



PRIME MINISTER

FOR PRESS

5 DECEMBER 1977

The Prime Minister today released the text of an exchange of messages regarding interest rates between himself and Mr. Wran (copies attached).

Mr. Fraser drew attention to Mr. Wran's support for the Government's interest rate policy in contrast to the criticism by Messrs. Hurford and Hayden.

For example, Mr. Hurford on 12 November 1977 said:
"The drop in interest rates was only temporary..."

And on 14 November 1977 he said:
"... none of us (Federal and State Labor Leaders) is going to pretend that the ASB interest rate is a significant one..."

"(There is) general realisation in the business community that right now inflation is on the way up - not down..."

(Note, in this context, that business is lowering debenture rates, clearly reflecting lower inflationary expectations.)

And on 15 November 1977 Mr. Hurford said:

"... The Prime Minister, Mr. Fraser, was not telling the truth about the outlook for interest rate cuts..."

Mr. Hayden said, on 12 November 1977, in respect of the 0.5% reduction in the rate on Australian Savings Bonds:

"It is scene-setting for the election with bad economic policy"

"... attempt to rig the money market..."

"... an inauthentic adjustment..."

"... it cannot last..."

TELEX TO PRIME MINISTER FROM MR. WRAN. 30TH NOVEMBER, 1977.

THE RT HON J.M. FRASER, C.H., M.P.,
PRIME MINISTER OF THE COMMONWEALTH OF AUSTRALIA,
CANBERRA.

YOU WILL BE AWARE THAT IN A TELEX MESSAGE ON 8 NOVEMBER TO THE CHAIRMAN OF LOAN COUNCIL I ADVOCATED A REDUCTION OF 0.5 PERCENT IN THE INTEREST RATE ON AUSTRALIAN SAVINGS BONDS. I ALSO URGED THAT ALL GOVERNMENTS SHOULD TAKE APPROPRIATE ACTION TO COMPLEMENT THE CUT IN THE SAVINGS BOND RATE, AS PART OF THE PROCESS OF LOWERING THE STRUCTURE OF INTEREST RATES GENERALLY WHICH HAD COMMENCED WITH THE PROGRESSIVE REDUCTIONS IN THE MARKET YIELDS ON GOVERNMENT BONDS AND CONTINUED WITH THE DECISION TO REDUCE RATES ON SEMI-GOVERNMENTAL BORROWINGS.

YOU WILL HAVE OBSERVED THAT REDUCTIONS HAVE SUBSEQUENTLY BEEN MADE IN RESPECT OF GOVERNMENT GUARANTEED LOANS AND STATE SUPERANNUATION BOARD LOANS TO TERMINATING BUILDING SOCIETIES IN NSW. I HAVE ALSO ANNOUNCED A 0.5% REDUCTION IN CREDIT UNION MAXIMUM DEPOSIT RATES AND ONE CREDIT UNION IN NSW HAS ANNOUNCED ITS INTENTION TO CUT ITS LENDING RATE BY 1.5 PERCENTAGE POINTS FROM DECEMBER 1ST. THE BUILDING SOCIETY MOVEMENT IN THIS STATE STANDS READY TO REDUCE ITS RATES IMMEDIATELY THE RELEVANT BANK RATES FALL.

AT LEAST TWO OTHER STATES HAVE ALSO INITIATED ACTION DESIGNED TO COMPLEMENT THE CUT IN THE SAVINGS BOND RATE.

I AM THEREFORE PUZZLED BY YOUR REPORTED STATEMENT THAT YOU ARE DISAPPOINTED THAT INTEREST RATES HAVE NOT COME DOWN, AND AM GREATLY CONCERNED BY YOUR GOVERNMENT'S FAILURE TO ACT AS YET ON BANK INTEREST RATES.

IF THE COMMONWEALTH GOVERNMENT CONTINUES TO DELAY BRINGING ABOUT A CUT IN BANK DEPOSIT AND LENDING RATES, THERE WILL BE A GROWING DANGER THAT THE MOVE TO LOWER INTEREST RATES ACROSS-THE-BOARD WILL LOSE MOMENTUM AND, HAVING DONE SO, TURN BACK IN ITS TRACKS. THE LONGER YOUR GOVERNMENT WAITS, THE MORE SPECULATION AND NERVOUSNESS WILL GROW AND MAKE ACTION INCREASINGLY DIFFICULT AS THE FLOW OF FUNDS BETWEEN BANKS, OTHER FINANCIAL INTERMEDIARIES AND GOVERNMENT SECURITIES IS

PROGRESSIVELY DISTORTED. THE CONSEQUENCES OF A FURTHER DELAY WOULD BE PARTICULARLY SERIOUS SHOULD SUCH A DISTORTED FLOW OF FUNDS JEOPARDISE THE FUNDING OF THE COMMONWEALTH BUDGET DEFICIT.

IT IS CLEAR THAT THE NECESSARY AND URGENT NEXT STEP IN THE PROCESS OF REDUCING THE LEVEL OF ALL INTEREST RATES IS FOR YOUR GOVERNMENT TO USE ITS PERSUASIVE AND STATUTORY INFLUENCE TO REDUCE BANK DEPOSIT AND LENDING RATES. I URGE YOU TO DO THIS WITHOUT FURTHER DELAY.

I AM SENDING A COPY OF THIS MESSAGE TO ALL OTHER PREMIERS.

MESSAGE FROM PRIME MINISTER TO MR. WRAN. 5TH DECEMBER, 1977.

Thank you for your message of 30th November.

I feel strongly as to the need to reduce interest rates over the wide spectrum as they affect all sectors of the community, particularly those associated with home builders and small business. I have no doubt that such reductions will materially assist in relieving the unemployment problem.

The Commonwealth Government is determined that there should be a substantial reduction in all rates. I have recently indicated that interest rates affecting the general public could be reduced by up to 2% throughout the next 12 months. We have laid the groundwork in the reductions in bond rates. I appreciate the action that you have taken in the areas under your control, and I have noted that some new issue rates for company debentures have continued to decline.

However, I also appreciate that downward movements in rates have to be associated with responsible financial management and proceed in line with other economic policies. While determined to achieve the objective I have mentioned I believe that it would be counter-productive if movements in bank interest rates became an issue in the election. I think you would agree with this.

After the election we will move as quickly as practicable in the direction I have indicated.

In view of the public interest in this matter, I propose to release the text of your telex and of this reply.

(Malcolm Fraser)