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PRIME MINISTER

TRANSCRIPT OF INTERVIEW WITH MAX WALSH - 10 APRIL 1985

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WALSH: Prime Minister, the latest reports suggest the Australian dollar is climbing up off the floor. Is this due, in part, to official intervention in the interest rate ...

PM: It is very difficult in this area of the value of the dollar to attach weights, Max, to all the factors involved. Simply, let me say this, that when we abandoned the monetary targets, for what we believed at the time were good and sufficient reasons. I think there was some perception in the market that this was going to mean some weakening in monetary policy to the extent that that perception was there that would have been one factor perhaps to what happened to the value of the dollar. I think it has become increasingly evident in recent days that there has not been any weakening of monetary policy and that therefore this may now be reflected as you suggest in the value of the dollar. But I guess there are a number of factors. You are dealing with a very, I think, irrational sort of market ... these issues.

WALSH: Are you surprised that this second fall of the Australian dollar, obviously at one stage the fundamentals suggest there should be a fall. Are you surprised?

PM: That it went further?

WALSH: Yes.

PM: Yes, I think we were all surprised, and a little bit concerned Max, that it went beyond what I think ... indicated it was appropriate. But I think the community will appreciate the fact that the Government hasn't panicked about this. And we haven't panicked, Max, I think for what you would regard as good reasons, and that is that the fundamentals of the economy are strong. And further evidence has come out this morning, and the reports show the continuing strength. There is no doubt that the Australian economy, through this financial year '84-'85, is going to do even better than the quite optimistic forecasts that were put forward at Budget time. I think that is becoming more

and more obvious and it will reflect it.

WALSH: But when the exchange rate behaves, as you put it, in a way adverse to that which the fundamentals suggest, that suggests there is a lack of confidence on the part of the market.

PM: That is one of the reasons. And I think ...

WALSH: Can I put to you in that case just a number of the reasons that have been advanced ... that there is a lack of confidence. First is of course that you have alleged to have lost control of monetary policy, now ... that is not the case as demonstrated by the way in which interest rates have moved. And in fact interest rates have moved up in Australia quite severely and substantially of late.

PM: There has been a move upwards, yes.

WALSH: Which one would infer came from Reserve Bank action in the market place.

PM: There has obviously been a degree of action therein the market place, yes.

WALSH: The second area where there has been some concern that you have perhaps lost control of your own economic policy by the actions of the Caucus.

PM: Well, that is of course unfounded. I mean, you are right in putting forward ...

WALSH: ... these are the arguments being advanced. And you know that that followed the defeat in Caucus of Senator Walsh's suggestion perhaps tertiary fees should be reintroduced. It was seen as Caucus flexing its muscles in the budgetary making process. Now, it was also been suggested that you should issue an economic statement to reassure people this is not true. Is there any prospect of you doing this?

PM: Well, let's get the perspectives in the order in which they seem right. Paul Keating and I have been at the forefront of the Government's economic policies from the day we came into office and we remain in that position, have always had the view that it would be possibly appropriate to make certain announcements on the budget issues prior to the budget so that we could get the full year revenue benefits of an announcement being made and operative before the commencement of the new financial year. So there were very sound reasons for doing that. So if we do make such a statement or a series of statements, which is very possible, then it will not just be for reassurance or stroking considerations, stroking the market. Although I accept that

it could be an important part of strengthening the market perceptions about our directions of economic policy. But there will be intrinsic reasons why it makes good sense to make some statements, statement or statements, prior to the budget.

WALSH: So that would of course be before Parliament rose, it rises about mid-May. But another area where I believe there is some concern, is the whole debate about tax reform and the proposed summit, and the belief that the Government ...

PM: On that, I don't want to avoid ... Could I just make one point in regard to the area that you have just appeared to lead. I want to assert as strongly as I possibly can that the appropriate processes of giving effect to our budgetary strategy, our general economic management and our fiscal approach is firmly within Government control. It is true that there was that incident in regard to the idea that Peter Walsh had in regard to tertiary fees. It is unfortunate, I think, that the ERC, Expenditure Review Committee, was not able to deal with that fully and that there was a discussion and a decision in the Caucus. That was somewhat unfortunate. But I can understand that there was some concerns about this issue. But I want to make it quite clear that the Government is firmly in control of budgetary policy and I want to say, if I may use the opportunity of your program, to assert that the Government's commitment to the trilogy and to reducing the budget deficit is still in place and will be achieved.

WALSH: If I could just take up on what you said there, you used the word unfortunate to describe the process by which Caucus prevented it from being considered first by the ERC. Can you stop that from happening in the future?

PM: I believe that that is not a thing that will be repeated.

WALSH: Do you feel that your Caucus colleagues are aware of the disquiet that that is likely to cause in the monetary markets, that sort of behaviour?

PM: I think that they recognise the difficulties if that were to become a practice and it won't become a practice.

WALSH: Now another area which is vainly exercising the mind of the money market, especially I suspect the people overseas, is the entire debate on the methods being approached to tax reform. It does appear as though the Government has a number of views on this, that there are people in the Cabinet with quite diverse views. And would you accept that it wouldn't be surprising if people abroad hearing a Labor Government in Australia talking of tax

reform to be a wee bit apprehensive?

PM: No, I would be surprised if rational decision-makers in the market were upset by the process because after all the realities are, not only for Australia, but for any Western country, where you are approaching reform of your fiscal system. Firstly, that there are going to be widely diverse views within the community and within any government as to all the elements of reform package. That is perfectly natural, it is what happened in every other country where they have considered tax reform. May I say both before the event, and after having just been to Canada, you know the value to approach this in the early 80's of substantial tax reform. I had arguments about it beforehand and I certainly had a lot of arguments about it since. So that is a normal thing. The second thing to say, is that when you are talking about tax reform there is a range of considerations you have to take into account. You have to take into account economic efficiency considerations. You have to take into account equity considerations and one of the unfortunate facts of democratic life is, and also I guess one of the beauties of democratic life, that you can't always meekly reconcile considerations of economic efficiency and of equity. And what is happening, openly in this country, is that the debate is going on. The mind of the Government is not closed. The summit is not going to be a charade. By the time we go there there will have been distributed widely in the community, particularly the participants, a white paper which will set out essentially two things, Max, the inadequacies of the existing system, and a range of packages which will be directed to making people think about alternative ways of how we can have a better tax system. We will not go there with our mind finally made up. We will want to get the benefit of the input of people. Now that seems to me, Max, to be a process which should be welcomed, because it is more likely out of that process that you are going to get a system which is economically as efficient as possible, but also matches community concerns because ultimately what the Australian community must want and what international people interested in Australia must want, is to see the emergence of a system which has as much community support as you can possibly get.

WALSH: It has been suggested that you are going rather cool on the idea of a major tax reforms?

PM: Well, I have noticed over the years media interpretation of Hawke's position, they have been wrong much more often than they have been right. I don't think they are changing their habits on this occasion.

WALSH: Well, would you think the strong prima facie case still exists for a shift away from direct taxes to indirect taxes?

PM: I have always said that in regard to what this Government, or for that matter any government, should do about tax reform, is that they have got to have a mix of considerations of economic efficiency and equity and public acceptability. It is a nonsense to create a situation which is not going to have general acceptability because you will create chaos, confusion and uncertainty within your economic and social community. And so I say that there are arguments, I don't in any sense resile from the arguments that there are for a substantial lessening of the direct tax burden. And if you are going to do that, we have roughly given levels of expenditure, then you have got to have revenue to meet that requirement. Now you have also got to be sure, Max, that if you move that way that you can have adequate compensation mechanisms for those who will be adversely affected by the regressive, potential regressive, of a change to indirect tax. And we have got to be satisfied that we can for all significant sections have adequate protection mechanisms. So all those things have got to be taken into account.

WALSH: When would you expect that the Australian electorate would have a fairly clear idea of your intentions, immediately at the conclusion of the summit?

PM: Not immediately. I wouldn't think immediately at the conclusion of the summit, but in the not too distant future after that because you have got to then move from the stage of public discussion and the government informing itself as to what is appropriate, you have then got to move to the stage of getting legislation in place to give effect to changes. So I would think in a relatively short time after the summit we would be starting to do that.

WALSH: Prime Minister, if I could just return to that central theme I was stating. The areas of concern perhaps undermining confidence in the Australian dollar. Perhaps the most difficult and delicate is your relationship, the Government's relationship with the ACTU and the Prices and Incomes Accord. As your former Secretary of the Treasurer, John Stone, pointed out, as others have, that the commitment of the Accord to indexing wages combined with a depreciating dollar threatens an inflationary spiral. Do you concede that that relationship exists in theory at least?

PM: Yes, sure. But let me make these points. You mentioned commentators, you mentioned one in particular. Many of those commentators, including the one in particular that you mentioned, when we came to office and we talked about the concept of the Accord, were full of scepticism and derision. The facts show that their scepticism and derision have been not only ill-founded but totally wrong because the Accord has been of central importance in producing the very magnificent economic performance that we

have witnessed in this country. I don't think there is a commentator now within Australia or externally who disputes that fact. Now, within the processes of the Accord there are, by definition, provisions for consultation between the Government and the Trade Union movement. We have made it clear that the Government is prepared to adapt its economic policies to meet the requirements of the existing and foreseeable economic situation. That is how we have operated to this point, that is how we will operate into the future. Now, by the time the first question arises, that is the September case for the 6 monthly indexation, you will then have the March and the June quarters. Now, obviously very little impact in the March quarter of the devaluation processes, some in June. Now we will be monitoring this as we go up to September and it would be quite illogical and politics and bad economic management in April to say in respect of September exactly what you are going to do because you need to know as far as you can what has been the impact of the devaluation on the CPI movements that will be an issue then. Let me say this, Max, that I think according to my own reasoning and the discussions I have had with our advisers that I believe that by then it will be of very small dimension. It may be that as you go into the later period, in the next year it will be a further six months, that it would be of greater dimension, and that you would feel more pressure to adjust your position to meet that. I simply want to make this statement unequivocally to the business community, the financial markets of Australia, this Government in 1985 and beyond will continue the policy that it has very successfully followed through the first two years of Government and that is that we will make the decisions which are necessary to ensure the economic welfare of the community. We are not going to preside over a situation where the unquestioned benefits to the Australian economy of the devaluation that has taken place, and that is those benefits that we remind viewers are not simply the obvious one for farmers and miners in the export markets, but they are very considerable benefits for Australian manufacturing industry. It should lead to a significant increase in activity. We are not going to allow those benefits to be dissipated by inappropriate decisions in other areas of policy.

WALSH: I don't think I do Mr Crean, the Vice President of the ACTU, an injustice when I say that he is quoted as saying virtually that the indexation factor in the Accord is non-negotiable, and you say it is.

PM: Well, I say that the appropriate economic policy stance of Government is something under the Accord which is recognised as being necessary for the government to be taking into account, that is by definition, but also something which it is appropriate for government to discuss with the trade union movement at any given time. We will do

that. Not only in regard, may I say, in regard to indexation, if we adjudge it necessary. But let me just parenthetically make this point, don't let the market, the financial market or the economic community of Australia, make the mistaken assumption that it is indexation which alone impose a problem in regard to wage movements. If you didn't have wage indexation, it is arguable beyond rebuttal, that if you had the free market situation, the movement in wages would be very, very much higher than with indexation. So what has got to be done is to balance the benefits that the Accord and indexation, at the same time take into account as we will, the deleterious effects there may be in certain circumstances by not going too far. The alternative which would be much higher wage movements in the absence of indexation. Now the other area of course in which we will take into account economic requirements and including the impact of devaluation, is in regard to the productivity case. I think there is a perception out there in the market, Max, that there is a productivity case coming up later this year which is going to lead to some three per cent increase in labour costs out of that productivity case. I don't believe that that will happen and certainly the position of the Government will be that any improvement in conditions associated with the processing of a productivity type case approach before the Commission will need to be phased in over time so that it corresponds with the emergence of the actual productivity. You can't be talking about in 1985 giving some increases on productivity grounds to productivity which occurred in the past.

WALSH: Now you hope and expect that when all your arguments as presented here today are understood by a rational market that the present position of the Australian dollar will improve vis-a-vis the American dollar?

PM: While I don't regard myself as being the determinate person as to what happens in the market ...

WALSH: I was suggesting that they understood and appreciate the arguments ...

PM: Yes, I do say this, that if they do understand all the arguments that I have put then there would be an even further improvement. It is coming up again. But I believe that the fundamentals of the Australian economy are stronger than virtually any other economy in the world. There is more solid reason for continuing optimism about the performance of the Australian economy than just about anywhere else. If you look at the fundamentals of growth and employment and inflation and of economic stridency in policy making and the constraints imposed upon itself by Government, I think we can compare ourselves more than favourably with just about any other economy in the world.

WALSH: Prime Minister, just on a disconnected subject. The visit next week of the Secretary of the Communist Party of China, Yu Yaobang, it is being reported that there will be no breakthrough in your proposed iron and steel plan with China where they supply iron ore from us ...

PM: This is another example of where the media again, for reasons which I don't comprehend, either does not understand or doesn't wish to understand ...

WALSH: If you could just tell me the actual situation.

PM: The situation is quite clear that in the 12 months since my meeting and discussions with Premier Zhao in Beijing, February of last year, there has been enormous progress. Now what we are talking about in particular in regard to Western Australia are two negotiations. One in regard to the opening of the joint venture at Channar, that is the iron ore, which I want you to understand and I think you understand, will be China's first joint venture outside of China. Now they are determined and in my view perfectly understandably, they are determined that this is not just to be seen as the finalisation of that venture, but it will be looked at by them and by others as some sort of model, and it will be examined very closely in regard to other possible joint ventures. So they are determined that out of the multitude, the hundreds of details that are involved in such a complex negotiation, that it be done to their satisfaction. Equally, at our end, the Australian enterprise has got to make sure that its interests are protected. Now, most of the negotiations have been finalised. From the interests of both sides and we are quite relaxed about this, totally relaxed, we believe that it should be finalised in a way which is to their mutual satisfaction. That will occur.

WALSH: It will be consummated. The second one, however, is the reopening of the Kwinana.

PM: The reopening of Kwinana. I make a lot of the same comments there that,

WALSH: With the same degree of confidence?

PM: I think with the same degree of confidence. I believe that it is clearly going to be a venture that is in the interests of both China and of Australia in general and the company in particular.

WALSH: But it won't be a joint venture now?

PM: That's not a, well it was never talked about as a joint venture in the sense that Channar is. But equally Max there are a great deal, the majority of the issues have been

settled. There are still some that haven't. Now it is much more sensible, and I think the Chinese more than any other nation have a good sense of time perspectives, it is much more sensible that you work something out which is going to be certain of satisfaction to both sides over the long period of time for which it will be operated. I am more than relaxed about the relationship between us and more than relaxed with I am certain of the consummation of a number of deals, not merely in the iron and steel industry, but agriculture. We are going to have an enormously fruitful relationship with China, with almost a quarter of the world's population, rising standards of living, a revolution in their approach to economic policy making which is opening them up to the West. And there is no country, I have said this before and I will repeat it here, there is no country in the world which has a better relationship with China than, I believe, than Australia. And we, and they, will benefit from that.

WALSH: Prime Minister, thanks very much.

PM: Thank you very much Max.

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