



PRIME MINISTER

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TRANSCRIPT OF THE PM ON CARLETON WALSH - WEDNESDAY 11 JUNE 1986

CARLETON: Have you not got it right this time. If you got everything that you asked for in the speech would that finally fix the economy.

PM: I think it would at this stage do everything that we as a Government and a community could do. We've always got the position Richard, as you well appreciate, that we're here in this situation because of what the rest of the world has said to us about the prices they're going to pay to us for our exports. If we were to have a further catastrophic decline in the terms of trade then we'd have further problems. On the assumption that we've reached the nadir in the terms of trade, then yes I think we've got the strategy now to deal with that challenge that's been created for us.

CARLETON: Some of the instant reaction has been a little disappointing, or a little bit of disappointment in your speech. You said earlier on the 7.30 Report tonight, that you don't know what will happen overseas tonight, or whether it will be welcomed in London and New York when they start trading the Australian dollar. If the dollar was to drop a cent and a half tonight overseas, would that be failure on your part?

PM: No it would not be failure on my part. I would have to ask the international community what more can a government do when the matters directly under its control, that is in regard to budgetary policy, I've made it quite clear that we are well on the track to significant reduction in our own expenditures. In the area where we don't have control, but where we have some influence - wages - I have made it unequivocally clear that there has got to be further discounting. Now the community, the business community, can't ask for more than that.

CARLETON: What were the hard decisions that you had to make, that you spoke of in the speech?

PM: Let me first of all say that it is not easy for a Prime Minister to tell his nation that they've got to have a reduction in their standards of living. Let me spell it out quite clearly, that is what's got to happen. It's not easy, but it's got to be done. Secondly, it's not easy where you have an accord with the trade union movement to say something unequivocally that you know

they're not going to like. I did that. Thirdly, it is not easy to tell both the community and the States that they are going to have some hard decisions forced upon them in the Budget and in the Premier's Conference. Now I've said that, unequivocally.

CARLETON: When you spoke of the important area of changing community perceptions and community attitudes, was that just political ease for telling the Australian community that overseas, where countries are prosperous, is because people work and work hard. Here we are taking the easy way out, virtually all the time?

PM: I put it in greater detail. I think there has been some real substance generationally in the proposition about the lucky country. We've had a longer term terms of trade problem. They have been going against us over a long period, gradually. But every now and then something crops up - a mineral boom or something like that - which gets out of the problem, which has meant that successive governments haven't addressed themselves to this longer term problem. What I'm saying is that we can't any longer assume that something is going to happen which will get us out of this fundamental problem. That means that we have to, I believe, have increased standards of effort. We've certainly got to broaden and deepen our export base and that's going to require not just economic decisions, it does require an attitudinal change. Also, in terms of attitude, I think we've got to recognise as Australians that as part of the process of helping ourselves we should be buying Australian more than we do. So all these things are what I'm trying to convey to the Australian people and I believe they'll respond.

CARLETON: The 2.3 per cent increase that the Arbitration Commission is expected to grant shortly, is there the slightest doubt that that is totally affordable?

PM: Well it would be, on my judgment should be, the only national wage increase in 1986 and that would be significantly below the movement in crisis. I think it appropriate that should happen.

CARLETON: And totally affordable, Mr Hawke?

PM: Well you can't have a situation and I don't think the business community is arguing a position where you have no movement in wages and no sustaining of some capacity to purchase goods and services. I don't think anyone is saying that. But what we all are saying, and I'm certainly saying unequivocally, we can't have a level of wage increases that might have previously been anticipated. There has got to be a reduction in standards in this community. As wage and salary earners constitute the largest part of our national income and expenditure, it has got to happen there.

CARLETON: And the 2.3 per cent we are about to get, is that affordable?

PM: In the total circumstances yes, provided it is the only national wage increase this year, and, as I say, that there is further discounting next time.

WALSH: Prime Minister, you expressed the hope that we had reached a nadir in the drop in the terms of trade but aren't you being a little heroic in putting that forward?

PM: Well there may be some further decline. I don't think we can sensibly expect a continuation of a catastrophic decline. I say that if you look back over a longer period, you know Max that there has been in annual terms, depending on your starting point, you could say 0.4 per cent over a period, it might be up to 1 per cent gradual decline. What we've been hit with is this massive decline of 14 per cent in the most recent period and something like 9 per cent since the June quarter of last year. Now I think that sort of thing has come to an end. The great pity I think, as you know Max, the J curve is working in volume terms. We've got a 14 per cent increase in exports in the last 12 months. In the last period the volume of imports is coming down, but we've been kicked in the bottom by this massive turn around in the terms of trade. What I'm saying is with the J curve working in volume terms I don't think we're going to have a continuation of this massive decline. I think that is part of the reason why, as again you'd agree, we've got to try and broaden our export base so that we're not so significantly dependent upon agricultural and mineral exports. The sort of things, in a sense, the Canadians have done. You know that they have significantly reduced their reliance on agricultural and mineral products as a proportion of their total exports. Now it has been easier for them in one sense because of their continuity with the United States. We've just got to work on it. We can do it as you appreciate.

WALSH: When I put that question to you I was thinking about our major trading partner. Our major customer, Japan, is facing a very much reduced rate of growth this year, especially in the export sector and we've already seen cuts in our iron ore prices in dollar terms, Australian dollar terms, and we are threatened with steaming coal price cuts. That couldn't be a very happy prospect. That will serve to further undermine the terms of trade.

PM: Max as I said in my answer to the previous question, I'm not saying that the historic, gradual adverse movement in our terms of trade has come to an end. I think we're not facing a continuation of a catastrophic drop. The trend term is there that is why we've got to change our structure, the structure of our economy, so that the composition of our exports is not then so vulnerable to the tendency that you rightly referred to by giving an example. That's a basic part of what the message of the Government is about. We can't just simply sit back and say we're going to have something like 40 per cent of our exports being rural products and our other significant proportion being mineral products. We've got to bring a situation where our exports of manufactured goods and of services increases absolutely and as a proportion. If we do that we will change the context within which we've had historically a gradual diminution against us in the terms of trade.

WALSH: But the last time we had a catastrophic fallout in the terms of trade was in 1929 and I hasten to say that was in the order of 40 per cent as distinct from the 14 or 16 per cent you're talking about now. But it coincided with a build up before hand of large overseas indebtedness, especially by Australian governments. I was surprised in the course of your statement today, and in the supplementary material, very little attention was paid to this area of indebtedness. Doesn't this concern you?

PM: We do go to it. We've got to bring down our borrowings. As you also know, not just our borrowings, but also associated with it, we've got to bring down our public debt interest commitment which forms such a large part of our budget outlays. Now we go to that. I can assure you that part of what we're about in our Budget process, and what we will be about with the States, is to reduce our own outlays and the growth of outlays, and to reduce the public sector borrowing requirement because we've got to reduce that indebtedness.

WALSH: But you'd have to reduce it, I'd suggest, quite significantly. It seems to me that your references to next Friday's Premiers' Conference were not very in your outlook.

PM: Well I don't know what more I could have said Max. I said there were going to be some hard decisions. I can tell you now there will be.

WALSH: It will be a black Friday for the Premiers?

PM: I don't think they'll be leaving Canberra on Friday clapping and cheering. But I notice that Sir Joh said tonight that this massive spending, there's got to be reductions in massive spending. So I'm hoping he's going to be coming to the Premiers' Conference consistently with that and joining with us in accepting the need for further Government restraint.

WALSH: I can't press you too far in this Premiers area because obviously you've got to negotiate, but are you concerned about their very large cash balance at the moment. They can actually reduce their borrowing and still sustain the present level of buying?

PM: Well let me put it to you Max without exposing our hand entirely. We will be observing that they do have capacities within their accumulated situation to which you refer to sustain activities in the face of the reductions from the Commonwealth and in their borrowing programs that we're going to be talking about.

WALSH: Now of course on this occasion it hasn't only been the public sector which has engaged in massive overseas borrowing. In fact it is the private sector that has set the pace. Seemingly a great deal of this investment has gone into what would be described as non productive activity of paper shuffling on the stock exchange, of takeovers and such like. Does that cause you concern?

PM: Obviously Max you couldn't be watching what is happening in the Australian business community over the most recent period and not have some concern. Let me say two things about it. Firstly, as you know, we've commissioned a paper from Paul, Paul Keating, that is a very large paper which is now being analysed and discussed within the Government, within the processes of Government. Let me also say this which I think is very significant, I've had a large number of representations to me from the business community, significant sectors of the business community, who are expressing concern about the increased dimension of activity in the area that you're talking about. So in our consideration of Paul's paper we will also be taking into account what the business community itself is saying to us.

WALSH: Do you also feel that this takeover activity is leading to a greater concentration of economic power?

PM: Obviously it can. There are two aspects that one has to have towards this. One I think can't take any joy in takeovers for the sake of simply of capital profits and capital appreciation by those seeking to acquire. Having said that and I think there should be a proper concern about that, it is also true Max, that some existing companies ought to be taken over. There is one I had very much in mind, and I think without too much you know the one I mean, that hasn't really grasped the opportunities. Let me say I'm not talking about BHP in case people say - is he saying that one. It is another one. Now I think in fact that some processes of takeovers in regard to a particular company may well mean that that company may become much more expansionary in an important area of activity which lends itself to greater exports. I'm saying that where a company hasn't been doing all that it could and a new management, new ownership, can become more dynamic or expansionary, grasp export opportunities, it is in the community interest that should happen. What I think you're worried about, and I share your concern, that takeovers simply for the sake of accretion of wealth to particular individuals and with no other concern involved is something that we ought to be worried about.

WALSH: My concern is, if I can personalise it, is that a lot of the takeover activity and the capital inflow is in fact what I call tax driven. You have a tax system which encourages this activity rather than giving an even playing field in the corporate sector.

PM: I'm a very, very careful reader of all that you right. Every time Walsh puts pen to paper up in the Lodge there is a fella reading it. So I know what you're saying about that. I simply say that the Treasurer has prepared a paper on this issue. We're looking at it and as I say, we'll look at it. Certainly also in the context there is a very wide range of representations I've had to me from senior figures in the Australian business community saying - has what has been happening gone too far?

WALSH: Right I'll just change the subject entirely to the point Mr Howard raised in his response to your statement today. He said you hadn't addressed the biggest single problem facing the community - the rate of Australia's inflation as compared with our trading partners?

PM: Mr Howard?

WALSH: Well inflation rather than Mr Howard.

PM: Let's first of all dismiss his credentials and credibility. What Mr Howard, the last Treasurer, handed over to Hawke and Keating was an inflation rate of 11 per cent. Now we've brought that down because we've had sensible policies. Before we got hit by this massive depreciation, which is a 30 per cent depreciation from the beginning of 1985, we've brought the Australian inflation rate down to 5 per cent, which was tagging along there close to the level of our trading partners. The depreciation that has taken place has boosted the inflation rate, as you know why, obviously import prices go up. We are now on a downward path on inflation. If the things that I'm saying should happen, further discounting in wages, and we exercise a restraint by the whole community, we'll have our inflation rate tracking down again towards that of our major overseas partners.

WALSH: But our major overseas partners, I mean at the moment we are actually talking about rates of inflation of 1 and 2 per cent?

PM: Yes some of them. Some of them even zero.

WALSH: Will we see zero inflation in Hawke's time?

PM: I'd love to be able to think that we could, but what I think is the honest and realistic thing to say is remind the Australian community that the Hawke Government from 11 per cent brought Australia's inflation rate down to 5 per cent. Close to our overseas partners. We then got hit by this massive depreciation. We are coping with that. If the community, business, trade unions and the rest of us go along with, and co-operate with, what I'm saying we'll start again to get back to our overseas partners rate.

WALSH: Prime Minister, just before letting you go, the reference in your speech, the \$1 billion saving you've detected in the Budget, does that refer to the \$1.4 billion figure which was leaked to the Sydney Morning Herald which was seen as the target?

PM: What I'm saying is that is what we've identified so far. We've got further to go in the process.

WALSH: So it is still \$400,000 to go?

PM: Yes. I'm confident Max, that we're going to get up to the target we're talking about.

WALSH: Are you prepared to talk about a target to growth in the public service?

PM: What I'm about, and I'm absolutely committed to this, is reversing the trend. Under successive governments, I've got a figure here, under the last year of our predecessors it was higher than any year we've got. In 1982/83, the year before we

came in, there was a 5.5 per cent increase, the last year of Mr Howard, 5.5 per cent. It has come down progressively under us - 4.3, 2.4, estimated 1.7 per cent this year. Now we are going to do more about this. It just has happened that people say you have new programs, you've got to have more bodies and so on. We will be moving to ensure that this inextricable growth comes to an end. And I say that not as a public servant basher. We need a great public service in this country. But as I say an increasingly efficient public service doesn't mean an increasingly large one.

WALSH: Are you looking for zero growth or negative growth?

PM: Well I would like to get towards zero growth.

WALSH: In what time frame?

PM: As I said in the speech, because of the entrenched practices, and when I talk about practices you know what I mean by that - what's involved in getting rid of people and so on, and appeal mechanisms and all that sort of thing - it is not something that can be dramatically done overnight. I give you my unqualified commitment that we are going to take a series of steps which means Australia is going to see an end to this inextricable growth. I'd like to get down to a zero position in the foreseeable future.

WALSH: Prime Minister, thanks very much.

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