



PRIME MINISTER

TRANSCRIPT OF NEWS CONFERENCE, PARLIAMENT HOUSE
31 MAY 1989

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JOURNALIST: What's your reaction to the debt Prime Minister?

PM: Well, there are a number of things I want to say about that and I want to of course get it into perspective. There'll be a lot of scaremongering undertaken by the policyless people opposite us, the Hewsons and the Peacocks and so on. Let's get the perspective right. Now firstly the net debt of Australia is over \$100 billion, a very significant amount. In terms of the percentage of our Gross Domestic Product, somewhat lower than it was at this time last year, it's 31.7% of our Gross Domestic Product which compares with 32.4% of the GDP a year ago. Now, I think the thing that has to be understood is that the sort of scaremongering comparisons that are made by the Opposition with certain third world countries are totally invalid - they talk about comparisons with Argentina and Mexico. Of course in those cases the debt as a proportion of GDP is of the order of 70-80% and of course most of that debt, what is referred to as sovereign debt, were owed by the Governments of those countries. You have to look at the composition of the Australian debt. At the end of last year, which the last point for which the breakup is precisely available, 61% of that foreign debt was owed by the private sector, 61% by the private sector, 14% was by the State Governments and 25% by Government authorities. The Commonwealth Government, the Federal Government has no net debt. Now that's got to be clearly understood as distinct from the sort of situations in these third world countries to which the Opposition has such easy resort. The position here is the Federal Government, the Australian Government, has no net debt with the great majority of it being held in the private sector. Of course what in fact the Commonwealth Government has been doing, by accumulating significant surpluses by three successive years, have run down in its own outlays, we've been able to accumulate a surplus and we've been using those surpluses to run down our debt, they've been used to pay off debt. Now, in respect of the private debt it's got to be understood that that's being used to finance new Australian investments both here and overseas. In respect to Australian investments abroad they of course generate income for Australia and the sort of movement over the last few years is important to understand. We're already receiving \$2.6 billion in income from Australian investment overseas.

It's important to understand that's more than four times higher than the figure of three years ago, a four-fold increase in three years which is income coming to Australia as a result of Australian investment abroad. So the final general point that I want to make is to get an understanding of how the net indebtedness to which I refer, which is just over \$100 billion, has in fact come about. What we've had is a situation where when we came to office in 1983 as you know the Australian economy was uncompetitive, it had actually shrunk, there'd been negative movement in our output the year before we came to office. The Australian economy was simply uncompetitive, inward-looking. What had to happen was there had to be a significant restructuring of the Australian economy to make it more competitive, to be able to take on the rest of the world both in terms of import substitution and in the growth of exports. There is no doubt if you look at the Australia of today as we go to the latter part of the decade and in 1989 the Australian economy is significantly more competitive. That has been in part as a result of the significant success of wages policy which has involved an increase in competitiveness of the order of 10%. We've had a very significant reduction in real unit labour costs of the order of 10%. Associated with that we've had a fundamental restructuring in increase in investment. Investment is as you know now at a 40 year high, a 40 year high investment in this country. That investment that's been undertaken has been essential to improve the competitiveness of the Australian economy to put it into better shape to deal with the problems and challenges of the future. We are getting that investment now too quickly and I think some indication of the impact of these high levels of investment on our current account deficit should be understood. Let me illustrate it. If business investment were now the same proportion to GDP as it had been for the last 25 year average then instead of it being as it is now, two and a quarter points higher than that 25 year average, then the current account deficit that we've got would be about \$6 billion lower than in fact it is. So when you take account of all those considerations you'll see how nonsensical it is for the scaremongering, Australia-downputting approach of the Opposition. Their scaremongering, their attempt to write Australia off, to put it in the same category and league as Argentina and Mexico is both grossly inaccurate, betrays a fundamental misconception of the realities of the nature of our debt and its composition and is an approach which is totally against the best interests of this country. Any attempt to try and divide up this figure as they do and match it against each family in Australia and say each Australian family owes such and such an amount is a nonsense and a stupid and pernicious nonsense. The money is not owed by the Government of Australia in itself or on behalf of the people of Australia. Overwhelmingly it is owed by the private sector and it is owed for the reasons and with the results to which I have referred.

JOURNALIST: Prime Minister, on the related question -

PM: Could I - I'm sorry Peter - could I make the point however that I'm not, having said all that and given the detailed exposition of the composition of the debt and the reasons for it, we're not saying that at that level it's not a problem and that it doesn't require Government action. But indeed the fact is of course, as I've said in the Parliament and publicly, other than in the Parliament, we are pursuing policies directed towards lowering the level of activity. Every relevant arm of policy is tight. Fiscal policy, as I explained yesterday in the Parliament, could not be tighter. It's tight in unparalleled terms, three successive years of reductions in real Government outlays. You've got a surplus for the second year in a row and there'll be a surplus next year and a public sector borrowing requirement of zero now and a public sector borrowing requirement in the next year which will be plus, in the best part of one per cent. So you've got tight fiscal policy, tight wages policy and tight monetary policy and those policies are beginning to have an effect, will have an effect, the effect which is necessary and that is of lowering somewhat the level of activity in this country so we won't be bringing in the same level of imports to go on in an unsustainable way building to debt from the level of activity in this country. So those things are in place because we recognise that the country can't go on having this imbalance between what it imports and what it exports.

JOURNALIST: I just wonder how long do you think the electorate though is going to cop the political reality of those high interest rates? The tighter they are the longer it goes. How do you think you can wear that in electoral terms?

PM: Let me say this. That if you were looking in the short term electoral perspectives, I suppose the implication of your question - not that you're putting it - but certainly the implication of what's been put by the Opposition, is that we would become economically irresponsible, abandon tight monetary policy. My judgement of the Australian people is a more sophisticated one than I think that it is of others, including the Opposition. I don't believe provided that we expound the analysis in the way I have and the way my other Ministers will do, I don't believe that the Australian people would expect us to become irresponsible in the conduct of policy because the simple fact, the simple irrefutable fact is that if we were to loosen policy then we would unleash upon the Australian economy an infinitely worse and, in a sense, irrecoverable situation. It would be short term economic lunacy and in political terms it would in my judgement also be political lunacy because the people would not in my judgement buy that sort of situation. Now the Australian people are entitled obviously to expect from governments or alternatives governments an exposition of what they are doing to deal with the economic realities and problems which the country faces. There is a clear choice in the judgement for them to make. They are faced with an

PM (cont): Australian Government - the Hawke Labor Government - which as a result of the policies it's pursued has brought about unparalleled employment growth - and I remind you of the 1.4 million jobs - which is reflected in the fact that the unemployment level of more than 10% that we inherited has been dramatically reduced, a reduction of inflation from the double digit figure that we reduced to less than 7% and trending down, and a situation now where there has been a response from the business sector which we welcome, to the call that we were making for a restructuring of the Australian economy. The massive investment - 40 year high levels. Now OK the right things have been done which have been reflected in great employment outcomes, much better inflation outcomes, but now reaching a point where there has to be moderation. Now they'll make the judgement as to whether we've got the policies which can bring us out of that boom situation to what is referred to as a soft landing - that is put it in non-technical terms, a situation where growth can be lowered but still maintained so that economic growth will go on and employment growth will continue. Now our policies are there, we've demonstrated as I said in the Parliament yesterday, in '85-86 that we can do that. We came out of that problem period still with economic growth and still with employment growth. Now we can show that we can do that. Now against that what's the alternative? The alternative is an Opposition which hasn't learned anything in the 1980's. You would think they had been in some time warp, some cocoon where they had been impossible, it had been impossible for them to learn anything. Because what are they suggesting? They are suggesting that there will be - or let me interpolate on myself - because when I say they are suggesting, there is not one voice - and I'll come to that in a moment - but what they are saying is that they will slash the public sector more - that's what Hewson says - but then the other frontbench spokesman said, 'not on your nellie you won't, you haven't talked to us'. You can get up and make your autonomous statements about cutting expenditure but we won't let you. So as far as you can see they may be talking about cutting expenditure. They are talking about a wages free for all and there is their greatest Achilles heel. Because if we're going to learn from the 1980's as I said in the Parliament yesterday, you look at the two periods. In 1981 with the absence of a wages policy, wages explosion and the economy falls apart. Under Labor the problems of 85-86, relevant policies including wages policy, a soft landing. So I'm sorry it's a long answer to your question Peter but it's important. You're saying will the electorate cop this? They don't like what's happening and I don't like having interest rates longer for one day necessary, longer for one day than is necessary. But I know that if we didn't have them there we'd be doing a greater disservice to the Australian public.

JOURNALIST: Today the Australian expert at Salomon Bothers in New York said there was a 25% chance in his opinion that Australia could go into recession next year. Are those odds too high in your opinion and if not why not?

PM: I think the odds are not as high as that. Let me put that comment into this background. The OECD has released its assessment of what's going to happen in the OECD this year and next year. Their assessment is that economic growth in 1989 will be 3.25% and in 1990 next year 2.75%, that is for the OECD area as a whole. In other words what the OECD is predicting is a pattern of continued strong but somewhat lesser economic growth and any reasonable assessment which, may I say has been made by everyone other than Moody's it seems to me, is that Australia will be part of that pattern.

JOURNALIST: Are we approaching the point Mr Hawke, where the level of private debt within the total is beginning to harm Australia's credit worthiness?

PM: Well on the question of Australia's credit worthiness, I mean I don't want to go through all the references, I don't want to take up your time or mine because I've got a function out the front in 5 or 10 minutes. But you are aware of the statements that have been made by everyone virtually other than Moody's; Salomons, Standard and Poors, the Australian Rating Agency and so on, I mean Moody's is one out in their assessment. Now as far as the private sector is concerned they are making their judgements about their investments in terms of their capacity to finance their investments and no reason to believe that basically those judgements are not going to be vindicated. I remind you of what I said about the very significant level of income flow to Australia now from those investments - fourfold increase in the past three years. But having said all that I don't want to leave and I hope in nothing that I've said to this point, have I left a sense of complacency because the simple fact is that with the accumulation of that debt then there is the repayment of interest involved and that in itself is an inbuilt problem and that's why we are directing all the attention we can to getting the balance in the area of trade so that we are able to have a lower level of imports which we can finance by our exports.

JOURNALIST: Prime Minister, given this current situation and the need to correct it -

PM: Yes.

JOURNALIST: Can the Australian people still expect the rise in living standards you've consistently promised this last year?

PM: I believe they can expect what I said and that is, you will remember I put a maintenance and then through time a gradual improvement of standards. Of course, what you've got to understand, given the Australian context, is that the way we're going about that is the only way it can be done. I mean you can't, if you are going to analyse and understand what is proper policy making in Australia, forget your history. I can't emphasise too strongly the relevance of the graph in Attachment A to the Treasurer's April Statement

PM (cont): because the history is there encapsulated in one page. The history of Australia shows in the past that you've had, where you have the booming economic condition as measured as the graph does, either by overtime or capital utilisation. You've had wages going up with it, the wages explosion and the inevitable breakdown recession following it. Now what we've got now is a wages policy which will mean remarkably a six and a half percent wages outcome, that has been possible because of the tax decisions that we've made and a combination of those wage decisions and the tax decision will mean a maintenance and gradual improvement of standards and a situation, we believe, which together with our other arms of policy being tight as they are, fiscally and monetarily, a reduction in the external problem that we have to address.

JOURNALIST: Mr Hawke, that original statement suggested the maintenance of living standards this year and an increase in real living standards next year, is that still possible?

PM: I think on the scenario I've put, yes.

JOURNALIST: Prime Minister, on another subject, should Australia even be considering an extradition request from a country, from Chile, given that country's rather appalling record on human rights and lack of judicial propriety in the past?

PM: We have expressed consistently, not only in regard to Chile but universally, we have no geographical discrimination as distinct from the Opposition. We have no geographical discrimination when it comes to the condemnation of human rights abuses. Our condemnation of human rights abuses applies whether it is Chile, South Africa, the Soviet Union or wherever and no Government, I think, has done more both generally and through Amnesty to identify itself with condemnation of the abuse of human rights. Coming particularly to Buschmann, we're examining that position. Let me make these points about it. Firstly, if a request for extradition were based upon an allegedly political offence or in regard to one where there was capital punishment, extradition would not be granted. I understand in regard to Buschmann there is some question been raised about the regularity of his visa application for entry to Australia. That is being looked at. Of course if it was an irregular visa entry that he made then he would not be allowed to stay in Australia. But that's not extradition. Our attitude on extradition will be governed by the considerations that I've just referred to.

JOURNALIST: Prime Minister, do you accept the alliance between Labor and the Greens in Tasmania or do you consider it could be politically risky?

PM: Well I accept it. Well, it's not really in a sense -

JOURNALIST: Do you welcome it?

PM: Lab Green is better than Gray.

JOURNALIST: (inaudible)

PM: I haven't finished. The position there is that I believe that the Governor - and I hope that this is not said gratuitously - I believe the Governor has acted appropriately. That capacity of Mr Gray to govern will be tested when the Parliament resumes on the 28th. I believe that the Accord that has been struck between the Labor Party and the Independents will stick, therefore that means that they can form a Government after Mr Gray has been tested on the floor of the Parliament. From my understanding I think the Accord that has been reached is a) relevant, and b) workable. So I think the people of Tasmania are in for a distinct improvement in Government.

JOURNALIST: Do you think IMF and the OECD would agree with Moody's that the pace of economic adjustment will be stepped up

PM: Well, I just go back to what I said before, you go to Moody's. I mean, why all of a sudden are we, as distinct from everyone else, hanging on Moody's and Moody's alone? Moody's are one out in their assessment. In terms of the pace of adjustment I think we are entitled to say 'look at the record in six years'. We have been prepared to make adjustments, that we're not hidebound by some commitment to - there is the Budget day, you don't do anything through the year except on Budget day. We have consistently been adaptable and responsive in the making of economic policy. Let me remind you, we're still in the month of May, earlier in this month we took \$2.7 billion off the States and the public authorities and when you take account of \$360 million just last month on ours, there's a \$3 billion decision in terms of taking off from the area of public demand and public call upon savings. That's what we've done within the last month. So that is also in the context where we've delivered also on the wages tax deal. Also within the last month there's been a tightening of monetary policy. Anyone who suggests or implies that the Government is not progressively moving to tighten, and tighten policy and make relevant decisions, is either dumb to the nth degree, asleep or politically malicious. Now you can apply whichever one of those you want to who's ever making the statements.

JOURNALIST: Mr Hawke, what do you think about the idea of a merger or joint venture between Ansett and Qantas and do you think the way the work of the Committee on the two airlines has become bogged down signals that that issue is off the agenda until -

PM: Well, let me just say in regard to this suggestion I've seen about a merger between Qantas and Ansett, it's a fascinating one which hadn't occurred to me, I think hadn't occurred to very many other people. I don't think, if I may put it that way, that it's necessarily got a lot of legs - the important thing - or wings, but let me say that what we

PM (cont): are serious about is looking at how our public enterprises are going to be able to function in the public interest. That's what we've got to determine and I'm quite happy about the way the processes of examination are going.

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