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PRIME MINISTER

SPEECH BY THE PRIME MINISTER, THE HON P J KEATING MP ADDRESS TO THE NATIONAL FARMERS FEDERATION (NFF) ANNUAL CONFERENCE, CANBERRA, 17 MAY 1995

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Distinguished members of the conference.

I am very delighted to be able to come, on behalf of the Government, and speak to you and to record how appreciative I am, and I think the Government is, of the fact that you are a body which does look beyond sectional interests to the broader national policy issues and, as Donald said quite eloquently, though some of these things are not universally understood in your constituency, it is nevertheless a matter for you as a body to be able to articulate them to understand, first of all to put together a comprehensive approach to policy, to articulate it and to make it relevant to your constituency.

I don't think there is much more a Government could ask of you. But, more importantly, there is not much more your constituency can ask of you because we are in a complex world these days. A world of great opportunity, no doubt, but a complex one and when we talk about agriculture today, we are talking about all sorts of things - not just commodity prices, but competitiveness and we are talking about best practice and transport and competition policy and infrastructure and the environment, the global economy, the US Farm Bill, interest rates, the drought - you name it. It is a very large panoply of issues when one is speaking about rural industry and its problems and the problems of adjustment.

But I think what is encouraging, certainly to me, has been a willingness on the part of the rural community, the farm community, to confront these great economic challenges and recognise the need to make greater changes and I think one of the strong characteristics of Australia in this last decade or so, has been not simply a willingness to change, but a willingness to keep it up, to embrace change and to keep on going and I think that is very important.

A lot of countries are somewhat resistant to change. Their political system moves away from the prospect of change. As a consequence, their national economies and societies are not getting the kick along they would otherwise have if their community was more adaptable to change and more prepared to listen.

Now I think that in your community, a lot of that has come from leadership, it has come from the leadership of this body and let me just take this opportunity to pay a tribute to the leadership of the NFF, in Donald McGauchie and Rick - who is leaving you I know, it will be a great loss to you because he has played a really useful role in defining the issues for you as a community, as a constituency and he has had the respect of the Government and he has been able to relate to us in a way that I think has been very effective indeed. So no doubt he will be missed.

Could I go on and say that it is probably very unlikely that the NFF and a Labor Government find themselves as bedfellows, but in quite a number of issues we have found ourselves in that position. Mainly because this Government has always been interested in tackling hard issues and trying to deal with them at source and, I mean, basically we have always been, if you like, vulnerable to a good argument. If someone has got a good case, we will listen and if the case is rational and its logical and it has all those others societal characteristics that make it important, then I think we are always there to listen and try and make adjustments and quite a few we have had. We have made a few, of course, in this Budget and I will come to that in a moment.

But I was interested in Donald's speech and a couple of things he said. He said, talking about the changes, the NFF has already achieved considerable success and he mentions the issues which affect in a very large, and perhaps dramatic way, the whole of the rural sector. The decision to float the Australian dollar, the deregulation of financial markets, reductions in protection for all industries and this was always the big bug bear of course.

It was always a matter of great amusement to me in the 1970s when I came here. Of course Jack McEwen was still king of the castle round here and Alan Westerman was still sort of one of the princes of the bureaucracy and they had this scam running for years that they were going out to manufacturing industry, doling on protection, while they were out there talking to the farm community about what a terrible problem it was.

At any rate, we were the ones who finally knocked it over and in what became obviously, through people like Bert Kelly and others, the identification of the burden of tariffs on agriculture became very clearly understood in the late 70s and early 1980s and by actually getting the tariff wall down, that has made a very large difference to agriculture.

He mentions progress in the movement away from a centralised wage fixing system towards enterprise agreements. Broad political recognition of the

need to minimise pressure on interest rates by reweighting policy onto fiscal policy. He mentions the changes in 45D and E of the Trade Practices Act and the common law and negotiations of new trade arrangements such as, of course, Uruguay and APEC.

And then he mentions the achievement of particular farm sector goals - above that, national competition policy - but then income equalisation deposits, farm management bonds, changes to drought assistance, review of the pastoral industry award etc. Sales tax exemption for direct farm inputs, a better result than other sectors in Native Title legislation, maintaining the diesel excise rebate and extensive schools education program etc.

Well, the NFF has been involved in all these issues. But in making the point about us being strange bedfellows, of course, they were all done by this Government. All these decisions were taken by this Government.

So we have done a lot of things together and they have been of material assistance to the farm community and they are the big brush things. You could imagine how we would be going today at an exchange rate of US90 cents. And that, you see, getting that core competitiveness up, Australia today is 40 per cent more competitive than it was in 1983. Not 4 or 14, 40 and that has come about by changes in exchange rate, productivity, wages etc.

But, the big challenge in the 1980s, was to turn that big nominal depreciation of the exchange rate into a real depreciation. I mean any country can have a competitive depreciation of its exchange rate. We have watched Britain do it against the European economies now for 20 years, but not anyone can have a real depreciation, that is washing the price surge out of wages which is basically what we did under the Accord.

So that core competitiveness which all of the primary export sector now enjoys, from the exchange rate, happened because of the adjustment to wages, a terms of trade adjustment for productivity to wages, in the course of the 1980s. And under those Accords, the fact that we had pulled down fiscal policy so dramatically, we were able to provide tax cuts and those wage tax trade-offs of the 1980s, turned that large nominal depreciation of the dollar into a real depreciation.

That happened, simply, because when I became Treasurer in 1983, John Howard left me outlays at 30 1/2 per cent of GDP - an Australian record. And, as you know, it was a lift in the public sector in the 70s, under the Whitlam Government and then the Fraser Government that dislocated private investment and that put a very big call on savings. But by reducing it to 23 1/2 per cent of GDP by the late 1980s - that is a 7 per cent of GDP reduction and spending, and in today's dollars that is $35 billion - we were able through growth and through revenue and through those outlays changes to fund a large continuing set of tax cuts and it is only by that way that we didn't go the way of other countries with a set of competitive depreciations.

So you were competitive for five minutes and you were uncompetitive five minutes later as wages caught up with prices. And I think that is one of the very great changes and I am very sympathetic to Bill Kelty and Martin Ferguson and their ACTU colleagues, when they say we haven't had much thanks for it, have we? And the answer is, they haven't.

But they did get in there for over a decade and try and manage it down. The deal always was, of course, that we would compensate them by employment and in the period between 1983 and now, we have had about 27 per cent employment growth.

As a consequence, real household disposable income is 40 per cent greater today than it was in 1983 because there are more people in households in work. And so that is how that important national economic policy making was made. The implicit arrangement of wage restraint for growth and employment growth being the essential element of the Accord and it is by that method that we have got that competitiveness back.

We are now seeing a much more, but lower tariffs, contestable economy. In fact, a quite highly contested economy now. So now productivity is coming out of the pores of the skin of the economy, naturally. In other words, we are holding inflation down now, naturally. We are not holding it down with a draconian monetary policy, killing growth and activity. We are holding it down by the natural productive forces being, if you like, encouraged in the economy and a change in the productive culture of business.

We have had very large productivity numbers in the last few years, as that whole productivity surge and cultural change has gone through Australian industry and it has gone through the farm sector as well.

I remember in the 1980s, you know Margaret Thatcher was boasting about 5 and 6 per cent productivity and it was coming by massive lay-offs in British industry - by huge unemployment. But last year we had 4 per cent productivity with massive lay-ons - not massive lay-offs - massive lay-ons. 4 per cent employment growth. Still producing 4 per cent productivity, which is all the world of difference between the policies of this Government and the policies of the British Conservative Government. So that at the end of the section, she ended up with massive unemployment, an underclass, a divided society and, in the end, no structural change to productivity. Whereas what we are having here, is a long term structural change.

So I think that the way we can, if you like, help the farm community most beneficially, is through these big brush changes to competitiveness, exchange rate, wages, inflation, productivity, competition and, of course, getting proper market access or the best market access we can through areas like the GATT and, of course, through APEC.

I attended the OECD meeting in 1986 when we first got agriculture into the OECD communique and I had a big brawl with Clayton Yeutter and Malcolm Baldridge and a few other people at the time because this was the moment of truth - if it didn't get into the OECD communique of that year, it wouldn't get into the G7 summit in Tokyo.

We pushed and shoved and stood the French up and the Europeans up, and we did squeeze it in with the support of the United States and then as a consequence of relations we tend to build up over time, the then Under Secretary of State for Economic Affairs, who was Reagan's Sherpa at the summit, got it listed on the G7 agenda for the Uruguay Round and that is how agriculture got into the Round.

Then we prosecuted that over seven years to get a result which while not all we were seeking was going to take a lot of the pressure off the kind of subsidies that we had seen growing and production and export subsidies we had seen growing in Europe and in North America.

And here we are working together now - Bob Collins and Bob McMullan with you and others - on the 1995 Farm Bill to try and again make certain, or ease the pressure at least, against the Australian farm sector from these other sectors - who won't expose themselves to the kind of competitive influences that we have been prepared to expose ourselves, too.

So right through those years, we have learnt together and I think, again, access remains one of the great issues for Australian agriculture and we have sought to do our best with it.

Let me say a couple of things about the Budget and perhaps then come back to some farm specific things.

The Budget, the other night, did respond to a desire and a wish by many sectors, including your own, for a reweighting of the policy instruments off monetary policy and on to fiscal policy and we have taken the Budget from a deficit of over $12 billion to a surplus of $700 million this year and next year we are into a surplus of about $4 billion and the following year a surplus of $7 billion, in prospect.

What this means is that we have seen a great change in the bond selling program of the Commonwealth. Last year we sold $21 billion worth of bonds - $21,000,000,000. This year, as a result of the Budget, that program will be reduced to $6,000,000,000. So, in other words, as a consequence of the Budget we have diminished the bond selling program by $15 billion, which is a mighty sum and that is why long bond yields fell from over 10 per cent ten days ago, to under 9 per cent today. And because if there is less paper around, the paper gets more valuable, the price of it rises and the yield drops, the interest rate falls and that is what, of course, engendered then further changes in retail interest rates towards the end of last week.

So we have already had that effect and we have this debate about whether it is recurrent changes or asset sales, but I thought the man from Moody's - not that I quote them very often - said look we are not particularly interested how it's done, what we want is to know how the bond selling program is going to be, what is the consequences for that. Well that is pretty clear form now. But the other point is next year, without any asset sales, we will be in surplus on a recurrent basis.

Now the changes we made to the recurrent budget are around $3 billion this year and $4 1/2 billion next year. So we are over 1/2 per cent of GDP in recurrent changes this year and next year we are just under 1 per cent of GDP, which is a fairly big change.

And the important thing is that the underlying level of outlays drops to 24 per cent of GDP in two years. In other words, in two years time we will be back to the outlays levels that we had before the Whitlam Government, or around at the time of the beginning of the Whitlam Government. Back where we were in fact in the late 80s, which was at 23 1/2 per cent of GDP.

Now you know you don't need to be a student of public policy to know since those years you have seen an enormous change in the services the Commonwealth provides in education, and in health, and in income support and yet we are doing it. A much more sophisticated public sector, providing much greater serves, yet we are doing it for the same outlays to GDP levels largely and underlying terms as existed before the Whitlam and Fraser Government's started spending a much higher proportion of GDP on outlays. Now, this needs to be understood - I know a number of you have said "well, the Government should cut outlays more". Well look, there is one thing I would say to you, and that is this: I have sat through, now...I have delivered 8 Budgets and 7 May Statements - that is 15. We have now had 13 budgets, 8 May Statements and 3 Prime Ministerial Statements. That is 24 major budgetary statements, and barring 1 or 2 of those exercises, I have sat through all the Expenditure Review rounds, across all of the outlays. Ralph Willis, Brian Howe and myself are the longest serving officers of the Commonwealth in public spending - if you shook the Finance Department by its toes, or the Treasury by its toes, no-one would drop out of it who has served in more Expenditure Reviews than the 3 of us. And let me just say this to you, because one of the things you ask us to do is to listen and comprehend problems, and we do - we listen to what you say, and we take notice. And even if it doesn't fall on us obviously on the first moment, we listen and we get the picture. And I want you to listen to this, and just understand it - you cannot cut 2% of GDP from outlays any more. It is just not possible. You can't cut $10,000 million from outlays now. You can't take the Commonwealth underlying outlays to 22% of GDP - it is impossible, without cutting into pensions...for instance, one of the first things that would go would be RAS, straight off the blocks. All of the industry assistance things would go before income support goes. Payments to industry - the transfer payments, payments to schools which are holding up these massive participation rates in secondary school, and

into tertiary and vocational education - they are all the sorts of things that will get hit. Because payments to the States - we now give them a real terms per capita guarantee, which in a sense, isolates that area of the Budget from reductions - we have got long-term arrangements with defence, so you take defence and the States out of there, to get into the rest of it, you have really got to savage the outlays in a way which would be unconscionable.

Now, the underlying level of these outlays is now roughly 25.4% to 25% of GDP. Now John Howard, my opponent, is running around saying "we won't touch revenue". He claims to want to lead the country, but wants to give up one instrument of financial management - he won't touch revenue - "I'll do it all on outlays". Then he says "we should be cutting outlays" - or Costello is saying for him "by up to $10 billion". Well, you can't cut outlays by up to $10 billion without cutting pensions, income support to the families, payments to schools or the industry programs, which are important sectors of industry. That game is up. You can certainly go back through it, and continue to put pressure on the efficiency of delivery, you can change the priorities of programs, you can yield savings - we have done that with a savings round this year of $1.5 billion. We cut outlays by $1.5 billion, but there is a lot of unavoidable new spending in the Commonwealth, and there are some discretionary policies so that the net changes and outlays were $700 million, but the actual program of cuts was $1500 million. So, it was a very large set of cuts taken by the ERC over 9 weeks, or 10 weeks. So, it's just not...you can go beyond it, but you won't have any political authority - no Government in this country would have the political authority to go beyond it, and when the Coalition tell you they will cut waste and duplication and they will cut $10 billion out of outlays, just don't believe them. It's just tripe. Nonsense. And take it from somebody who had to sit through it for 10 weeks a year, for 12 years - it just can't be done. And that is why we say that John Howard has given up economic policy, because when you give away receipts - changes to receipts - and you are kidding everybody you can make major changes in outlays, what you are really saying is that you are abdicating your role as a financial manager, because all the weight will then do is shift to interest rates.

Now, that change I have mentioned to you - the bond selling program going down from $21 billion to $6 billion - has taken a lot of the pressure off interest rates - which is one of the things your sector needs, it's one of the things of value to your sector - and we hope that trend we have seen last week will continue, and that there is a genuine change in sentiment in financial markets as a consequence of the Budget. The problem we are trying to meet is not to reduce spending this year - it was not about trying to hold down...we didn't use the Budget as a demand management tool, because the 3 monetary adjustments of late last year have basically done that trick. you might know, that in the year to the September quarter, the economy was growing at 6.5% a year, and expenditure - all spending in the economy - was running at 8.5%. Now you don't have to be an econometrician to know that if the spending is running at 8.5% and product

is running at 6.5%, 2% is going to be satisfied by imports. And at 6.5%, it was putting too much stress on the country's productive capacity. So, we needed to slow it down. So, in the Budget, we are forecasting 3.75% for GDP, so it's a long way from 6.5%. And those monetary adjustments last year, were taken at the right time and we made them large adjustments - one percentage points, or 2.5 altogether: 2 of 1% and 1 of 0.5% - to actually get that slowing into place. So we don't need the Budget for an immediate slowing of the economy - what we needed in the Budget is a medium term change for savings, because our problem is that we have got a current account deficit which is running about 2% of GDP above the point where it basically pays for itself. Each year, in the 60s and 70s, we were running a current account deficit of 2.5% of GDP, but we had capital inflow equal to 2.5% of GDP. In other words, we were able to afford a current account deficit of 2.5% of GDP, and not aggregate debt. That changed in the late 1970s and the early 1980s, when we got so uncompetitive, when the terms of trade ran against us, when we had a wage explosion, and double-digit inflation for most of the decade, by that stage the current account was running...it started at 6% of GDP in 1980-81 - not the number you will hear John Howard tell you about, but that's what it was, 6% of GDP in 1980-81. In other words, the cat was out of the bag then. And we have been running, on average, at 4.5% since.

So, if 2.5% is sustainable, and the average is 4.5% and that's not sustainable, the problem is 2 percentage points of GDP. In other words, our savings have fallen as to around that amount so as not to be able to accommodate the investment phase we need for employment, growth, activity. And the reason it fell, I think principally, was double-digit inflation. Once double-digit inflation came to Australia, it took about a decade to teach Australians that it wasn't any point putting money in the bank, because the tax on the nominal interest rate, after double-digit inflation, was negative reals, so they stopped saving and they started buying flats, apartments, holiday houses etc. And we inculcated in a generation that there was no point in saving. It is going to take now, with a much better and lower inflation performance, some time to change that, so as a consequence, we have developed a savings pothole, which started from that period of double-digit inflation - a decade or more of double-digit inflation - and what the Budget is about doing is doing that - is to try and overcome that problem. Let me just briefly explain how it happens. In the Budget and the next couple of years, we will see a turnaround of about 4 percentage points of GDP. And let's say that part of it is cyclical, and part of it's structural. The other great change we had in the Budget was to extend superannuation beyond 9% to 15% for every working person, and we have encouraged people to put 3% of their personal contributions away, which we will then match with a 3% tax cut equivalent paid into their superannuation accounts. This will add 6 percentage points of wages to the 9% under the superannuation guarantee charge. This will take it to 15%. Now, at the moment we have got $186 billion in super funds, and the Treasury estimate that by 2020, we will have $2000 billion in super funds -

$2 trillion. It was $40 billion in 1983, it is $186 billion now, and they estimate that it will go to $2000 billion.

But that's 2020, and our time horizon is a bit shorter than that, and if we are looking at the year 2000, the savings and super would be less, but still very strong. Now, what the Treasury estimate is that by 2020, we will add the equivalent of 4% of GDP to savings, but they also estimate that by the year 2000, we will add 2 percentage points of GDP. So, lets say that on the Budget side we have added 4% by the year 2000, on the super side we have added 4% by 2020, but if we are talking about 2000, we have added 2% on super and 4% on the Budget. In other words, in the Budget of last Tuesday week, we put in a 6 percentage point fix for a 2 percentage point problem. Now, let me just say something about the Budget: not all of that is structural, some of it is cyclical - as the economy grows, the cycle changes, revenue and outlays change, and at any subsequent slowing, that would affect the cyclical part of the Budget. Well, let's take all of the cyclical calculation out of it, and call the 4 percentage points of the Budget 2%. A good solid 2% - and underlying 2%, and super with an underlying 2% gives you a very solid foundation for 4% savings to GDP to meet a 2% current account problem. Now, that's why the Budget was important, and that's why the Government can be relied upon to do a professional job - as always - on the hard problems.

And let me say about super - now here's John Howard running around on Thursday night last saying "we'll put a cap on super - we'll put a cap on it - and we'll give tax concession to higher income earners". Well, he gave tax concessions in the 70s, and by 1983, superannuation coverage was 40%. Today, it's 90%. So, if we go back to tax deductions, what we will see is superannuation contributions go up to the top end of the income range, and not the lower and middle income earners where the great bulk of the community is - where the great bulk of the savings must come. So, we take the view that by starting with a 3% case in 1985-86, and moving it up to 5% and then getting the superannuation guarantee into place taking it to 9% by 2002, and now adding 6% - 3% and 3% - from personal contributions and the tax cuts, we have over a decade, put together a scheme that the Liberals wouldn't have had the imagination or the wit to even approach, much less implement. And you think there are some things...they don't have any conversation with the trade union movement, and you can imagine Peter Costello or John Howard going to say to the workforce of Australia "please put 15% of your income away as savings", and they would say "oh, sure we will - sure. No problem". Well, of course, they can't do it. You would think they would have enough sense to say well look, a Labor government did what we could never do, let's let this one go to the keeper - let's at least lock this away. That's what Mr Connolly was saying a week or 2 ago, and saying in the press yesterday - their superannuation spokesperson who was defeated in Bradfield - saying this one we should let go to the keeper because there is a broad national change here. But again, the ideology is out saying "oh no, we don't want lower and middle income earners getting the benefit of the tax concession, so we will cap it

and we will throw tax concessions again to higher paid earners". I mean, some people never learn.

But, at least, there is here now a really substantial savings change. And that's going to fund the higher investment we need for more employment, and a more productive country. And we know, as we go through the 90s, we are going to need more capital investment - not less, more - because one of the problems of that 70s double-digit inflation, and the big call on the public sector, is that it absolutely smashed to pieces the capital stock. And we didn't have enough capital stock to produce goods and services, and that's why we had a current account weakness all through the 80s. So we have got to get the capital stock up - that means more investment, that means more savings to meet it - but without those savings, that pressure for investment will reflect itself in higher interest rates, and you know as well as any sector, the problem those higher interest rates put on your particular sector. So, the way to accommodate higher investment, and higher employment, and reach the Government's target of 5% unemployment by the year 2000, is through more investment, but we can't afford more investment if it only puts pressure on interest rates, therefore we have had to augment savings. So, the Budget was a very important document, I think, not just for the country, but particularly for the rural sector, because it does the lay the basis of a very long-term and important change to savings - which we dearly needed - and which we now have.

Let me just make one final point about outlays. In the Budget, the ratio of outlays to GDP will decline by 2.7% over the next couple of years, which is $13 billion to $14 billion. In other words, just left to themselves, they are going to drop away to 24% of GDP. That's $13 billion - $14 billion. But revenue will increase by only 1% of GDP, so in terms of the structure of the Budget, outlays are subsiding, and the revenue is only barely picking up. So, in terms of the quality - if you like, the balance between outlays and revenue in the Budget - you have got a $13 billion to $14 billion change in the course of happening right at the moment.

Could I just go on and say that we want to be able to - with this Budget and this environment - keep the environment up for the health of the rural sector, this is not withstanding climactic hardships and the rest, and I just want to say a couple of things about the banks. The banks have been cutting back a lot of their operations in rural areas in the name of efficiency. But I think they are being very short-sighted - they are failing to see the potential of Australia's rural industry, which is one of Australia's comparative advantages, which represents one of Australia's comparative advantages - and the capacity of Australia's farmers to run profitable and productive concerns. The banks have been cutting overheads, they don't have the personnel necessary to provide farmers and farming communities with the service they need. They seem to me to be almost incapable of intensely managing typical rural loans in the region of $50,000 to $200,000 - they don't seem to be able to get a handle on the management of those loans at all, so they have taken the next best policy, and that is to basically

back out. I think they need to take a longer term view - they do have a very privileged position in the financial community, and simply just resorting to housing lending, and moving away from what I call intelligent rural lending, is I think, a bad trend.

One of the things your President and Rick and I have discussed on occasions is this question about whole of farm planning which, I think, is important. It would be far better to get the banks interested in how a farm is managed to be able to assess the quality of the loans by being able to assess the credit being extended to farms, if in fact, there is a whole of farm plan. I think we should be moving more towards this where we have consultants in each district who are able to go and look at a farm and say what its capacity is, what the soils are like, what it should be growing, how it should be grazing, how the farm should be configured et cetera.

Were that to happen and if whole of farm plans were advanced ahead of, if you like, primary advances in loans the bank's security would be better and we would have a far better relationship, a far more conducive relationship between banks and farms and farmers and graziers.

So, when we look at our possibilities, the Asian markets around was and the demonstrable ethic for hard work and adaptability which the farm sector has, then they seem to me to mark themselves out - farmers and graziers - as typically the sort of people banks should be lending to rather than cutting back. So, I am going to take whatever opportunity I can to remind the banks of their responsibilities here, but let's make their task a little easier by helping them, if you like develop these relationships which make farm lending easier rather than harder.

Can I perhaps finish my remarks by just saying, we have established a great deal of common ground in recent years. We understand that our ambitions are very much alike. I know from working in the last two years on issues as diverse as Native Title and Landcare and the drought and regional development that we can get a lot done together. I think we have become, as far as the farm and rural communities are concerned, good listeners. We try and earnestly work our way through the problems and see what we can do in a systemic way and we will keep that up. As I say, we are working together now at the moment in the United States on the farm bill and I think it does show that the view the NFF has taken, that it is not just simply a sectoral body which is arguing for sectional interests but taking a broader view of national interests, have served it particularly well because, I think, while ever it is has adopted those sorts of policies it has been more relevant, stronger, more influential and able to get, if you like, sector specific changes into place as well as the broader, big brush issues.

So, I see enormous potential in our relationship. As hard at times as it has been and in many places they still are, we have made great progress and I think the points that Donald made about the drought are right. We are seeing these rains, but we have seen them before, we've seen the beginning of rains

for winter crops and yet the crops haven't materialised, but this time we have an infrastructure of policy sitting behind the problem of the drought and we ought to be, perhaps, I suppose the term is cautiously optimistic about these rains. They seem widespread and lets hope they are as good as they look, but by the same token, let me endorse his remarks by saying let's not let the pressure off on sustainability and drought management simply because we have seen some change in seasonal conditions. We have had a major structural problem here, cyclical problem, but becoming structural because it is so long with the drought and now is the time to remember that we have been making progress in drought management and these rains are a reminder that it is a long term rather than a short term problem.

Can I thank you for having me over. Let me again, conclude my remarks by commending Rick Farley for the role he has played. I wish him well in the future. I know he is going to be a hard man to replace, but the organisation has changed as a consequence of his being there and under the leadership of people like Donald, I think, the future is yours, it is what we can make of it. Thank you.

QUESTIONS AND ANSWERS SESSION

Q: On the theme of the drought and the fact that we have had some useful rain in parts of the country and, indeed, some very big parts of the country and that is very welcome. But, we do seem to have this persistent problem in some areas and, as I said, those are some of the areas that have been most badly affected for longest. I think, in the pleasure that the rain we have had brings to those areas that it comes, is always the concern by the people in other areas, in the areas that haven't had it, that they will be forgotten and I think it would be very much appreciated by those people, Prime Minister, if you could restate essentially the commitment that you have given in the past that the relief that they have got through the assistance measures that are will, indeed, continue until such time as they actually do get back into a position where seasonal conditions and production returns to some sort of normality. And secondly, we have actually still got some exceptional circumstances applications pending and we would like an assurance that the Government will deal with those as quickly as possible.

PM: Let me, Donald, say that I am quite happy to say that we had some exceptional circumstance applications, I think, in Victoria amongst other places pending and one will need to see with these rains what the continuing assessment of these regions are. But, from our point of view we don't regard the drought as being over simply because these rains have come and that we would like to see these applications progressed and we will be keeping these policies in place. We have now got, I think from memory, about 6000 to 7000 and maybe more by now farm families getting income support. We have seen about 4000 farm businesses received support under RAS and it is the sort of

matrix of policy we have got sitting there now which is something, I think, that becomes a real advance for the rural community because now they are there they won't be going away. I mean, us having put them there, I can't imagine the future if someone is going to basically say no, the farm assets test is going to be applied regardless of income in these circumstances. So, I would like to think we have made a policy advance in some of these areas, but before we cry victory and walk off the field, let's see what happens with the rains and let's progress these applications.

Q: Prime Minister, interest rates have a major impact on farm profitability, some comments made yesterday by the Treasury Secretary Ted Evans and they have been interpreted by the media to mean that interest rates may well have peaked. On the other hand, of course, there are a lot of financial institutions that are providing other advice concerned about higher inflation and perhaps a rebound in spending. Do you believe that interest rates, especially those that are driven by Reserve Bank policy on short term money market rates that have an impact on business overdrafts and mortgages have peaked?

PM: Let's make these two distinguishing points. That is, the long bond rates set in the market without any reference to the Reserve Bank and it is the long bond rate which has fallen by over a percentage point and, I think, the large reduction in the bond selling program is probably responsible for a large part of that. Short end rates are conditioned by long end perceptions to some extent, but they are also governed by demand management objectives. One of the points I was making to you on my feet is that we have succeeded in slowing the economy down so that now we are forecasting for the coming year three and three quarters per cent rather than five or six per cent. Therefore, the policy need of using further monetary adjustments to slow the economy down seems remote. It would only come back into prospect if, in fact, growth unexpectedly picked up to unsustainable levels again, but I can't see it in the current environment.

Plus the change in the Budget balance is fairly substantial and that is going to reduce quite a bit of public sector demand from the economy. So, even if for instance, we were only conservatively estimating the decline in GDP coming from private activity there is one thing certain about the Budget, there is a further large complement in the reduction of public demand. Put all that together and Ted Evans' view that the underlying inflation rate may be a little on the up side in the Budget estimates and that augurs quite well, I think, for the short run of rates because, again, you have got always a demand in supply equation there to be met and by such a very large change in the public sector call on savings we are going to see a substantial change in that demand supply equation and that should be good for rates. So, I think, one of the objectives of the Budget was to take pressure of interest rates and I think it has done that.

Q: Prime Minister, up until now the Industrial Relations Accord parties have been exclusively the Government and the ACTU, given the importance of progressing further industrial reform for competitive reasons, what is in your view on the extension of the focus of the Accord to include parties such as farmers, business, large and small generally, in interests of progressing further constructive reform?

PM: If you go back over the history of the Accord, it started in 1983 from a wage share in GDP that was inordinately high and the profit share in GDP was well below the levels we had experienced in the 1960s and as a consequence, investment had been sharply curtailed. So, in a sense it was the ACTU constituency that had to give something away. They were the people giving it away, the business community were the people getting it from wages to profits. So, that is why of its essence, in its original days the Accord was a matter between the trade unions and the Government because the Government was seeking to redress that shift in the profit share which had so dislocated investment. Now, that was true for most of the 1980s. It is less true now because the profit share is as high as it was in the late 1980s and, I think, now has no historical precedent. This is the highest levels of profits, national income to profits, I think, probably ever.

We are seeing a lot of, if you like, informal involvement of the business organisations. You can see it in the change to enterprise bargaining. You can see it in the support of the change. You might recall a couple of years ago the MTIA were most sceptical about a movement to an enterprise bargaining system because Bert Evans had a long memory of what had happened with leap frogging in the late 1970s and early 1980s under the concept of comparative wage justice and so was, if you like, less than confident that business could actually handle the strengths which the Industrial Relations Act was going to give it. At any rate, what we are seeing is a very great spread of enterprise bargains, 65 per cent of all employees covered by federal awards are now covered by a bargain of some kind or another and we are seeing some very good bargains being struck and just a week or so ago the metals' unions and the industry, I can't remember the place, made what the Metal Trades Industry Association thought was a fairly good agreement and as we see these, what you call, very good grass roots agreements continuing to arise, they become industry standards. The industry starts to get its pecker up and get its confidence, but people are starting to really pull a lot of productivity out of the changes and employees also are benefiting.

So, there is, I think, now a fairly conducive, informal involvement by some of the industry bodies. The hotel sector, for instance, did a land mark enterprise agreement with federal hotels and, I think, that therefore the game has opened up. In terms of the Accord proper, of course, because we have moved away from the centralised wage fixing

system, there is less specificity if you like in the elements of the Accord, rather broad commitments by the trade unions about maintaining competition with our trading partners on inflation and commitments by the Government about support for the safety net arrangements for those people who can't access enterprise bargaining.

So, the Accord elements are becoming more simple. They are because the system of wage fixation is less centralised and now more complex. Now, I think, that it is possible for organisations like the NFF and the MTIA and the other business organisations, the Business Council if they can drop their ideology, to actually be involved and be relevant in this process as we see the continuing evolutionary change to the labour market. I think this would be a very good thing, but in any Accord process, with the government and the unions, there is a commitment by the trade unions to low inflation, to competitiveness. A commitment by the government to equity in wage adjustments. If a business party joins it, there has got to be commitments too, it can't be in a sense, there is no point in being in it with nothing to contribute and that is why when we have mooted these things in the past, they have never come to much because the business community has never believed it was a principal party to the point where it was actually giving something away or providing something. That has changed in a more co-operative environment and maybe the time is arising where that can be considered. I think we are about to move to another Accord Mark VIII which will cover the next three years, but I think we are seeing now, you can see for instance the ACTU's attitude towards the NFF or some of the other business organisations, how much the game has changed, how less confrontational it is, how more constructive it is and, I think, they would welcome expressions such as the one you have made.

Q: Prime Minister, when APEC was formed trade was well and truly one of its prime objectives. Is the reform of agricultural trade still on the agenda and if it isn't, do you propose to make moves to bring it back on the agenda because it is extremely important for agriculture in Australia?

PM: The answer to that is very much in the affirmative and the value of APEC is that, well you know this expression the north-south dialogue we used to hear through the 1970s and 1980s, APEC is the first tangible real expression of that dialogue. When you have got a body in the pacific rim which are represented by countries such as the United States and Japan, the first and second largest developed economies. And then the largest, if you like, developing countries - China, Indonesia, smaller countries like Papua New Guinea - so it really is, in a sense, representing that north-south divide and, of course, one of the things we argued all the way through the GATT was that although Australia was a developed country it had a lot of the trading profile of a developing country because of agriculture and

therefore we put the Cairns Group together and successfully kept it together for seven years to prosecute that argument. So, I think, there is a lot of trust in Australia's position as an agricultural producer and somebody who champions the cause of free markets or open markets and freer trade in agriculture. That is going to matter in the Asia Pacific where some of the agricultural nationals will want better access and it is going to improve the living standards of developed countries like Japan to actually improve access for agricultural products from abroad.

So, given the fact that the GATT took so long because we are facing the subsidy problems of the European and the European Common Market, APEC representing half the worlds production and about half the worlds population, gives us a chance to do a far more precise and refined approach to agriculture than we were even able to do with the Common Agricultural Policy and the GATT. But, we are going to see changes too and I think the other thing about APEC is that it will bring on, over time, at least it will encourage a debate about another general trade round because if half of the world is liberalising its trade, the other half of the world has got to be thinking about it.

The other thing is, as these Visigrad countries join the European community, where they have large scale common agriculture, once those areas have been farmed with modern agricultural machinery and the agriscience and the understanding of productivity becomes more entrenched in those countries, the weight of product that is going to be dumped onto the European financial system is going to be so great, I think, in the end it will actually dislocate the Common Agricultural Policy. I think that has been all right to the moment where we have essentially small, in many countries for instance in France, quite small farm agriculture, but once you get those broad acres of the Visigrad countries coming to higher production, I think, the game is going to get very nasty indeed for European budgets and they may be looking then for an opportunity to start to see their problems being resolved in a broader context and that is where I think APEC can be just the ticket.

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