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## PRIME MINISTER

E & O E - PROOF ONLY

TRANSCRIPT OF INTERVIEW WITH JOHN LAWS - 2GB - 30 MAY 1986

JOHN LAWS:

We talked earlier today at some length of the government's political and economic problems at the moment, the pressure is on the government, whether they see it as being a problem or accept it as being a problem I don't know.

In a nutshell, it's got to get business investing in new production to compete with imports and to sell manufactured goods overseas, it's got to cut a swath through the government's spending.

If I was a government, I'd see those things as problems.

It's also got to try and persuade the unions to accept even further reductions in the unit costs of Labor, wage cuts in other words, and it's also got to overcome a growing swell of opinion to suggest that the government is in some sort of political bother.

Now, like it or dislike it, that is an opinion that exists, especially over the fringe benefits tax, but also over what's perceived to be a split in the ranks between the prime minister and the treasurer.

Divisions in the party over policy of course will surface with some vigour in July at the party's national conference and that will provide I imagine a little more political bother.- maybe it won't, but I suggest it would.

But now Paul Keating has been out and about trying to repair the apparent split between himself and the prime minister by saying if there was a misunderstanding, then they are now understood, but then he seemed to tip himself into hot water again, he couldn't resist saying the real culprits were the prime minister's minders.

Without naming them, I suppose he meant Peter Barren and Bob Hogg, former ALP state secretary, and press secretary, Geoff Walsh.

The prime minister is on the line now, and I assume he knows that we were going to broach that subject.

I imagine when you were in China you were pretty tired, must have been jet lagged apart from anything else and having a busy time, do you think in reference to the fellows who do look after you when you're travelling and elsewhere, do you think that they perhaps got you a little too geed up in China through a misunderstanding of what Paul Keating had said both about the mini-summit and about the statements he made to me?

BOB HAWKE:

They haven't got me, either then or at any other time, geed up. My only concern was and properly to see that there wasn't undue expectations engendered about what that meeting of ACPI could do.

I said, and repeat to you, that I believe that Ralph Willis and Paul Keating, the ministers attending that meeting, did absolutely appropriately in responding to the suggestion which arose at the meeting that perhaps they should meet again and have a somewhat wider discussion.

That was very sensible and proper in accordance with government policy that they should have responded in that way.

But then from that response, and one way and another, there developed fairly quickly a view that we were going to have another summit or its equivalent and my concern simply was to hoe that down.

The meeting of ACPI, that extended new meeting, wouldn't have had and will not have the capacity to negotiate agreements or to formulate new policies and I really wanted that to be understood.

LAWS:

Is it true that these fellows that surround you, I know they do the job well, I've always found them pretty good frankly, but then again I'm not on the backbench, nor am I a minister of your government, do they shield you from those fellows, even from people as high as Paul Keating?

HAWKE:

It's not a question of shielding. Let's have this straight, clear, unequivocal, with regard to my staff there is no question about their competence, integrity and loyalty, not just to myself but to this government, and they have done from the beginning of this government an excellent job.

One of the things that Paul said yesterday was correct when he was talking in this area, and that is, as you well know, that this is a very hot house atmosphere, it's an unreal atmosphere around this Parliament House.

You have the ministers' staffs, you have the press and it's all very incestuous, it's an unreal atmosphere and as Paul said, a lot of pressures get engendered in that atmosphere.

If one wanted to, and gave him the exercise of talking about the personal characteristics of staffs, of the gallery and so on, you could go on and have quite a saga.

What one has got to remember is that these people on the staffs, not just on my staff but of ministers, they are not in a position where they can publicly defend themselves and I'm going to do it for them as I would expect Paul to of someone engaged in the luxury of attacking his staff.

As far as I'm concerned, these people can't defend themselves, I will and I think that

the perhaps understandable concern that Paul may have had about not the staff but a worry about some version of attention from the real issues, okay a muddy statement, there's to be no more of that and there won't be.

LAWS:

I understand the atmosphere and that was why I put it to you, that under the circumstances, while you were in China, and I know you want to leave the subject alone and I'm quite happy to leave it alone too, but that's why I put it to you, that being under some pressure while away all sorts of things, like travelling too much, language problems that you must encounter, having to be forever on your political toes, that they could have simply caught you at a stage when perhaps you were overtired and you may overreacted?

HAWKE:

No, absolutely not. I hoped in the answer I've already given you that the opposite is the case, but as far as I'm concerned we were about, not in any way, questioning the decision of Paul and Ralph Willis, both of whom were involved.

They were perfectly right to respond and have this meeting, but not necessarily out of what Paul said or Ralph said and I've seen the transcript of what was said, but the media built up the idea that here was a new summit.

There was never going to be a new summit and that was my concern, to see that that was made clear.

It has been made clear and the cabinet has had a very, very good consideration of the issues, a sub-committee of ministers under my chairmanship looking at the issues which will be discussed, not only at the ACPI meeting next week, but in preparing an early statement of the government's response to the current economic situation.

It's all under control and according to the proper processes. So what I was concerned to establish, it has been established.

LAWS:

I suppose that interest rates are a key to the slowdown in the investment and economic growth in Australia, what sort of plans have you got in that direction, can we expect a fall in interest rates soon?

HAWKE:

Well, let me make this clear, that as far as interest rates are concerned we've always said that monetary policy is a key element of our overall strategy and that strategy is fine, as you know, to achieve sustained growth without debilitating inflation and balance of payments problems.

So in that sense we all want lower interest rates, but we want them in a way which can be permanently achievable and that's what our policy is set now to achieve, permanently lower interest rates as economic conditions permit.

I simply note, as you are aware, that the general interest rate trend over the past month or so has been distinctly downward and I'm not going to risk the achievement of lower rates by speculating in any detail on the outlook.

I simply say that the downward trend has been consistent with our policies and our policies are going to continue to take the appropriate framework for having permanently lower interest rates.

LAWS:

You must have a lot of things on your mind, I mean you came back and it certainly wasn't all peace and quiet on your return, was it?

HAWKE:

It wasn't too bad.

LAWS:

It wasn't too good either, I wouldn't have thought.

HAWKE:

Let me say, I'm not being flippant about the economic situation, it is one that requires an adjustment, refinement of what we're doing, but I was making the point not flippantly about the fact that there are difficulties, but that I wasn't overweighed by them, that's all.

LAWS:

That's what interests me. A lot of people have been saying, I for one, that I think that the government has got perhaps more pressure on it at this time than it ever has had since it's been in office, would you agree with that?

HAWKE:

I think that's right in this sense, that when we came in it's very difficult to imagine any government could have had more pressure because, as you know, we were in the worst recession for 50 years and we had the enormous pressure of turning that around and taking some hard decisions which were necessary to get the economy going.

That was tough and hard, but now it's in a different sort of situation and the paradox, as I think you appreciate, is that in a sense we're paying the price for our success.

We got the economy moving up so strongly that the level of imports coming in with that economic growth here were very high.

We would have been able to cope with that if we hadn't been confronted with this just unbelievably drastic deterioration in the terms of trade, and as far as your listeners are concerned I don't want to use technical jargon, but that simply means that the prices that we were getting for our exports were diving downwards while the prices of imports were going up.

That simply meant, if I can give you the best illustration of it which was supplied by the statistician yesterday, that that's meant that in the last 12 months a loss of 3% in our national product as a result of that change in the terms of trade.



Now, the problems are new for us, therefore we've got to adjust policies in a way which means that we get that external problem down and try and keep activity going in this country in a way which is going to keep employment going. We'll do that with the co-operation of the people of this country.

LAWS:

Okay, but if you've got to get things moving in Australia, and we understand that that simply does have to happen, then it seems to me contradictory that you are offending, and I think that's the best word, the business community with the fringe benefits tax that is about to come in.

HAWKE:

Well, you talk about offending the business community, let's get some facts straight about the fringe benefits tax.

We're not altogether dills when it comes to research and it wouldn't surprise you therefore that we've been undertaking some research on this question of fringe benefits.

LAWS:

I'm not saying that they're correct in being offended.

HAWKE:

No, but it's not just correct, you talk about some people being offended, it is true that some are, but all the indications of the research are that the fringe benefits tax continues, which is not surprising. to have very, very strong majority support.

That is simply a reflection of that fact that it is a relatively small proportion of the workforce which gets the benefit of these fringe benefits.

I mean when you cut all the hyperbole and talk and special pleading out, the fact of life in Australia has been that the top 10% basically of wage and salary earners, have had their differentials against their ordinary salaried wages colleagues, pushed outwards by that 10% basically having these non wage benefits, which they're non taxed and has given them greater benefit.

LAWS:

Yes, but isn't that fundamentally the business community?

HAWKE:

I beg your pardon?

LAWS:

Isn't that fundamentally, that top 10% that you're referring to, the business community?

HAWKE:

It's executives and so on - not simply executives, I noted it comes down the scale somewhat, but if you want to say that business community is the executive to the business community, I just have a different view.

They are an important part of the business community. People who work, wage and salary earners are part of the business community, without their input there'd be no business.

LAWS:

Yes, but it's the wage and salary earners that also can be affected by the fringe benefits tax.

HAWKE:

Just let me give you some figures. The best way of putting it is the highest paid 11% have about three to seven times the chance of receiving any particular fringe benefit as the 74% of wage and salary earners paid at or below average weekly earnings.

I'm simply saying that overwhelmingly the fringe benefits have been concentrated in those upper income levels.

I'm not worrying about that in any sort of class thing, you know I don't go on with that, I'm simply saying, however, if you're talking about reaction and concern the simple point is that the great majority of people are in favour of the fringe benefits tax because the great majority are in a position of seeing that a relatively small proportion have been given benefits which haven't been taxed and which give them an advantage over and beyond what's available to the great majority of people.

It's fair in this society that that sort of advantage should be moved. If people are to be rewarded for higher skills, higher importance, let that be clearly indentified in salary terms upon which those people then make their contribution to the welfare of this community.

LAWS:

That's right, you're not getting any argument from me on the basis of the fringe benefits tax because I think it's been an unbelievable rort and I agree with everything you say, but the point that I'm making to you, - two points I'd like to make to you - we're getting all sorts of calls of anguish from hundreds of small businesspeople who are confused about it to start with, but more importantly a lot of people that are angry that they consider it to be, and listen to the words I'm using, an imposition on the business community at a time when you're trying to persuade them to perform better anyway.

HAWKE:

Let's get this business of the imposition on the business community right, and the best way I guess of doing it is to just look at what's happened under my government and compare it with what was happening to the business community in the period before that.

Just let's look at the profit share. Under Mr Fraser, if I can call them the Fraser years and let's talk about the Hawke years, and I'm not trying to be immodest, that's the easy way of identifying it.

Under the Fraser years the average profit share, in the national income, was 13.9%. Under my government, the average has been 15.3%.

When we came to office it had got down under the other mob to 11.7%, we've pushed the

profit share up and we've done that because it had got too low, it had to go up.

We had the understanding not only of the business community, but of the trade unions.

Now, that's what we've done, we have as a deliberate result of our policies pushed the profit share up to historically high levels, and we have done that in a situation correspondingly where the rate of wage increase has been significantly lower.

You probably haven't heard this figure before, but I think you would agree, in terms of a lot of the nonsense that goes on in this special pleading, that these figures are important.

The average under the Fraser years for movements in earnings, the average was 11.4%, that's what male average weekly earnings grew on average in the Fraser years.

Under us, down to 6%. These are the facts, we've pushed profitability up, the movement in earnings has been lesser, the level of industrial dispute is at historically low levels.

Now, sure you're going to have some people ringing up and doing their special pleading, but what you are concerned about, as a responsible commentator concerned with aggregates, what really is happening, those are the figures which are important.

LAWS: But back to the point - -

HAWKE: I haven't gone away from the point, John.

LAWS: Yes, you have.

HAWKE: No, I haven't, mate.

LAWS: They consider that an imposition has been placed upon them, they being the business community, at a time when you're trying to persuade them to perform better.

Now, you are adding costs to the business community, aren't you?

HAWKE: Some of these, of course, of course there are some costs, but remember this, that it's not just one thing, the whole tax thing is a package.

I remind you that as part of this package the top rate, the top rate of tax is going to come down from 60% to 49%, the same people who have been getting these fringe benefits that are going to pay some tax upon it, they're ringing up and complaining about that.

At the same time, are they saying to you thank you to Mr Hawke and thank you to Mr Keating for moving now to bring the situation where by next year my top tax rate will be brought down from 60¢ in the dollar to 49¢? Are they saying that?

LAWSON:

No, they're not, but - -

HAWKE:

They're not being very rounded, are they?

LAWSON:

No, I certainly agree with all of that, but you're saying that they're not saying thank you for this, but why should they say thank you to you when you say they will pay the tax, not the person receiving the benefit?

You're making the business community pay the tax, not the people who are receiving the benefit.

HAWKE:

Let me say this, I understand that point, but we're doing it as part of a whole package.

The judgment of the government was that it was appropriate within the whole package to do it that way, it certainly would be a much stronger argument for these people if all that this government had done was to impose a fringe benefits tax and push it on to the employer.

Of course what will happen is that as a result of what we're doing, in imposing the tax this way, is that companies will do what they ought to do, and that is in regard to their employees who deserve a higher differential salary, and of course that is the nature of business, that some people deserve higher salaries, then that will be identified by way of salary and so remunerated at the higher level will out

of his remuneration pay his share to the common revenue out of that tax, he will still have a higher remuneration, but he won't have a great hunk of it being in a form out of which he pays no benefit to the community.

Why should you have a situation where the lower paid salaried and wages earners have the whole of their remuneration in terms that mean that out of the total of it they pay tax, whereas for the higher remunerated people you've had a very large and increasing part of their remuneration out of which they paid no tax?

LAWS:

That's all axiomatic and makes miles of sense.

HAWKE:

Thank you.

LAWS:

But it doesn't alter the fact that you are adding costs to the business community.

HAWKE:

Of course there is in this aspect an added cost, but I point out to you that in terms of what's happened to real unit labour costs under this government, that's looking at the totality, it's no good just picking up one thing.

Real unit labour costs under this government have been returned to the historically low levels of the end of the 1960's, that's when you look at the aggregate of the decisions of this government.



The international competitive position of Australian business is back to the level of the late 1960's as a result of the combination of the decisions.

It's like you, as a farmer, if you're making a judgment about your total picture of your outlook decision, you don't just look at one element and say, that's what's determined it, you look at the aggregate of factors which are determining your output situation.

Now, similarly, if you're looking at the Australian business situation, and you as an intelligent man know this, you wouldn't simply say here is one decision by the government which has added a cost, you would say the fair thing is to look at the totality of the picture, has the business community been put into a higher position of profitability than ever before as a result of the aggregate of decisions of the government?

Has it been put in the position where its international competitive position is the best it's been for 15 years?

Do you have the lowest level of industrial disputation for 18 years?

If you look at all those things, within that context, that you take into account one decision about fringe benefits.

LAWS:

Assuming that you agree, and I think you do agree, that you are adding to the costs of the business community in a way at a time that you're trying to persuade them to perform better, how are you going to encourage investment?

HAWKE:

We will encourage investment I believe as a result of the range of policies that we have brought in.

I think that we will also be seeing a position within a relatively short time where there will be a positive response from the business community to the announcement of a range of new initiatives that we'll be taking because we understand that in the climate that I've been referring to about the change in the terms of trade, we've got to not simply rely on our agriculture and our minerals, they will always remain important but we can't just sit back in a situation where the prices for those commodities are going through the floor.

We've got to lift the operations of our manufacturing and service sectors and we will be adding to the existing range of incentives that exist with our wages policies, with other already existing investment policies, we will be having an overall approach which I think you will find will add to the impetus that should exist.

Let me say this, I don't want to be critical of Australian business because that's not productive, but there's not enough of our

Australian business entrepreneurs who realise that they have it within their capacity to get up and go.

One of the most satisfying features of this overseas visit I've just had, there were two. I went way out into the west of China, the Chengdu, which is way out there in the middle of China, well out to the west, and I went there and witnessed the opening, or the preparation for opening, of a new factory there which was the result of Australian enterprise - this was in the computer software area.

There, right out in the middle of China, Australian enterprise, going into operation there using Australian know how, they've brought some 20 or so Chinese operatives out to Australia, trained them out here, and then gone back into the China with them and with Australian people and we're going, from there, not only supplying market in China, but other export markets.

Then a couple of days later, down in Chengdu in the Sichuan province in southern China, and there I opened a textile mill.

Here was a young Australian entrepreneur, I won't name him, but a great young bloke, a Sydney fellow, here he was bringing wool up to China and there they were, producing the yarn and the material, textile material.

Now, that's get up and go initiative and you just felt bloody proud to be an Australian and see Australians doing that.

And that was done out of the Australian environment with all the circumstances of Australia.

The point of what I'm saying is if initiative and entrepreneurialship is utilised, if people do understand that we can match the world if we get up and go, then that's the sort of thing that's got to happen.

That's going to require enterprise by management, it's going to require co-operation by unions and it's going to require initiatives by government.

If we all as Australians understand that we can take on the world in a whole range of areas, then there are no limits.

LAWS:

I know you've got to go because we've just had a call from one of your fellows saying that you're supposed to be somewhere opening something, so I'd better be quick.

Have you got any sweetness in mind for the business community?

HAWKE:

Look, I think it's not appropriate that give any sort of indication. Let me say this, I'll be announcing in the not too distant future a range of decisions and approaches by the

government which are appropriate to meeting the circumstances of this time.

I want to conclude on this note, and it is straight and direct and totally sincere.

When we came to office at the beginning of 1983 I remind you, and you've been good enough to talk about it yourself, that was the worst recession for 50 years.

I simply said to the people of Australia, look, we as Australians are good enough with leadership to get out of this awful whole and get going again - we did.

Now, I'm saying again now in the middle of 1986, just over three years later, the world has dealt us a bad hand at the moment with the terms of trade, okay, we don't like it but we've got enough guts, determination, capacity between us all together to get out of this - we will again.

LAWS:

How long will it take?

HAWKE:

Not very long, I think.

LAWS:

Prime Minister Bob Hawke.