



## PRIME MINISTER

TRANSCRIPT OF INTERVIEW WITH GREG CARY RADIO 4BC 13/4/89.

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CARY: Good morning Mr Hawke. The question is was this the right time to honour the promise?

PM: Well it is the time I said I'd deliver the promise, I said last year - 12 months ago - that we would deliver tax cuts from July 1 1989. It's not a question of whether it's the right time, it's the time I promised, therefore, it is the time it was delivered.

CARY: Yes, even given the promise, if it wasn't economically the right time I think many would have forgiven you for holding back a little.

PM: Well it was the right time, because remember the circumstances of the delivery of the promise. I said then if we got a responsible wages outcome during 1988-89, that if restraint was exercised, and that on the basis of that we could get the promise of restraint for 1989-90, then we would deliver on 1 July. Now, the first condition was met, the unions exercised very considerable restraint during 1988-89. Now at the point when decisions had to be made about wages outcome for 1989-90 and the condition of restraint, remarkable restraint for this coming year, was the delivery of the tax cuts now. It would have been the height of economic (ir)responsibility not to have delivered because what you would have had then was a wages explosion which would have destroyed the economy.

CARY: What then is the premise of what the Treasurer delivered last night? What do you hope or anticipate would be the outcome?

PM: These outcomes. Firstly, I've gone to the major one that is a responsible wages outcome - just let me point out the fact of history, briefly, that everytime in the past where you've had a surge of income that's associated with a high level of economic activity that we've got now, you've had a wages explosion which has led to a subsequent very serious recession, stoppage of growth and explosion of unemployment and prices. Now, on this occasion, as a result of getting the commitment of the trade union movement to a very restrained wages outcome in the 12 months ahead, it means that we will have an economy which will continue to grow, not at the high level of growth we've had in the last 12 months because

PM (cont):

we can't sustain that in terms of the level of imports, but we'll still have growth, employment growing, we'll have a downward path of inflation and we will create the conditions which when we've brought the level of economic activity down, we will start to be able to see interest rates coming down. So that's the overall economic strategy that we've shown that we can deliver. As the Treasurer said last night the key to the successful conduct of economic policy is wages policy. The other mob destroyed the economy because they didn't have a wages policy and had tax cuts there in 1982 in the context of a wages explosion of about 17%. You can't carry that, what we've done is to give a wage increase equivalent in the order of about 12% on average but at a cost of about six and a half percent to employers.

CARY: Yes, you talk about carrying that heavy load, I guess many will look to interest rates now and when you say you've delivered in certain areas I think many - well you'd have to concede that inflation is high and looks to be going higher.

PM: No it's not. The basic rate of inflation will be coming down.

CARY: Well that's a projection.

PM: Yes, but in fact the evidence sustains that proposition because with a six and a half percent wages outcome in prospect and taking productivity into account, the assessment of our advisers as well as our own is that the rate of inflation will be trending down, but you've got to have this qualification now as a result of the disastrous floods - and I think everyone will understand we can't control the weather - as a result of the floods you will have fresh fruit and vegetable prices will go up in the next quarter and that's unfortunate. But you take that aside and we're entitled to, you have the underlying rate of inflation will be coming down.

CARY: Can you guarantee a rise in productivity though?

PM: Yes, you see one of the cute little exercises of these policy-less mob opposite us, the Howards and the Peacocks, they say we haven't had high productivity growth figures and they do that by measuring it against the growth in employment. Now, of course, if you have a rate of employment growth which is twice as fast as the rest of the world and four times faster than the miserable effort they achieved in their seven years in office, of course if you've got high rates of growth in employment, then your labour productivity figures don't rise so much, but we will have a productivity performance I think in the next twelve months of which we will be able to be proud and which will mean that our growth in exports will continue. The important thing, and I do hope I can get this

PM (cont):

message across to your listeners, is that the secret is not just getting the growth in exports by becoming more competitive as we've shown we can do, but at the same time as we get this increase in exports we've got to make sure that we don't have imports growing at such a high level. Now, this is where your listeners can come into it. We can get the right policies in Canberra and if we can get the co-operation of your listeners and the Australian public in the way we have with wage restraint, the way each and every one of your listeners this morning can say now we'll play our part by using the wage increases that will come this year and the tax cuts and the increases in family allowances, if they're going to save those, they are going to spend it, each one of them should say to themselves we're going to spend those things on Australian-made products. Each one of your listeners can play a part in getting the outcome that we all want.

CARY: Can they always be guaranteed that the product they're buying, even if it says Made in Australia, is an Australian product? Many of our listeners complained that that's not the case.

PM: The way they can do it is by looking at the Australian-made campaign and looking at the Australian-made logo - the green and gold logo with the Kangaroo - and that is only provided to companies who are part of the officially-endorsed Australian-made campaign. If you look for the logo you can be sure that that is an Australian made product.

CARY: I appreciate the point you're making and hopefully many will do that, but you say if our listeners choose to spend rather than save the wage rises and tax deductions, history proves doesn't it that people tend rather to spend the money rather than save it, would you like them to save the money?

PM: Yes, I like to see some saving in fact the evidence of the last two years has shown an increase in the saving ratio, that people have been tending to save more. Now, of course, I'm not unrealistic, people will want to and need, to spend in many cases significant proportion of the cash in hand they get as a result of the tax cuts, the increases in family allowances, dependent allowances and so on, and the wages increases that come. I acknowledge of course they're going to need to spend, but to the extent that it's not necessary, Australia's interest would be served by them saving, but I get back to the point - please and this is a personal plea to every one of your listeners, when you go out to the shops and do your buying, try as far as you possibly can to ensure that it's an Australian made product that you purchase.

CARY: I made the point a little earlier, and a couple of listeners have made a similar point, not so much a point but ask a question, we're just getting mixed signals it seems to me anyway, a couple of weeks ago and last week even your saying the even basic problem was we had an over-heated economy that was spending too much and as you say a lot of that spending was going on products from overseas, and yet now we're getting more money to go out and spend more. I just can't add the two up.

PM: Well it's a fair question and let me give you the answer. We've had consumption growing in the last 12 months about 8%, and we've had production growing about 4%. Now the gap between the 4 and the 8 is simply provided by imports. Now there have been very particular features in the composition of the high level of demand. Investment has been at the highest level for 40 years as a proportion of our production, highest level for 40 years, massive investment in terms of hotels, factories, non-residential buildings, in plant and equipment. Now we won't get that element of demand, that sort of increase in demand will not be reflected in this next financial year. Secondly, there has been this very big improvement in the terms of trade in the order of about 12% and that by definition has meant the influx of much more income into this country because of changes of that order in the terms of trade. Now what we're getting for our exports improving relatively to what we are paying for our imports now that won't be repeated. So those two factors together plus we won't get the repetition of the high level of house construction, all things will mean a lessening, a significant lessening in the level of demand and it's within that framework that you are going to be able to accommodate the sort of slight increases in consumer demand that will be associated with the decisions we made last night.

CARY: At a time though when you're asking us to save more, why is there no incentive there for us to save.

PM: There is every incentive because I think if people take the view that you're going to be looking at a long term lowering of the inflation rate, that's an incentive and I believe that is the situation. I think also people realise that it is in the interests of the country to save and as I say in the last couple of years there has been about a 2% increase in the savings ratio, and so it is working.

CARY: We did a poll on the show yesterday Prime Minister, or the day before, talking about banks and these interest rates going up, and to use the jargon people think there's a giant con going on somewhere. We had a poll that indicated 98% don't trust the banks. That doesn't augur well, surely.

PM: Well in a sense the community can't have it both ways. I mean there was overwhelming endorsement of what we did in 1983 to deregulate the financial sector by our actual decisions and also by bringing in a significantly larger number of banks from overseas so that the cosy little cartels that the Australian private banks had before was no longer operative. Now, people want a deregulated financial sector, it's there and it's now operating.

Let me just make the basic point, however, about the level of interest rates. As I've said so many times - and I want your listeners to understand it - Bob Hawke's not dumb, I might be some other things but I'm not dumb or stupid and I want the electorate to be as happy as possible. I know that the electorate don't like high interest rates, I haven't got interest rates, and will not have them higher for one day longer than is absolutely necessary in terms of economic management. You've got three instruments that you can use to manage the economy, you've got what we call fiscal policy, Budget and taxes, that's what you do about the Budget and taxes and so on and we've got that as tight as a drum I mean in terms of our public outlays, what we spend there's been three successive years of real reductions in what we spend as a Government and that's what the people want to see; you've got wages policy as tight as a drum because if we didn't do what we're doing now you'd have a wages explosion of about 16%, against the 6% we're talking about now. Now that leaves the third which is monetary policy. We can't have a position where we just have an economy bubbling away at such a high level that it's sucking in imports that we can't pay for by our exports. So you've got to bring down the level of activity a bit by having high interest rates. I don't like to have to do it but that's all that can be done and as soon as we have the economy coming down to a better level of equilibrium, at a lower level of growth, then monetary policy will be eased and interest rates will come down. The worst thing I could do for your listeners at the moment though would be to ease monetary policy because we then would have an explosion which would wreck the economy.

CARY: Yes, I just wonder and again it's been a response of a lot of our listeners over recent times, as you'd appreciate, who's looking at the banks? I guess people just wonder if interest rates need to be as high as they are at a time when banks are making record profits. People just wonder why all the charges have to be implemented at a time when the banks are making record profits. Are you happy with the way the banks are operating in general terms?

PM: Well I think there is a natural enough tendency, not the one that I approve of, for them always to go a little bit earlier in terms of raising rates than maybe is absolutely necessary, but the fact and to be fair is that we are saying if there needs to be a tight monetary policy that interest rates do need to be high for the reasons I've just outlined. That thing that we will be watching very closely, and this I think is the most important point, we will be watching very closely to ensure that when the signal is there for an easing of monetary policy and for rates to come down, that they move downwards with the same alacrity with which they have moved upwards.

CARY: yes, we're talking about something that it is very hard to put timetables upon. But can you give us some kind of projection when we might expect some kind of easing?

PM: I said in January of this year when asked - I didn't volunteer the question but I was asked in Perth earlier this year - did I think that interest rates would come down before the end of the year. I said yes. I've got no reason to change that answer.

CARY: An early election totally out of the question?

PM: Yes, absolutely, it's a funny one this. I promised in the middle of last year that I'd deliver tax cuts on July 1. I'm now being criticised by little Johnny Howard, saying "ooh Mr Hawke's going to have an election, fancy him bringing in the cuts now". What would he have said if I hadn't brought them in when I promised twelve months ago "Mr Hawke breaks his promise". I mean with the Howards of this world you can't win, but let me say when I start winning with John Howard I'll be worried.

CARY: One of the other problems our listeners are having are with those who aren't paying what they believe to be their responsible amount of taxation. The Treasurer addressed that to some end last night.

PM: Oh yes, we of course have done more than has ever been done before to make those with the capacity to pay, pay. You remember that it was Mr Howard's own Royal Commissioner Costigan who said that in 1980-81 of the tax system of this country that the tax avoidance industry was the fastest-growing industry in Australia. Howard, under his Prime Minister - and he had the major responsibility - Howard allowed those with the capacity to pay, not to pay. Now we have done more to impose upon the rich in this community the obligation to pay where they weren't paying before and on companies to pay. Now in regard to this area of tax havens, we had to make sure in the legislation we bring in that we get it right, we have and it will mean from next year that those tax havens will be closed. They will not be able to be used by companies to avoid their obligations. As their income accrues they will have to pay their tax here.

CARY: Why has it taken so long though?

PM: It's a very complex issue because you've got to deal with the distinction between companies who are legitimately operating actual commercial activities and economic activities in these countries as against where they are just using these places for paper purposes, avoidance purposes; and you also have to get also arrangements and understandings with the countries concerned. It is recognised around the world as one of the most complex areas of tax decision-making and you've got to make sure that you get it right so that you are not going to make decisions which will act as a disincentive to legitimate economic operations of Australian enterprises overseas. Because you must understand that in this whole area of our external accounts problem that the earning of income overseas legitimately by Australian companies is something to be encouraged because it is an off-setting factor to our current account deficit. So you've got to make sure that the decisions you take which are targeted against people using these havens just for tax avoidance purposes, are not decisions which discourage legitimate economic activity by Australian companies overseas which can be to the benefit of Australia.

CARY: Prime Minister I think it's fair to say that in the run up to the last election you indicated the worst was behind us. Things have been crook for the average Australian family, is the worst behind us now?

PM: Well I think as far as what we have to do in this country, that is - it is a case - it is in other words it is not until that we've felt that we have been in a position to make the substantial tax cuts and improvements in family allowances and so on that we have felt able to make now and to do the things for pensioners that I know they have welcomed. Now having said that we have always got to watch what happens overseas - I mean if the world economy were to collapse then we would have to deal with that situation. But on the assumption, Greg, which I think is a fair assumption that the world economy is going to continue to grow, that we're not facing a world economic recession and therefore a collapse of our commodity prices, then I think your observation is a fair one.

CARY: And if you were to leave us with one observation about last night, if we were to take one thing in conclusion from it, what would that be?

PM: I think it would be this. The Government has made the decision to make an increase in disposable income available to the Australian people, they've earned it, they deserve it, and I want and plead with the Australian people, your listeners, to say now what is it that we can do in those circumstances that's best for Australia. I repeat the message, to the extent that they are going to spend what we have now put in their hands, spend it on Australian made products. That's the message.

CARY: Good to talk to you.

PM: Thank you very much Greg.

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