



**PRIME MINISTER**

TRANSCRIPT OF INTERVIEW, MAX WALSH ON CARLETON WALSH REPORT,  
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WALSH: Mr Hawke, congratulations on making your third birthday as Prime Minister. Have you pondered in the last few days that if you hadn't have gone to that early election you would have had an election in the last month or so when you almost certainly would have been returned with a larger majority facing another 36 months in office.

PM: No, I haven't. We made what we thought was the right decision at the time to coincide with the half Senate election. And I know that when we come up at the end of this full term we will win again.

WALSH: At your address today to the National Press Club you drew attention to the little shop of horrors you inherited when you came to office in terms of the economic situation. But you then went on to say that the conditions we now face are even more difficult and more complex.

PM: What I said was that the goals, the objectives were very simple when we came in. I said, I went on, you will recall, to say that the mechanism, the means to turn the economy around weren't simple. What I am saying is that the complex situation now, paradoxically, represents the price we are paying for the success of our policies. The high levels of economic growth that we have generated, running at six per cent per annum up to the last September quarter in non-farm GDP, has occurred in a situation, as you know, of a current account deficit problem. We are sucking in very high levels of imports with that level of growth. There seems, as you know Max, to be a situation that importers have carried some of those pricing impacts within their profit margins, so there hasn't been the diminution in the level of imports that you might have expected as quickly. Therefore, what we have got to do in that situation is to pursue a policy, we have been doing by monetary policy, to try and take the top off the level of demand. What I am saying is that we have got to walk that very tightrope between the levelling off process to protect our external position while at the same time, Max, not taking you back that far that you are going to produce a situation where we can't maintain a sufficient level of activity to cope with the unemployment problem.

WALSH: So in the very short term do you see the balance of

payments problems being the major constraint upon your economic activities?

PM: I think that is a fair statement. As we went towards the end of 1985 and have come into '86 that has been the major constraint. I believe that is right.

WALSH: You made the point in your speech that Australia can't afford to keep living on the savings of the outside world. I have read that as saying that you saw some necessity to cut back on overseas borrowings both at the public and private level.

PM: IT is the case that we have got to, as far as the public sector is concerned which we directly control, I think reduce the public sector borrowing requirement. Now, it is a matter of logic, as you know, if you have got a gap between what you earn overseas by your earn overseas and what you import then you have got to borrow. The borrowing has got to be done.

WALSH: Yes, but you face a very high level of past borrowings at a time when, would you agree, we are moving into a very difficult situation in terms of our own terms of trade, major export commodities.

PM: Absolutely. Max, you are quite right there. What Australia, I think, doesn't appreciate sufficiently, including a lot of reasonably informed commentators, what a devastating impact there has been in the change in the terms of trade in the last 6 months or more.

WALSH: But I am really looking at the coming 6 months, because it is starting, you see we still haven't seen the impact of the oil price cut on coal prices, which surely will follow through. We haven't yet seen the full impact of the American export enhancement policy on grain prices.

PM: We also haven't seen, I mean I don't dispute those propositions, but in balance nor have we yet seen Max, the impact upon the level of economic activity worldwide of the reduction in oil prices. And that increase in activity, which one would assume, I think sensibly, can result from lower oil prices, should mean a better demand for a number of our products. I mean, it is not a completely one-sided picture, I think you will agree.

WALSH: Yes, but the trouble is that our major commodity exports, our non-ferrous metals and our iron ore etc, there is simply so much more competition now out there now than there used to be.

PM: But it is also the case, it is a matter of economic logic to expect that if fuel prices are significantly reduced through this period then that factor of itself should increase the level of activity internationally. And to the extent that there is an increase in the level of activity, that should, other things being equal, be to our advantage.

WALSH: One of the things which you said today, you said, I even think you said it was your proudest achievement, that you had reduced real unit labour costs to the levels of the late sixties, early seventies.

PM: I didn't say it was my proudest achievement, that was a reference. But it was part of the achievement ...

WALSH: Well, you didn't apologise and later you, you focussed on this particular point. And while that is perfectly true in respect of the manufacturing industry and that is what you were talking about, is that our manufacturing exports are only a very small proportion of our export situation.

PM: It's true. But what we have got to do as a country is to increase the competitiveness of our manufacturing sector. And I think one of the reassuring statistics recently, Max, has been the evidence of increased investment in manufacturing. You will recall that looking at the figures for the December quarter and comparing them with the previous December quarter, there is an increase of 46.4 per cent in manufacturing fixed capital investment. That is a very significant investment. And it does suggest that the judgement is being made, Max, by many people in our manufacturing sector that they are now better placed than they have been for anything like recent memory to take advantage of the conjunction of circumstances to which I have referred.

WALSH: Well, what I really want to get around to saying is do you expect that this surge in manufacturing investment will be reflected in both increased manufacturing exports of a significant degree and significant import replacement?

PM: I hope, well I am glad you went to that second because one of the problems, talking in technical economic terms, has been that the assumption that the depreciation would lead to import replacement, the argument is that in some respects that has not been possible because of the type of demands within Australian are not capable of being satisfied, at this stage, by our structure of manufacturing industry. Therefore we have simply had to continue to get them from overseas, yes. It is my hope that part of this longer term pattern that you are rightly directing the viewers attention to will be an increase in the capacity of Australian manufacturing industry to provide elements of our infrastructure which hitherto they have not been able to display. The increase in competitiveness will reflect not only in additional exports of manufactured goods but in additional capacity to cover import replacement.

WALSH: Mr Hawke, if I could move on to BHP. John MacBean wants to have the whole question of the Holmes-a-Court takeover bid referred to the Steel Industry Authority. What's the Government's attitude to this?

PM: Well, as I said at the National Press Club today, it is arguable that under section 7 of the Act you could ask the Authority to have a look at it. But it wasn't really intended for that sort of purpose. In the end the Government Max, has to satisfy itself about certain public interest questions and our judgment is that the best way of satisfying ourselves on that is

to look at it directly ourselves. Nevertheless, I think it proper that we should have some discussions with the Steel Industry Authority and in fact therefore what we will be doing is after having spoken with BHP and having spoken with Mr Holmes a Court we will, immediately following that, talk with Mr Roberts of the Steel Industry Authority so that we can give him the benefit of those discussions and ourselves receive the benefit of any comments that he has got to make to us.

WALSH: Well, understandably the debate on BHP has to a large extent focused on the iron and steel division but will your inquiry into the public interest and your questions with BHP and Mr Holmes a Court range into the areas of oil exploration, mining?

PM: I believe that we will range more widely than just the steel industry although I think you can appreciate the pre-eminence of that concern given the history since we came into government. When we came in to government the position then was that BHP was contemplating closing down its steel industry. I said I wouldn't tolerate that. We brought in the steel industry and we have transformed the industry. Now we are not going to allow a situation to occur where the future integrity and viability, the capacity for expansion of the steel industry is prejudiced. So I think you will appreciate the pre-eminence of that concern. But, no, we will be looking at these other issues to which you refer.

WALSH: And one of the incidental debates which has arisen out of this particular issue of the BHP takeover is the habit of takeovers where borrowings are used to replace equity capital and the corporate tax base is eroded. Is this part and parcel of your inquiry?

PM: Well, there will be questions to the two parties that are relevant to that but in addition Max, we have also asked Paul Keating, the Treasurer, to bring to Cabinet in the near future a broader paper on this which goes beyond just this takeover which has its implications in that area.

WALSH: Just a final question Prime Minister, and nothing connected with what we have been talking about but you must be a little bit disappointed and disturbed that sort of in your third birthday week that the appearance of unity in your Cabinet has been a little shattered by a series of leaks .....

PM: I don't accept that. Seriously, I am not just being a politician being protective of his government. Let me say these things, firstly, leaks have been a feature of governments of both political persuasions for a very long period of time. I mean we haven't had the situation yet where a whole Budget has been leaked as happened under the Conservatives - point one. Point two, nevertheless I am disappointed that there has been that leak. But point three, let me make the point, as I did at the Press Club today, I respect my Ministers in the welfare and associated areas wanting to protect the interests that they represent. I mean if they weren't in there trying to fight for and protect those interests they shouldn't be in the job.

WALSH: You are referring to the letter you received?

PM: Yes, sure. But going to the issue of the leak of the document which was in yesterday's Sydney Morning Herald and at least a discussion about a document which was reflected in today's Sydney Morning Herald, I would rather, of course, that that had not occurred and I am annoyed about it. But what I am saying is that that reflects no split in the Cabinet. The spending Ministers, if I can go back to that group of seven, in their letter, the letter is a perfectly respectable letter. They recognise the relevance of the economic environment. So what we are seeing is the classic case of a government having to balance the need for expenditure restraint against the natural instincts and interests of Ministers who have specific portfolio responsibilities. As I said at the Press Club and I repeat on your program, we don't have to be in a position where we say, oh look please trust us, you know we'll work it out. We have been here for three years, we have proved the best the economic managers in the post war period of Australia, we have produced record growth, we are outstripping the rest of the world. And we have done that in a process which has involved expenditure restraint, a balancing of competing priorities. We have done it three times, we will do it again.

WALSH: OK Prime Minister, thanks very much.

PM: Thanks Max.

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