



## PRIME MINISTER

E. & O.E. - PROOF ONLY

INTERVIEW ON ELEVEN AM - 8 NOVEMBER 1985

JOURNALIST: Good morning Mr Hawke, thanks for being with us again. Well, the economic indicators continue to point to a basically sound economy. Yet our dollar does seem to be having troubles. What has gone wrong?

PM: Well, the basic area of concern is in the current account and it was known that we would have troubles with the current account for a while even when the devaluation occurred. It takes some time for the competitive benefit we get from devaluation to work itself through with a reduction in imports and an increase in exports, but we are confident that that will take place. And you rightly say, Ken, the fundamentals are good. They are reflected in the fact which I think will give great comfort to all your viewers - yesterday's employment figures. It is the first time for three years that unemployment rate is down below 8% - 7.8%. That is very good news. We are very confident that while we will have to wear slightly higher interest rates for a while, while we are having the trouble with the dollar, it will come good.

BEGG: Does that mean that intervention of some kind is out. You talk about the possibility of higher interest rates. Is that a response to the dollar?

PM: Monetary policy has firmed somewhat. That is quite clear. And in the result of that firming of monetary policy there has been this increase in interest rates, but we are not talking about dramatic intervention because we are confident in the correctness of the basic fundamentals of our economy.

BEGG: Are you saying that interest rates are going to rise further, Prime Minister?

PM: You know very well that it is not proper for the Prime Minister or the Treasurer to speculate in this immediate term about what is going to happen to interest rates, because that speculation or observation of itself by either the Treasurer or myself, can have its effect on the market. We are not going to do that.

BEGG: The Opposition Leader yesterday said you basically had two options. You could either go to the ACTU and say the productivity deal is off, or you could allow interest rates to go up.

PM: Well I would have thought, Ken, that if Australians were looking for one source they would not go to for economic advice, it would be the current Leader of the Opposition who was the architect of the worst recession in this country for 50 years. Interest rates soared. Unemployment soared. Inflation soared. We don't want, or need, Mr Howard's advice. He has had his go. He has made a bigger mess of it than any Treasurer in the history of this country. We have turned around this country. We have saved it from the shambles of Howard. We don't need to turn to him for advice. And we won't.

BEGG: So basically the economic strategy stays as is?

PM: It would be madness to depart from an economic strategy which has produced Australia as the fastest growing economy in the world, which has employment growing at a significantly faster rate than the rest of the world and within containable levels of inflation. Now, it is the case, as we have said, that we have certain difficulties at the moment on the current account and the balance of payments area, and that has produced this run, the pressure on the dollar. But we are confident, as I say, that with the calm approach that we are taking, this will turn around, and that by the end of this year the current account relationship to the GDP will be acceptable and will continue to improve.

BEGG: So you don't at times perhaps wonder or even possibly suspect the motives of the money market?

PM: No, I'm not a conspiracy theorist. I rather say this - that I think they have their time horizons far too shortened, that they tend too readily to react to one particular bit of information or one particular event. I mean, I think they over-reacted to the 3.8% increase in wages. And this is, I think, a silly thing to do because in fact it is quite clear, and the business community have told us that they now accept the fact that the non-discounting in September and the 2% discounting early next year, they accept will produce basically the same sort of result in inflation terms as if you had done some in September and done some next year. Now, I think the market should have understood that.

BEGG: From time to time we have heard over the last year, and indeed before, that as a nation we are living beyond our means. Is that what has happened?

PM: We have, over a period of time, because we have borrowed very substantially. You can't keep on doing that. You have got to look at the elements of that borrowing, as far as the Commonwealth itself is concerned. And if you look at its external debt, our external debt as a government is more than covered by our reserves. The great proportion of the debt is as a result of private borrowing by enterprises in Australia. Now that has been made on what they consider to be good and rational economic grounds to invest in enterprises which are going to produce returns into the future. And I believe that will occur. But you can't indefinitely go on borrowing at the sort of level that we did. And of course part of the overall economic strategy that we have adopted is to reduce the call of

government upon markets. We have reduced the deficit very significantly and in co-operation with the States, we have reduced the total public sector borrowing requirement very substantially. So this will reduce the call by governments upon foreign markets and over a period of time should lead to a relative reduction in the pressures in the capital markets and therefore an easing of interest rates. But we are experiencing this upward pressure at the moment for the reasons that I have given.

BEGG: So we are in for a tough time as far as interest rates, for a while?

PM: Well, for a while we have to live with high interest rates. But I believe that when you are making a judgement about economic policy you have got to look at the totality of it. And I believe that the Australian people are proud of the fact, and they should be proud - it is not just a question of government - they are proud of the fact that as a community we have worked together - employers, the trade union movement, and government, to very substantially reduce the level of unemployment. When we came to office we inherited a figure that was going up to about 10.3% unemployment. We have got it down to 7.8% now. And we reduced inflation very substantially. The result is that the young people of Australia are looking at better job prospects now than they have for a very considerable period of time.

BEGG: As you say, Prime Minister, unemployment is coming down, but you still do have a fairly high level of youth unemployment. Looking ahead, what do you target - what do you see as a possible?

PM: Well, I am looking, as I have said before, to towards the end of this decade a situation where as a result of our initiatives in education and employment and in training that we will have substantially eliminated unemployment in the level of 16 and 17 year olds and have brought it down very substantially at the next level of teenagers.

BEGG: Does that mean in the old sense full employment, or is that an impossible dream?

PM: Well, when we talked about full employment in the past we talked about it traditionally in terms simply of looking at jobs as such. I think we have got to understand that we live in a rapidly changing world. The impact of technology is upon us. So what we have got to do is have a range of programs which means that we have more of our young people staying in the education system longer. We need a more varied range of training programs which we are bringing in. So that what you will have is the young people of Australia occupied in either education or training or employment or a combination of these things. I believe we can get towards a position where, as I say, in those age groups that I have talked about, we will get very close to having them fully occupied, as they should be.

BEGG: Prime Minister, unfortunately we have run out of time. Our thanks again, and as this is our last program, all the best for the year.

PM: Ken, can I say thank you to you, and as this is the last program, congratulations to the station for a great year. And may I take this early opportunity of wishing all your viewers a good Christmas and a happy new year.

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