the Fraser-Howard years, twice as fast as the rest of the world, they've delivered that and now you want to be sceptical about their promise.

MIDDLETON: Well there are plenty of employers out there in the ... who are battling to get skilled workers. They may be tempted to have -

PM: They've already been tempted. That's what I was saying before Jim. The fact is that Bill Kelty there at the ACTU has been knocking employers back, he's been knocking them back. Why? Because they do have a commitment to a view of a restructured Australia, one that's more competitive, one where its workforce through the restructuring process is going to be multi-skilled, have broad-banded classifications so that the actual structures in the workplace will reflect the patterns and processes of production of the modern days, not of 50 years ago. Now Kelty and the ACTU are committed to that and they know they can't get that without restructuring and they know they can't get it without the commitment they've given us.

OLLE: One of your answers is productivity as well isn't it?

PM: Sure.

OLLE: Why not go the whole hog then as John Howard plans to do and reward individual effort, be it at the company or worker level rather than -

PM: For one very simple reason. What you're saying is that you want to do away with the centralised wage fixing system. OK. It's pretty sensible Andrew to look at history. They did this in 1980-81. We warned them against it and the centralised wage system was gone and they went back to a free run. What happened? A 17% increase in wages, a blowout. The way in which you've got a real wage reduction and real wage restraint compensated by improvements in the social wage in this country is through the centralised wage system. The employers of this country have been saved, we've all been saved by the fact that instead of wages blowing out like that, a la the 17% increase under Howard and that each year, the last three years they were in office, double digit wage

PM (cont): increases, we've got it down significantly to 7 and 6.5% and it's that which has enabled employment growth to take place. Now why in the name of anything that begins to be sensible do you want to say Mr Howard and Mr Fraser messed it up, got double digit wage outcomes under the previous system, so we think it's a good idea - and what did they do in that? Got the worst recession in 50 years, simultaneous double digit inflation, double digit employment, interest rates well above what we've got. 90 day bills under us haven't reached 18%, they got to 22% under Mr Howard in April of 1982. So you think it would be a good idea to say that was beaut then to get the worst recession in 50 years, let's go back to that.

OLLE: Nevertheless there is a logic isn't there in rewarding individual effort and penalising inefficiency?

PM: That is what happens. You know how we are rewarding effort now? We are rewarding it in a very simple way, by putting more Australians into work. There is effort. How do you think we've had a 20% increase in manufactured exports, how do you think we've had a 9.2% reduction in real unit labour costs since our term in office, how do you think we've had a 7.4% increase in our international competitiveness other than by this wage system. And the reward that's come out of all those things that have been done have been the 1.3 million jobs and the fact that we can now compete in markets in a way we were never able to do before. You don't get 20% increase in manufactured exports in each of the last two years without there being a system gradually putting in place which is establishing incentive, both for employers and for workers.

MIDDLETON: You're fond of comparing your record and John Howard's record, what about your team's? You've got -

PM: Let me say, when I talk about my record it's not just Bob Hawke. I mean I recognise, as I think you'll acknowledge, I always speak about the contribution of my Ministers. I mean, it is a team.

MIDDLETON: Some of your Ministers are looking a bit tired, Peter Walsh is taking a break, others are talking about quitting - John Button at the next election and so on. We can't even be sure that you'll be around right through the next term can we?

PM: You can be sure of me. There's no question - you talk about some of Ministers being tired, of course some of them are. You don't work as hard as they have for 6 years and stay exactly as fresh as you were at the beginning of 6 years. But there has been basically a great stability amongst my core Ministers, core economic and industry Ministers, a great stability. You've talked about Button, Keating, Kerin, Blewett, Walsh.

MIDDLETON: But you won't have all of them after the next election.

PM: I'm not aware of any that are going of the ones I've mentioned. And let me say, if you want to talk about stability just look at my mob, great fellas, they'll be there, and have a look at the other side.

OLLE: We'll obviously take that up with Mr Howard.

PM: I'll leave it in your good hands.

OLLE: But inevitably, apart from the team thing that we just emphasised, there are personal comparisons that are going to be made of the leadership aren't there, between yourself and Mr Howard. Why is it do you think that people like you personally so much more than John Howard?

PM: I'm not going to talk about John. I'll attack him politically and strongly and vigorously but in terms of personality and so on, that's another matter. As far as -

OLLE: Do you feel ... when people talk disparagingly of 'little Johnny'? I mean, he's even taller than you isn't he?

PM: No he's not actually as it turns out but that's, I think, a matter of absolute irrelevance. John Button is much smaller than his counterparts. What's size got to do with anything? I've never heard anything so ridiculous. Look at the size of Malcolm. So what, what does it mean? It's the most futile and stupid thing, the fact that I'm fractionally taller than John Howard, so what. It's nothing to do with it. The only part of your question Andrew that I can helpfully say anything about is in terms of my own position. I think what's relevant is this, that I honestly can say that I love mixing with people. I've been in public life now for just over 30 years and all of that 30 years I've made a point of mixing and I enjoy it. For some politicians it's a chore, for me it's not, I'm lucky. I love the Australian people, I love mixing with them.

LYNEHAM: Prime Minister, you said when asked to give him a reference once that he was hard working and loyal. Now you were prepared to give him a reference but you're not prepared to look at the other side.

PM: It's not for me to go into an attack on the personality of my opponent.

LYNEHAM: Do you concede he's tenacious?

PM: Of course he's tenacious. I've said that, he is tenacious and I congratulate him for his tenacity. But I would hope that as far as the relations between John Howard and myself are concerned that we can fight like Kilkenny cats about our perceived policy differences, where we think

PM (cont): we've been inadequate, where each other's been inadequate on policy positions. You won't find me getting into some personality attack upon John Howard. I don't think that's the way to do it.

OLLE: Prime Minister, our time is up. Thank you very much.

PM: Thank you very much.

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