



PRIME MINISTER

TRANSCRIPT OF QUESTION AND ANSWER SESSION - SATELLITE HOOKUP
TO NEW YORK FOR McINTOSH, HAMSON, HOARE, GOVETT INC BUSINESS
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E & O E - PROOF ONLY

McINTOSH: Good morning Prime Minister.

PM: Good morning John.

McINTOSH: How are you? We are talking to you from a grand room in New York and there are a lot of very interested potential investors in Australia and they're looking forward very much to hearing what you have to say.

PM: Thank you.

McINTOSH: So perhaps I could start with the questions.

PM: Yes.

McINTOSH: The first question Sir is on privatisation. Privatisation has been a major feature of structural reforms in a number of countries, not just in Mrs Thatcher's Britain, but also in countries where the governing party has strong links with the labour unions, like Spain and New Zealand. Last year you raised the possibility that your Government would sell off its interests in airlines and the Commonwealth Bank amongst other things. What prospect is there of progress in this direction from here on?

PM: Well just let me quickly make the point that what we're concerned about here in Australia is efficiency in the creation of the level playing field between public sector enterprises and the private sector and in that respect we have made significant changes in regard to the arrangements covering the operations of the public sector. Let me take the largest one, that is Telecom. We have removed a lot of the bureaucratic regulations there. We have made decisions which will open up Telecom to competition that they didn't have before. That's most particularly true John in regard to value added services and the maintenance of equipment section and so that area of public enterprise is going to be much more open to competition now than it was before. We think that will make for greater efficiency. When I raised the question of the possible sale of or disposal of some part of some enterprises and I talk about particularly the two airlines, Qantas, Australian national Airlines and perhaps the Commonwealth Bank, my major concern was questions of funding. I want to make it clear to your audience that there wasn't any, and they can put it

(PM cont) ideological type of drive about this, it was a question of funding, a priority of resources and my Party has decided that it needs to look at this issue. We have a committee which is looking at it now. The question of funding problems won't go away. The committee is looking at it and I don't want to prejudge their work. But what I want to say to your audience is that in this country there are areas of enterprise which inevitably will be within the public sector. You couldn't for instance if you take the area of telecommunications and post, we have such a wide spread population that the private sector would not be able to sustain the degree of cross-subsidisation which is involved in providing services to our far flung country people now. So really what we want to do is to make sure that where we have large parts of enterprise like this in the public sector that at least they are open in important areas to private competition. Now we're doing that and as I say on the question of funding and whether there needs to be some changes there that awaits the outcome of the work of this committee and I'm not going to prejudge that.

McINTOSH: Well thank you for that answer Sir. The next question I wanted to ask you is on the wage tax trade off. You've indicated an intention to seek a trade off with the trade unions involving smaller wage rises in exchange for tax cuts. What chance is there that you'll be able to achieve a trade off involving no wage rise at all next year and what size of tax cuts would you have to give to get the unions to agree to no wage rise?

PM: Well I think it's rather unrealistic to talk about no wage rise. But I ask your audience to remember the history of this period in Government and what we've achieved. It's quite remarkable by any standard. We have actually achieved a significant reduction in real wages and in terms of real unit labour cost there has been a return to the level of the '60s. There's been an 11% reduction in real unit labour costs. Now we are at a point we believe where we can continue to improve the competitive position of Australian industry by sensible arrangements with the trade union movement. There will be movements in money wages but there won't need to be the extent of movements in money wages that there would have to be in the absence of the accord and the social wage approach that we've got. So what it means is that we will continue a wages policy which will maintain the real wage position of workers but in a declining inflation situation John. In this last year on the annual basis the inflation rate was about 7%. We aim to have that by the end of this financial year, that is June of next year, to have that inflation down to 4 1/2 to 5% at the most. Now that will mean that you won't need the level of money wage increases to keep up real wages that you would otherwise need and we have said to the trade unions that we look at a significant tax cut as being part of this whole equation. And that's one of the reasons why we are maintaining our intention to save the tax cuts until July the first next year. One of the other reasons is of course in terms of

(PM cont) proper economic management we don't want to have an excessive level of demand which could lift our import levels to an unnecessarily high level. Now as to the actual measure of wage cuts let me say this that while I have great involvement with and sympathy with your program I know that you're not expecting the coup of this program that I will announce the level of wage cuts on your program. You'd love me to do it but I'm not going to. What I can say is these things. Firstly so that we can get the greatest degree of cooperation on the wages front and therefore maintain costs pressures we will be giving a primacy to wage cuts at the lower and middle levels of the income scales. They will be very significant cuts and at the top level where we've already reduced the top rate from the 60 cents in the dollar that we inherited from the conservatives, to 49 cents in the dollar, there will be significant cuts there, there could be some staging of that. One of the parameters of course which sets what you do there is the fact that we've reduced the company rate to 39 cents and you can't for any significant period of time have a major gap between the company rate and the top income rate. So those are the sorts of considerations. But I say in sum to your audience John that the past five and a half years shows that by the combination of wages policy and tax policy and social wage policy we've done better than any other country in reducing real unit labour costs and increasing the competitiveness of Australian industry and we will continue to do that.

McINTOSH: Sir on trade there has been a certain amount of confrontation with the United States in respect to certain commodities. Does this weaken in your view the alliance between Australia and the United States?

PM: No it's not weakened. It is the judgement of both my Government and the Administration of the United States not only interchange between us in private conversations, it's a matter of public record on the part of the Administration and my Government, that the relations between our two countries in the alliance sense have never been stronger. One of the features of the strength of the relationship is that it follows that where we do have differences on a particular issue we are capable with integrity and strength to say to one another where we differ. We have expressed concerns to the United States Administration about certain aspects of the US Trade Bill and some of their policies, particularly in the agricultural area. Now we understand as far as the United States is concerned that certainly on the part of the Administration they have a philosophical commitment to free trade. They share our view on that. They find themselves in the situation where they believe they have had to take retaliatory action basically against the Europeans and the common agricultural policy of the Europeans. But as I said when I was in the United States in June we know that the gun hasn't been aimed at us when these policies have been brought in but it's not much help to an Australian farmer to say when he gets hit in the head with a

(PM cont) bullet that the bullet wasn't intended for you sport, it was intended for the Europeans. It still hurts to get the bullet. Now we've put these arguments very strongly to the United States Administration and we've been able to do that I know without in any sense weakening the alliance. It is the view of the President, of George Shultz, of your defence people, that the relationship has never been stronger in those senses and that is an accurate assessment.

McINTOSH: An ancillary question to that is the United States elections which are as you know drawing close -

PM: Yes I've heard about that -

McINTOSH: I can assure Sir you don't hear about anything else in this town. Following your recent visit to the United States which Party would you feel would offer the best benefit to Australia on trade relations?

PM: What am I offered George? What's the offer Mike? What's the offer? I mean who do you want me to - No you'd appreciate that I can't and I would not make publicly any comment that would indicate any pre-disposition on my part or the part of the Australian Government or people in this issue. This is properly a matter for the democratic processes of the people of the United States. But I can say these things which I think perhaps are relevant. I have of course known George Bush now for a long time and I had the opportunity of meeting Mr Dukakis when I was there in June. I took the opportunity in discussions with both George and Michael Dukakis to put before them these things. Firstly the importance to us of the alliance relationship between the United States and Australia and I'm very pleased of course that they both strongly affirmed their commitment to that relationship. I also of course put to both of them Australia's concerns about the creation of a freer international trading system in general and of course in particular the need to include agriculture in the freeing up processes that are now being discussed in the Uruguay Round. I believe that both of them understand our commitments in that regard and I think essentially they share our views. So let me say that I feel that because of the basic nature of our alliance relationship which let me remind your audience rests upon our shared commitment to certain basic ideals of freedom of the liberty of the individual, the rights of the individual before the law, these are fundamentals which we in Australia share with you in the United States because our alliance relationship is based upon that shared commitment, a commitment which has been expressed both in war and in peace together then I'm certain that whatever the outcome of the United States election the alliance relationship between Australia and the United States will remain strong and fruitful.

McINTOSH: Let me ask you some questions on labour reforms. I could preface my questions by saying that Simon Crean has been here and my observation is that he wowed the audience on Monday. But you said that your Government has made a start on matters like labour's market reforms, you've achieved that in the coal industry some fairly basic things like opening the mines for 6 days a week and eliminating the month-long shut down over Christmas. Things that are fairly elementary in other parts of the world are being proposed. The labour unions don't seem to like this. There's more talk of national coal strikes I understand. What assurances can you give us as investors in these sort of places that some real progress has been made on these basic issues?

PM: Let me say this to my American friends that we'll take on the American coal produces in an unsubsidised fully competitive way, particularly say in Japan, anytime you like. We'll beat you because we are the most efficient and one of the concerns that we have for instance in regard to the Japanese situation is that we wouldn't like to see our American friends and our Japanese friends come to any arrangements in regard to coal sales which took into account any considerations other than the truly competitive price that can be offered to the Japanese and I say to you without equivocation let's meet and compete on that basis. We'll beat the pants off you every time. So we can't be going too badly in the way we produce our coal. Having said that I am not complacent about the industry. There is of course John as you rightly say room for improvement and the decision which has just been brought down by the Coal Industry Tribunal certainly points the way to improvement. Now the employers obviously ask for these changes and they have essentially got what they asked for. Let me say this that I think the employees, the rank and file members, understand the inevitability of these changes and to the credit of the leadership of the union they have recommended that the rank and file accept these. There have already been meetings which have endorsed that recommendation by the leadership. It is my view that within a short time that will be the confirmed position of the workers. In other words it may be with some degree of reluctance that they will accept these changes. Now let me say this to my American friends and any other competitors around the world. We can beat you as it is on price now, just watch out when these changes come in.

McINTOSH: Thank you. A couple of people have just left the room.

PM: They'll switch into something else.

McINTOSH: There is a shortage of skilled labour. What future steps do you envisage taking in education to start a process of retraining and achieve certain structural changes in the workforce.

PM: Good question. Let me quickly just give you a little bit of history and then the future. One of the worst things that we inherited from the conservatives when we came in in '83 was an awfully low retention rate of our kids in secondary education beyond the compulsory age. Only 36% of our kids stayed on beyond that compulsory age in 1982. Due to a range of measures which my Government have taken we've now got that up to 57% and by the end of the early part of the '90s we'll have that up to 65%. So the basic building block is changing. That is the kids are staying in the education system much longer now and more of them will do that. Now we are not only concerned with them staying there but improving the quality of the education they are receiving and in cooperation with the States that is being addressed. Now let me then go to the area of tertiary education. We've already very vastly increased the number of tertiary places but I'm not satisfied with the increase that's taken place so far John. What we're doing now is to put in another \$9 billion into tertiary education in the next three years and that will create an additional 40,000 places which is the equivalent to creating universities of the size of the existing Melbourne, Sydney and Adelaide universities. Not only are we very very dramatically increasing the numbers of places in the tertiary sector, we are opening up the range of availability so that the kids from relatively disadvantaged families and lower income, the kids with a talent irrespective of income level of their parents, they are going to get into the tertiary sector. But we're also making sure that the tertiary sector becomes more relevant to the needs of the economy. Now I don't take the view that education is simply for the economy but you can't have an education system which is irrelevant to the economy. So we are cooperating with industry to make sure that these additional places and vastly increased places are going to be relevant. We know, all of us, in industry that it's not only people who come through the universities that are relevant to your skilled workforce. So what are we doing there? We are doing these things. In our technical education system, that's the TAFE system we call it, Technical and Further Education, putting both more money into that but we are cooperating closely with industry to ensure that those courses are more relevant and make for a more flexible workforce. So when you bring that together more kids going through the education system, the actual technical training area, more resources, more involvement of industry, the tertiary sector, very very much more money and more people going through it. But then very importantly let me make this point to your audience. In one sense the greatest revolution that's happening at the moment in Australia is this. We have our industrial awards which set out the classifications of workers in industry. The major award in the manufacturing sector is the metal trades award, some 350 classifications which have been -(satellite break)

PM: (pick up from satellite break) I was pointing out that the major award in the manufacturing sector in Australia is this Metal Trades Industry award. It's accumulated 350 different classifications over some 60 years. Now the employers and the unions in co-operation with the Government and the Arbitration Commission are working on that. By the middle of next year that'll be wiped out, we'll have eight classifications. This is going to be very important in facilitating flexible training within industry, so that you haven't got labour market classifications related to a distant and irrelevant past. The classifications which will be relevant to a changing present and challenging future. So when you take account of all these things, what we are doing as a government in terms of the primary and secondary schooling, the technical system, the tertiary sector, and what we're doing as well within the actual labour market structure with the reclassification of awards, I'm confident that American investors can be looking to a future Australia which will have a well trained, flexible, committed labour force.

McINTOSH: ... is that as Chairman of McIntosh Securities I constantly get asked, and that's on the subject of retirement.

PM: Benefits or?

McINTOSH: You've obviously had a major role in convincing the unions -

PM: John, I'll swap your retirement benefits for mine mate.

McINTOSH: I've always wanted a gold pass. You've obviously had a major role in convincing the unions and the Australian electorate on the need to accept your government's policies. I can understand that you would like to stay on to beat Malcolm Fraser's record as the second longest serving Prime Minister but you're 10 years younger than Ronald Reagan was when he started as President of the United States. Can you provide any indication as to how long you would intend to stay in the job?

PM: I'll be around for quite a while yet John. I feel strong, I'm confident, I have the support of the Party and I suppose in the end, most importantly, I have the support of the people. They are the ones who in the end make the decision. I'm very fortunate John that, sure I'm leader and I'm very proud of it and I think I do a good job, but I've been very fortunate in having a very very good team around me and that covers all the important areas and of course the audience there is going to see one of the most important members of my team, Paul Keating, tomorrow. He's been an outstanding Treasurer. Together Paul and I and the others have provided what is a very very outstanding government. So that it's just not my own assessment, I would point out - and I hope Mr Howard is around there somewhere because the new shadow minister for finance that he's appointed, John Hewson, now you can hardly accuse him of being biased. He

(PM cont): wrote just quite recently in the Australian Business Review that the Hawke Government is the most professional and most competent front bench since 1945. Mr Hewson gets a number of things wrong but he's dead right on that one. So I've got a good team and I intend to be leading it for quite some time.

McINTOSH: Thank you for that answer. Perhaps my penultimate question would be on world trading blocks. There's some concern the world would be dividing itself into trading blocks. Of course we've got Europe in 1992, ... the US and Canada, Japan and other Asian countries, or even Japan and the United States. Does it concern you that Australia might be left out of this process and if so what would you intend to do about it?

PM: Let me say this. Australia's fundamental commitment John, and ladies and gentlemen, is to the freeing up of the international trading system. Sensible economics and a concern for a sound and stable political world demands that that be the outcome because history shows that if the world degenerates into divided protectionist blocks then this is a recipe for political disaster and possible conflict. In this nuclear age we can't contemplate a degeneration into that situation. So that is why Australia, not merely in terms of our own perceived interests but as part of the world community, has played a leading role in the multilateral negotiations. It was Australia which led the processes which created the Cairns Trading Group which has now become a firmly established part of these processes. We're trying to play a role essentially John in bridging the gap between the United States and Europe in these negotiations. As we come up to the mid term review, Montreal in December, we have said, particularly in this area of agricultural trade, although that's not the exclusive ambit of these discussions, Americans are concerned that we do free up international trade in agricultural products but they say, well, let's make sure that at the end, the long term, we've completely freed it up. The Europeans have been tending to say let's look at some, perhaps, immediate moves. We have said you've got to marry the two. You've got to have some short term harvest, if you like, starting next year which will do something about sort of freezing the processes of protection and subsidisation in agricultural trade but married to a long term objective. To the great credit of the United States just two days ago in the official talks in Pakistan, they have said yes there ought to be some intermediate changes. We agree with that. Now we're expecting the Europeans to respond to that so we are going to put all our pressures, not only in regard to agricultural trade negotiations, but to make this Uruguay Round productive. The world's best interests are served not by blocks but by a freeing up of the system. The world has benefited in the post war period and we owe a great deal to the vision and the imagination and the commitment and the initiative of the United States in the post war period in creating the multilateral trading system under GATT. We want to see that strengthened. For

(PM cont): succumbed to any suggestions about detailed discussions about blocks. We are watching what's happening and I've responded to the invitation by the Japanese Prime Minister when he was here in Australia just recently to set up a study group to look at the implications of what's happening in Europe and in North America. We're going to look at that and all I can say is that in the worst case scenario, if the Uruguay round didn't work and didn't produce the optimum results that we want, then we would have to look at the possibility of some association with others, including Japan. We are part of the fastest growing region in the world in the western Pacific, we would look at that. But unequivocally, Australia's best interests, the United States best interests, the world's best interests, are making the Uruguay round work, make it productive so that we free up the system. That will be good for developed countries like the United States and Australia and very importantly it will give the best possible chance to the developing world of lifting themselves up. Because in the end the welfare of those developing countries depends upon them being able to sell competitively into the markets of the developed world. So that's where all our emphasis should be.

MCINTOSH: The last question is a very general one. Is there anything you'd like to say to our United States friends here tonight that perhaps we haven't covered?

PM: Could I just quickly say this to our friends in the United States. I repeat what I said before, our relationship between our two countries is strong and healthy, it's never been stronger. Where we have differences we are able, because of the strength of that relationship, to talk those differences through and we'll do that. But my country, let me say this. I am proud to be Prime Minister of Australia as we come now towards the end of this century because I can say - I believe without any possibility of contradiction - that Australia is now a more open, competitive country than it's been before. I've given you the statistics, I won't repeat them. We are practising within our own country what we're preaching to the rest of the world. We are making our economy more competitive, we're making it more open. This has been possible because of the change in attitude that we've engendered. The attitudes of the past have changed, that we inherited, where Australian was set against Australian, where there was confrontation. There is now, at all sorts of levels, realistic co-operation involving government but particularly involving employers and workers because they see and understand that the future of Australia depends upon it being able to have competitive manufacturing and services industries. We have just recently brought about a reduction in protection of the order of 30%, that's what we've initiated. When there was a reduction in protection back in the early '70s it nearly brought the country apart but now this has been accepted. But we know that while we have vast natural resources and an increasingly well trained and flexible workforce we know that we need the investment, the

(PM cont): expertise of people from other countries. Therefore as part of our whole deregulation processes of the financial markets and so on we have also liberalised our foreign investment rules to the point where our friends in the United States and elsewhere know they are welcome here. So I say to you, we want you to come here, to bring your capital, to bring your expertise, knowing that you're going to have a government which welcomes you, a trade union movement which wants to co-operate with you to ensure that we have a growing and more prosperous Australia and you come to a country, admittedly with only a market of 16.5 million, but you come to a country which is a platform for expansion and export into the fastest growing region in the world. You come to a country which has excellent relations with the countries of the region. You come to a country which has relations with China which are acknowledged as being better than any other country has with China, for instance. You come to a country which is one of the most politically stable in the world. So we are proud of what we are doing, but not complacent, we know that there are challenges in front of us but we have the right attitudes in this country. We are co-operating together with one another in Australia, we wan't to co-operate with others to come and work with us. I say to your audience there, there is no country in the world that in the last five and a half years has shown a capacity properly to manage itself, there's no country which has better relations with the relevant countries of the region and others in Europe and around the world, there's no country which is better placed in that respect. So we're proud of ourselves but we're not complacent. We look forward to working further with you because we just happen to believe we're just about the best place on earth. But we can be better and we'd like to be better with your help

McINTOSH: I have to agree with that. I can only say that this conference - I think I can say in all modesty - has been a great success and a large part of that success has been due to the policies that you and your colleagues have put in place in the last five or six years.

PM: Thank you very much.

McINTOSH: There's no doubt that your popularity and your presence in the United States is such that when we have held this conference and in particular this evening we had a large number of people obviously wanting to attend to hear what you had to say. We really appreciate your appearance here this morning, your time. A measure of the extent of your popularity and the extent of the interest in Australia which I think your government has created, the fact that around about 30 people have ventured across from Europe to attend the conference. I think I can say that in a share market which is not exactly buoyant at the moment, it's interesting that so many people would want to attend and so many people would want to hear political leaders from Australia, union leaders and of course corporate leaders and I think that that is a great measure of what you have done since your government came to power five or six years ago.

McINTOSH (cont): We thank you very much for speaking to us this morning. It's certainly been something that I'm sure everyone in this room will be able to go away and think long and hard about and recognise that, as you say, we have a great country if not the best country in the world. I am certainly proud of it and I think all the Australians in the room are certainly proud of it and we thank you for illuminating us and addressing us this morning.

PM: Thank you very much John, thank you.

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