



PRIME MINISTER

QUESTIONS AND ANSWERS AFTER SPEECH AT NSW ECONOMIC SOCIETY FINANCIAL FORECASTING DINNER

E. & O.E. - PROOF ONLY

QUESTION: Mr Prime Minister, you mentioned very early in your speech that the Accord was not something that was open to the Opposition should they become Government. Could you expand on that, is that really because a Liberal Government would not deal with the ACTU or because the ACTU would not co-operate with the Liberal Government.

FM: No, it is because the Opposition have repudiated the concept that underlies the Accord. They are entitled to do that but one would have thought that they would have had the good sense to learn from history. They apparently are labouring, or at least a section of them, as they are not united on this as they are not on any issue. But on this particular issue the general position is, and one certainly put out in policy, that the concept of a centralised system which is essential to the Accord would not be the most appropriate wages system for Australia. They believe that it would be appropriate to return to the disastrous sort of scenario like the events of 1980 when the centralised system was abandoned. Fortunately we are in the situation where we don't have to be theoretical to test their policy. We just have to look back at what happened in 1980 when the centralised system was abandoned and we had the wages explosion. Of course, it is the fact that if you didn't have a system that operates under the Accord now you would have wages booms going considerably beyond what has happened/will happen under the Accord. It just defies belief to imagine that after two years of high growth and another one in prospect, if you went for the system of allowing unions to negotiate with employers, that you wouldn't get higher wages outcomes. So they, the Opposition, and I don't think I am being critical as they are entitled to be wrong. In a sense I suppose I welcome it because the Australian people will clearly come to understand the stupidity of their position. But they have, according to their philosophy, adopted the view that it is much better in this critically important area not to have a centralised system where you have the opportunity of government negotiating with unions and with employers and operating within the commissioned systems to apply principles calculated to maximise growth. They say it is better to allow the free market to operate. Now in the present situation, you would have no chance whatsoever, under their system, of dealing with the problem created by the

depreciation. As I said in my address, the central responsibility of the community now is to try and ensure that the advantages for our international competitive position provided by the significant depreciation should not be dissipated by (inaudible) into cost price spiral and if you were just leaving the market, of course industrial power would be used, but employers would agree to significant wage increases. You wouldn't have any chance of meeting the central policy of getting there. We will under the policy. So the answer to your question. It is not because of any other reason than that the Opposition has repudiated the concept and they haven't been secretive about it. They have had nothing but contempt for the policy despite the outstanding successes that have been associated with it. May they continue to be so misguided.

QUESTION: Mr Prime Minister, could I ask a question about the PSBR, you were kind enough to suggest, as the Treasurer did, that the PSBR would be reduced by 1% in 1985-86. That figure of 1% is most interesting of course, but the question that one might ask is that as that figure in the context of the 1970's and the early 1980's is still historically high, what is the relevance therefore for merely a 1% reduction if we are going to have a 5% increase in the GDP? Could it be inferred that the reduction should be a lot higher, a lot greater, than 1%.

PM: Well obviously and in the economic context you could hope that the particular relevant factors could move more in a particular direction which you will perceive is their result. The important thing, surely, is that we have been able, by our own actions, to reduce our demands in this area. And importantly and in a sense a more difficult task is being accomplished in getting the States to agree to limiting their demands. Now it simply means that as a result of that reduction in demand by ourselves and the States, that in an expanding situation there will be less competition in the private sector in capital markets. Now sure you can eliminate that demand altogether or you can very very substantially eliminate it. But in the process, of course, you would be reducing the level of activity by the States and the Commonwealth and you simply have to make a judgment of balance as to how far in the situation, whereas a result of your opponents' stimulatory policies, you have produced spectacularly successful economic growth and you see the private sector now beginning to expand. How far do you withdraw that degree of stimulus? I think we are entitled as we go into our third year to be judged as fairly good estimators of what the appropriate balance is. After all we have got the runs on the board. We have made the right judgments as to what the right mix should be. We have got better results than just about anyone in the world. We believe that the sort of mixture that we have got now will provide the appropriate mix, if you like, of activity within the public sector and still allow in this growth situation, the third year of substantial growth, will allow the private sector to be accommodated in its demands as it takes up more of the thrust of growth. We think we have got it right.

QUESTION: Mr Prime Minister, how do you plan to stop the flow through of tax increases included in the cost of living into wages

PM: Tax increases?

QUESTION: Oil price increases, increases in transport costs due to state government charges and so on.

PM: Well I think you have got to talk about the present situation in two categories. I have made it quite clear that those increases in the CPI which have been associated with the depreciation will be taken into account. I have made it quite clear that we have put to the ACTU that these matters have to be taken into account. We have put all the options on the table, and I have given the undertaking and the Treasurer has given the undertaking, that we will see that in one way or another, or with a combination of measures, the Australian community will not lose the advantages of our very competitive position flowing from the depreciation. Now if your talking about other elements of the price index which flow from charges, and the increases in charges made by state governments, on their own independently of the depreciation effects which I have dealt. Well the answer is that you attempt in your overall economic policies to ensure that the increases that are made by state governments will be as minimal as possible as a result of the decisions you take in conjunction with the States in terms of revenue sharing. We believe that in 83-84-85 we have had a singularly successful relationship with the States and that we have been properly generous in the sharing of funds in a way which haven't imposed undue pressures upon them to raise their charges. So that is a way in which Commonwealth Government, Federal Government, can act. You can't stop some charges from going up. To the extent then that they were reflected in the price index is appropriate but that shouldn't wages. We have a particular issue, a particular problem now as a result of depreciation and we will deal with that.

QUESTION: There is a lot of discussion today on the question of targeting put the view that targeting implies discipline on government. I take the quite contrary view, I think that in many ways it is a cop out for the government to select a target that doesn't necessarily achieve the ends that we as economists would like to set as targets. I think the absence of a target goes from the government to communicate much more regularly and much more carefully with the market extension and make much freer information on what it's doing to our economic I would just like to hear your views on the issue of monetary targeting.

PM: I addressed myself to it to some extent in my address as you will appreciate. And I simply want to say this that as to why we believed it was appropriate to abandon the singular targets as we did. The changes that have been introduced by us into the markets following deregulation have produced results, distortions

which have made it, we believe, futile to adhere to that single target. And in my address I analyse all the features of this. I take your point that it is appropriate for the Government to try and make as much information available as possible. It is seeking to do this. At this stage we are certainly not disposed to assume the use of the M3 and set targets for them for that purpose because all the evidence has indicated that it would be quite inappropriate to do so. It would produce, we believe, quite inappropriate economic outcomes. We are open to persuasion, if you like, as to what is the best way of hearing our knowledge with the market, but we do not dispose to reverse our decision. We will not be reversing that decision. We will try as far as we can to direct ourselves through the Reserve Bank, make as much information available to the market as possibly can be done. We will not be perverting economic policy by adherence to some aggregate which is no longer appropriate to that task. If in fact there can be specific suggestions put to us, myself and the Treasurer, as to how we can achieve the objective that you talk about. We are open to suggestion.

QUESTION: Prime Minister, as you are aware, as far as the outside world is concerned, the Australian economy is basically a two product economy, that is rural and mining. As you are aware the worldwide rural and mining industries are in decline. The outlook for the longer term for both sectors isn't particularly brilliant. In the short term we have a reprieve through the devaluation which you have outlined and in the short term things are going to be maintained but surely the long term answer is not going to be the continuing devaluation of the Aussie dollar to offset the decline in our exports. I was just wondering sir, if you might be able to share with us tonight, any thoughts you might have about future policy initiatives which might help the Australian economy diversify away from its highly dependent status on rural and mining and what sort of economic policy initiatives may be considered in the future.

PM: I had addressed myself to that issue to some extent in the address. I pointed out that we have addressed ourselves to the question of industry policy. We are not depending on rhetoric. We made the point as to what we have done, for instance in the steel industry. It was very interesting to see, I think it was in today's Melbourne Age - Terry Brand's article where just what has happened within the steel industry in terms of its international competitiveness as a result of the combination of depreciation and not just depreciation but the significant increase in productivity that has been associated with the steel industry plan that we brought in. So not only there but in the automobile industry we have reached the stage now where one major producer is talking about exports of Australian vehicles to the United States. That is a significant improvement in that area of industry. And in the whole approach to industry policy our assumption has been that Australian industry hasn't been prepared to restructure itself. We are seeking to assist industry and trade unions and governments to work together to achieve those objectives. And we are not merely

going to particular sectors of industry in the way that I have just talked about, but I have established a committee of Ministers which is concerned with Australia's long term economic growth opportunities under the Chairmanship of Senator Button, the Minister for Industry, Technology and Commerce, and they will be reporting to the Cabinet on the range of policies which are necessary to achieve those objectives. All that we are doing in the area of industry training and retraining is calculated to try and produce a range of skills in the labour force to include training and education and retraining and re-education which will ensure that we do not suffer from absence of skills. We need to have not merely the training and mobility in the labour force to ensure that it will be able to service those industries which were able to develop and which will be able to, as I have said before I enmesh the Australian economy with this region. I think in terms of what we are prepared to do, in direct terms of industry policy of what we are prepared to do in the area of tax to develop research. And you know the initiative we have taken there. And in terms of training of our work force and retraining of our work force, we have made it clear that we are dedicated to enabling a restructuring of Australian industry to give the maximum opportunity of taking advantage of the fact that we are a part of the most dynamic region of the world. Our trade policies are calculated to achieve this. I believe that I am able to say now, just over two and a half years in office, that our relations with the region in general and with China in particular are better than they have ever been before. So the combination of our general macro-economic policies, our trade policies, our training policies, our education policies are all calculated to try and develop in Australia an industrial structure which will take to some extent account of the realities to which you refer. We can't think of an area of relevant economic policy in which we haven't directed attention and already produced policies or intending to produce policies calculated to achieve those results.

QUESTION: Mr Prime Minister, I was very interested to hear your statement in your address that you plan to make an announcement regarding youth unemployment. I have two teenage children who often ask me the same sort of questions that the three teenagers asked you last week on "Pressure Point" program. I find again and again that I have the same problem as you had on that program and that is the distinct lack of knowledge of the facts on the part of our teenagers and that a lot of their statements are based on an underlying attitude that we don't seem to care. I think it came through. You had to correct them a number of times on that program and I find myself in the same position again and again. Can we expect on your announcement some real initiatives that show our unemployed youths that we 'the employed' do care?

PM: Yes, I can give you an unqualified purpose to that. I obviously don't want to, nor am I in a position to, disclose all the details. But let me very briefly go to the elements which I believe are important. I think firstly it is important to get across to them that we, not merely as a Government but as a

community, do care. There is no doubt that there is a feeling out there among a lot of our young people that we don't. And just to produce statistics to show that it's somewhat better now than it was two years ago is not enough because the problem is of very considerable dimensions. So the sorts of things that we are wanting to do are these. You will appreciate that the Kirby Report shook a whole range of labour market programs, gave technical colleges the concept of traineeships. Now as I have announced before we will be picking it up in very substantial numbers. I won't go into detail now but let me make the point that the purpose of the traineeship concept is to recognise that in the past students coming out of school had the opportunity of going through the apprenticeship stream and that provided positions for 33,000 and we pick up in 82-83 with numbers of up to about 45,000. So it's that sort of numbers who would have the apprenticeship route available to them. Then you have the tertiary education at the universities or in the TAFE institutions. But a hell of a lot of our kids have been where they haven't got a job at all, where they have gone into the market and really gone into dead end type of jobs where they have no sort of training at all which will open up the possibility of developing a talent which undoubtedly so many of them have. Now the concept of the traineeship is to provide a situation where it will go into jobs which won't be dead end. They will get training on-the-job and then there will be that pull at the end that they will get a broader training of the job in development institutions. The TAFE will be one but not only TAFE. So that they will have the opportunity to develop their experience on and off the job in a way which will open up to them more meaningful and satisfying jobs in the future. Now that will be an important part of what we are doing. Secondly, of course, we want to keep up the momentum which is developing in the last couple of years to an increased retention rate of our young people in the education system. One of the great tragedies that we inherited was a very low retention rate in the latter years of secondary school. By international standards this was dismally low down at the beginning of the 80's to about 35%. Now that has moved up to about 46% and we are wanting to continue the policies which we are introducing which will keep that increase in the retention rate going. Now the next point, it is no good just keeping our young people in the education system. We have got to make the education system as relevant as we can for their needs as individuals and for the needs of the economy. That is why we have appointed the Karmel Committee, the quality of education review committee. And we have asked of and received an excellent report from Karmel as to how the very substantial funds that are going into primary and secondary education should be developed in a way which is going to make the quality of education relevant for young people themselves and for Australian industry. So in co-operation with the States, we are working in that area to give the young people of Australia a greater chance and opportunity to stay in the education system and to be in an education system which is relevant. Now another strand of what we will be doing is to try and get a greater degree of rationality into our youth income support arrangements. A greater degree of rationality between the

secondary education allowances, the TEAS allowances and the unemployment benefits. So while looking after the necessary human requirements of those who are still unemployed but you are going to have to get greater incentive for kids to remain in education through appropriate relationships between the range of youth income support. Now that is not an exhaustive statement of the things that we are about, but I do believe that it will mean the most important thing that has been done in addressing this problem since the time when the disappearance of full employment started to create this disaster for young people and I believe that with the appropriate length of co-operation from the young people themselves, from the education institutions, the employers, the trade union movement we can at last start to do something about eradicating this blight upon our society.

QUESTION: (inaudible)

PM: I will just answer this question very very briefly. Firstly as an ex-member of the Board of the Reserve Bank We are examining a range of options on what useful information about the standard policy can be communicated to the markets. We are looking at that. I pointed out in answer to a question yourself the difficulties of why we won't revert to the previous practice. I take note of what you have said. I will discuss it with the Treasurer and in our discussion that we are currently engaged upon as to the range of options that are available
