

INTERVIEW WITH VINCE SMITH, 2UE

(Questions are not on tape)

Question: ...

Prime Minister:

Well, I can guarantee one thing. If inflation and interest rates don't come down, you will never have economic recovery and unemployment will stay high or get worse and I would guarantee that absolutely and you've only got to look at what's happened in country after country overseas which have prematurely given up the fight against inflation. I heard you saying a moment ago that you thought it was a gloomy Budget. Well I don't think it is for one minute because most Australians know quite well that the services Governments provide have to be paid for and if we are not honest about it and aren't prepared to tax people for what we are providing by way of services or benefits or pensions or whatever, then the only other way of doing it, is basically by going to the printing press and we all know that that leads to more inflation.

Question: ...

Prime Minister:

Well let me respond to that for a moment. The Budget papers indicate a rate of inflation, and it's a Treasury estimate, not ours and that might give it more credibility in some people's minds because it is a technical estimate, of 5 percent by June or earlier. Now, at that time, there are going to be very few major countries that have an inflation rate lower than ours. The United States certainly won't, Canada certainly won't, Germany will be below us, Japan probably will, but Britain and France and Italy will be significantly above our rate of inflation. Now that means that Australia starts to become more competitive, all Australian industry starts to become more competitive, not only in our own market but also overseas and if our industry becomes more competitive that is good for jobs. But the other side of that inflation story is interest rates and there has been applause over the last three or four months in the movement downward in interest rates because people were waiting to see the Budget, but of all the criticisms I have noted this morning nobody has said that this Budget won't help in the fight against inflation, they all admit that it will and they also admit that it will help in the effort to get interest rates down. I have used these figures before but for the average young couple borrowing to build or buy their home at say \$20,000, \$25,000, a two percent fall in interest rates is ten dollars a week. A fall in interest rates is assistance to every business, every small business and if you want to talk about a stimulus to the Australian economy so that there will be more activity, too many people say well if there is a stimulus that means the Government's got to spend more, the Government's got to do more.

Prime Minister: (continued)

I just don't agree with that at all because I think that the best stimulus this economy can possibly have is by getting inflation down to that goal, objective, of 5 percent and at the same time getting interest rates down.

Question: ...

Prime Minister:

But you're missing the point again you see, and people just don't see it. You seem to think, or other people seem to think that you can have less unemployment if a Government spends more money. Our predecessors showed when they increased Government expenditure 46 percent in one year, when unemployment rose by 200,000 in that very year and that was because of inflation and because of the damage done to the economy. Now, in circumstances in which we are in, the best stimulus you can give to an economy is to get inflation down and interest rates down and if that happens, then you are going to get businesses with one proviso that I will come to in a moment, employing more people and undertaking greater activity. I don't believe for one moment that the answer to our problems is to try and get more people on the Government payroll.

Question: ...

Prime Minister:

The people in jobs are going to have money and any suggestion that they are not is just sheer nonsense. Let's take a levy, a Medibank levy, payer who won't have to pay the levy after a little while. He is going to be significantly better off and if he wanted to ensure up to the Medibank Standard Rate that would cost him significantly less than the levy. Certainly I know that beer and cigarettes are going to go up but they are only going to go back to the real level that they would have been in excise terms of three or four years ago and again, if you look at petrol, sure the price of petrol is going to go up, but when people come to buy a new car they will save, depending upon the price of the car, but \$6,000 or \$7,000, about \$500. Now that \$500 will pay for many many years the additional cost of the petrol as a result of these moves. Let me just make the point again, it's not shortage of cash in this economy because you've only got to look at the way the savings banks have been attracting larger and larger funds.

Question: ...

Prime Minister:

And they've not been getting out into the community because inflation has been too high, and interest rates have been too high. It is not a shortage of cash. You get inflation down, interest rates down. Surely you would agree that if the interest burden of building a new home was cut by \$10 a week that is going to be significant in helping to get the home building industry healthy, isn't it. Well? A 2% fall in interest rates for home purchasers does mean \$10 a week for the person on

Prime Minister: (continued)

an average loan. All right, we haven't got there yet, but the permanent building societies have reduced their rates half a percent and this Budget, as everyone agrees, will assist in the movement downward for interest rates further and what we want is a steady and sustained move down and we will achieve it, especially as we get nearer that inflation rate of 5 percent. And then the savings to that home purchaser become not an objective on the horizon, they become a reality and that then starts to mean more homes being built and more jobs in the building industry. It's so easy to fudge these problems. It's so easy to pretend the difficulties in the economy don't exist. It is too easy for Governments just to spend more money and not tax for it. But the truth, and I believe that the people of Australia will respect the honesty of John Howard's Budget.

Question: ...

Prime Minister:

Good heavens, no. The local oil companies have had their returns kept down to very low levels and that had inhibited oil search in this country. Under our predecessors oil search ceased. It is starting to build up again because they are getting a greater return but overwhelmingly the only way to get oil to world parity and at the same time for the community to get the benefit of it as the community will be, is to do it in the way we have and you've got to understand also that the oil that we -- you know we're not completely self-sufficient in oil. A good deal of oil already comes in and we've got to pay world parity price for that and this is not just a measure to raise extra revenue, it's also a measure to get a proper allocation of resources. I don't think that people would want us to get into the problems that the United States' economy is facing quite specifically because they haven't got an energy policy and as consequence of that they've got an oil bill that is quite unrealistically high.

Question: ...

Prime Minister:

Two things on that. If you've got any particular proposal for tax avoidance or any of your listeners have, that they think we are not pursuing, then I am quite certain the Treasurer would like to look at that and over the last six to nine months this Government has done more about cutting off, stopping, tax avoidance loopholes than I think any other Government in history. We'll continue with that path, but you've got to look at the need for additional tax, I think, against the circumstances in which it came about. At this time last year tax, underestimated tax refunds by \$350 million and they overestimated the tax that would be collected from non-PAYE taxpayers by \$400 million. That significantly lowered the tax base for the starting point of this year and if that hadn't occurred, the tax surcharge which will run out at the end of June, 1979, would not have been - I think that would not have been necessary.

Question: ...

Prime Minister:

Well, that's a great offence to the Treasury and tax officials that provided them. They would provide figures to the best of their technical knowledge and expertise and I agree that there were significant mistakes in the estimates last year but to suggest officials of the very high reputation of Tax and Treasury would do that for a political purpose, I think is a great slur on the character and integrity of public servants for whom I've got the highest respect.

Question: ...

Prime Minister:

No, I don't think we can, because we don't know what the Arbitration Commission is going to do and one of the things the Government has said very plainly is if wage increases are to continue at too high a rate, unemployment will stay too high. It's worth noting that average weekly earnings to the twelve months to June increased by more than the Consumer Price Index and that's worth noting. That was following a period in which average weekly earnings in the metal industry, for example, have exploded by over 50% in a two-year period and we were in a position in which wages had grown so much, and profits had fallen so much that industry just became unprofitable. Now we've got to get back to a situation of greater profitability for industry and that's the way real jobs will be provided in Australia. We can be assisted in that if there is some degree of restraint in wage decisions and we spelt out in the Budget very clearly the link between wages that are too high and unemployment and the people who are putting the case for increased wages need to understand that they've got one of two choices between them. They can argue for ever higher wages for those who are now in jobs, at the expense of those out of jobs; or they can show some restraint in additional wage claims and assist in the general national objective of reducing the number of unemployed.

Question: ...

Prime Minister:

Whether sack is the right word or not I would doubt because the control over staff ceilings we've achieved by wastage and resignations and we would propose to achieve our staff ceiling objectives in those ways. But again, there is not going to be any restraint or commonsense in this country if the totality of the Commonwealth Public Service and all the State Public Servants and the Governments in charge of them say look, it doesn't matter what wages are, because no matter how much they go up, the Government will have to pay the wages, it will have to go on expanding the Public Service and will have to either tax the general community more to meet that bill or print the money to meet that bill. Now, its time everyone understood that that is an utterly irresponsible attitude.

.../5

Question: ...

Prime Minister:

No, I think you're jumping to conclusions in that because I'd reject what you've just said. Medibank was a concept in relation to universal health care; universal health care and a more efficient and streamlined form remains and albeit at less direct costs to the average citizen. Medibank was nothing more than a concept of universal health care. Now you need to compare Medibank with what was there before when you had a voluntary system which wasn't universal but which did cover 93% and 94% of the total Australian community and are you going to say to me that Medibank, as a name, is the Health Services Commission and the Commonwealth Employees, what do you mean by Medibank? Isn't it universal health care?

Question:...

Prime Minister:

Yes, but this is at a base of the Government's involvement for every citizen and that concept has not altered.

Question:...

Prime Minister:

There is universal health care for every person in this community. The Government provides a basic level of health care for every person, whether they take out insurance or not.

Question: ...

Prime Minister:

On the pension adjustments, the reasons for that are very plain indeed. When you have inflation running at 15, 16 or 17% as it was when we came into office, six monthly adjustments were certainly necessary to maintain equity for pensioners. Now with inflation running at seven or eight percent and heading towards that five percent, annual adjustment will leave the pensioner much better off than he would have been with six monthly adjustments and inflation running at two or three times the present rate. Our commitment to pensioners is very clear and we protect them but it needs to be understood that the reduction of inflation protects pensioners just as it protects and assists all other sectors including the business section of the Australian community. And what was your third point?

Question: ...

Prime Minister:

And we have brought taxes down. We brought taxes down on the first of February to the extent of \$1.4 billion in a full year and together of course with \$350 million from the first of this year for half indexation. Now, the additional taxes of \$560 million still leave very very substantial benefits in the hands of all taxpayers. Its legislation that does run out at the end of this year. It would not have got into this position if the estimates of refunds which I mentioned earlier, and the estimates of collections from non-PAYE taxpayers had not been wrong at the time of the last Budget. Let me just make one other point about this. One of the advantages of the tax system we've introduced, and the tax indexation, is that we said it would keep Governments honest. Instead of being able to get more real revenue out of the people of Australia through the hidden processes of inflation pushing people into higher tax brackets, if Governments believed they needed more revenue they would have to tax for it and introduce legislation to do it and then justify it to the people of Australia. So, the fact that we have had to collect extra funds this year through that surcharge is a demonstration of what we always said about tax indexation; it has forced us to bring in legislation and it has forced us to argue and justify it and I believe that is as it should be.

Question: ...

Prime Minister:

It will be written into the legislation that it expires. That's how we intend to introduce it. It will automatically expire at the stated time.

Question: ...

Prime Minister:

No, it can't. We've had very significant success in getting inflation down. There has also been very significant success in getting stability back into the economy although still too great a movement in increases in wages. There has not been as much movement yet as we would have liked in a return to the profit share and obviously not as much movement in employment position as we would like, but I think that is very significantly related to the level of wages that are still too high. Now we are starting to get more investment in this country and in the end of the last financial year we were attracting investment from overseas again for the first time in many years and I think local investors are also showing more confidence. Against that background, I believe that we can state that against the position we found it when inflation was 16-17% when we came into office and a situation of no confidence whatsoever throughout the community, that there have been very considerable advances made.

.../7

Prime Minister: (continued)

I would like to use an example that I've used to demonstrate the position before. It's very easy to wreck an ocean liner by running it onto some rocks. You can do that in a matter of a few minutes, but to repair that ocean liner, to get it set sailing fair again on the high seas, takes a very long while and when you damage, almost destroy, an economy utterly, it takes a very long while to put it right, especially when there are factors such as those under the influence of the Arbitration Commission which the Government can only affect very indirectly.

Question: ...

Prime Minister:

I believe that the outlook is changing for many sectors of the Australian community and changing very much for the better and I also believe that there are many sectors of the Australian economy that already feel that they are a part of a prosperous community. All people have got a role to play in that and they've got a need to be responsible, to understand the Government can only provide, in terms of services, what Governments are prepared to tax the people to pay for, otherwise Government becomes irresponsible and if the people accept that, they themselves are irresponsible. I believe that the generality of the policies that the Government has followed are understood by the Australian community, maybe much better understood than some of the headlines you get in the newspapers.

Question: ...

Prime Minister:

I was making the point that I think many sections of the Australian community already believe that they are in that position. Not all, obviously, and not those who are unemployed and who want work but we are going to see an increase in investment, we are going to see an increase in overseas and Australia as a great supplier of natural resources & while the trading world is going to be facing very considerable difficulties I think for quite some years ahead, Australia under this Government's policies will be well placed to take advantage of whatever trading opportunities come, whatever investment opportunities come and also well placed to withstand the difficulties of world trade. The reasons for that are that we are a resource supplier and the world needs resources and to the extent that we have inflation under the world average, under that of other countries, to the extent that we offer stability in Government and in policy, we will attract more than our fair share of resource development and that will create jobs and activity throughout many parts of Australia.