



## PRIME MINISTER

TRANSCRIPT OF INTERVIEW WITH MIKE CARLTON, RADIO 2GB, 1 JUNE 1989

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CARLTON: On the line from Canberra the Prime Minister this morning. Good morning.

PM: Good morning Mike.

CARLTON: Where did we all go wrong?

PM: Well just let's get straight who's wrong. I mean the presentation that you put, Mike, almost assumes that all Australian families via the government owe this money and this is perhaps not surprising seeing the way the Opposition try and put this story. They say 'here's a figure of \$100B there are so many Australian families, each Australian owes therefore that much. Now that is a nonsense. The fact is that the great majority of this debt is owed by the private sector. The private sector have made decisions to borrow offseas basically to finance investments in this country which are providing employment and growth in Australia. Let me give you the breakup of the debt as at the last figure that we've got for it; 61% of the debt is owed by the private sector, 14% is by State Governments and 25% by State Government/Commonwealth Government authorities like the Electricity Trust and so on. The Commonwealth Government, the Australian people's Government, owes no debt, no debt at all. In fact because of the fact that we have now turned our deficits that we inherited from the Opposition when we came to power, you're saying 'where have we gone wrong?', where we'd gone wrong was before. We inherited a deficit which was approaching \$10B. We've turned that deficit that we inherited around from \$10B into a surplus of \$5.5B. We're in our second year of surplus, the first time that this has happened for over 30 years. Now we haven't gone wrong as a Government, we've gone right and we owe no debt. So the debt is owed basically, the overwhelming part of it, by the private sector who've made decisions which will enable them to accrue income to get it back. And as well as that debt being in the private sector we should also remember that in the period that we've been in Government there's been a significant increase in investment overseas by the private sector which is meaning that now we're getting each year from that investment overseas \$2.6B in income which is more than four times what we were getting three years ago. Now -

CARLTON: But surely the average Australian is having to foot the bill for these private borrowings with high interest rates?

PM: I was not going to ignore that part Mike, and you were perfectly fair to refer to the high interest rates and I know that your listeners are worried about that. Let me make this point that the investment that's taken place overseas and particularly in the last couple of years has been welcomed because what we want to do is get investment in Australia, particularly into our manufacturing industry, to re-equip it, make it more competitive so that we can earn more overseas and not have to import so much from overseas. Now unfortunately the rate of investment increase that's taken place in the last year or so is so high that it is bringing in levels of imports that we can't sustain. So this is where your interest rate policy comes in. We've just got to slow the economy down somewhat now because the simple fact is Mike, without getting technical about it, we're importing so much now that we can't afford that level of imports so what we've got is a tight monetary policy with high interest rates to slow the economy down somewhat. But we won't be slowing it down that much that we're going to go into recession. We're going to keep growth and keep employment and as we do bring that level of activity back we'll be able to ease interest rates off.

CARLTON: The average Australian takes a look at it though and they see the Bonds and the Elliotts and the other big business buccaneers borrowing huge sums which we support with our interest rates and then they run their profits from all these huge sums through the Cook Islands or something.

PM: Yes and Mike that's why we have announced - and that was done by Paul Keating - we've announced that there's an end to these tax havens. They will be closed down and under the announcement that's already been made with the legislation to come under it then there will be no further opportunity for this to be done. This whole tax system in this country was built up under our predecessors. We've spent years and years now since we've been in office closing down avoidance loophole after avoidance loophole. The tax evasion industry was described by the conservative's own Royal Commissioner - just before we came into office - it was described as the fastest growing industry in this country. It's this Government which by piece of legislation after legislation is closing down the tax avoidance industry and now with the closing down of the tax havens that smashing of the tax avoidance industry which had grown up under the Liberals will be finished. I can understand, I mean I'm continuously thinking about what's the best way we can conduct policy to ensure that your listeners, the ordinary Australians, are not going to take an unfair burden of this. We want to make sure -

CARLTON: You see I asked them this morning what question they most wanted asked and they wanted to know why they're paying off 17% on their home mortgage so that the Bonds and so can go and borrow big overseas for takeovers?

PM: No, well let me say that on the question of borrowing overseas, I mean if the private sector wasn't borrowing in a situation where we are importing more than we export the simple fact is if this country or any country imports more than it exports then it has to borrow to make up the difference. If the private sector wasn't borrowing, the Government would have to. That's a simple point. I mean you don't have to be an economist to know that. If we have a level of activity which means that we're importing into the country more than we are exporting then it's that difference that you have to borrow to pay for. Now because the Government has been prudent in cutting down its levels of outlays and is repaying its debt, it's the private sector that's borrowing. Now in a sense, in a sense that's a good thing to the extent Mike, that it's building up. What's being imported is equipment to make our factories more efficient and that's what we're getting significant growth in employment. We've virtually eliminated the large overhang of unemployment that we inherited.

CARLTON: Alright. Isn't a lot of that importing just frills. I mean -

PM: Well to some extent some of it is. I mean -

CARLTON: You know CD players.

PM: You've got certain things that are regarded as luxuries and so on. Now you've got to ask yourself the question and some people are saying, 'well you put import barriers against the imports of some of these things'. Well one thing you've got to ask yourself, can Australia be going around the world as we are, preaching to the rest of the world that they have to have open economies so that our farmers and efficient exporters can get a fair go in their economies and at the same time then putting up barriers here against imports. I mean you're going to look pretty funny going around the rest of the world saying get rid of your barriers, your protective apparatus which stops us getting into your countries but as we do that we'll whack up barriers against you. It's a pretty difficult situation to do that.

CARLTON: Yes alright. Why not a tax break on savings? I mean the little person with a few thousand, perhaps a few hundred dollars in a savings account gets very upset paying tax on that. Why can't you give tax relief on that?

PM: It's something that's in the public domain that's got to be looked at. But just let me make these two points that I don't think are too complex. On the question of savings, if you give tax relief what you are doing is giving up a certain saving because to the extent that there is a tax and that goes into the public revenue, that is a certain saving. I mean it's money not expended because it's taken by way of tax. The question is if you give that tax relief back, is the money going to be saved to the same extent or is part of

(PM cont): it going to be spent and not saved? So you can't delude yourself that by giving a tax break you are increasing the stock of saving in the community. I mean that's quite obvious. So that's -

CARLTON: Well you may well though. I mean people may feel that if they may be encouraged to save, if they know the interest on those savings won't be taxed?

PM: No what I'm saying is that the fact that you are taxing that is by definition saving. It is not spent. Whereas if -

CARLTON: If national saving was not saving for the poor bloke with the -

PM: I understand that. But I mean the question is normally raised in terms of the community as a whole. The community as a whole has got to save more and not spend, is it not better to give the tax deduction? I'm simply making that point that that's one of the things that has to be taken into account. I'm not saying it's conclusive, it's one of the considerations that has to be taken into account.

CARLTON: Well you have said earlier on, a few weeks ago, that all economic policy was under constant review and being looked at. Are you considering the possibility of a tax break on savings?

PM: Well it's not specifically on our agenda but obviously with the amount of discussion that's going on, it's being talked about in the Press, what have you, people will obviously be wanting to get analyses of these concepts. But that's a different thing from saying it's on the agenda to be announced in the near future. I mean I'm not trying to be tricky about that. If you have an issue like this which is being talked about as much as it is obviously you're having the issue analysed. You must do and if the thing's being talked about as much as it is I mean I wouldn't be able to make the points back to you now that I am.

CARLTON: So you are at least looking at it as a possibility?

PM: Well one's analysing the issue obviously because you can't have something like that in the public domain and say, 'you know I'm ignoring it'. But I don't want to leave your listeners with the impression that because we are properly looking at the issue in terms of it being there in the public domain that it's something that's on an eve of announcement or something like that.

CARLTON: Prime Minister what's to prevent all this finally ending in a massive recession sometime next year, that we actually hit the wall? Interest rates are too high -

PM: Well that's a good question. Let me answer it. We've had in the 1980s Mike, two periods when we've had a sort of a boom and bust type of situation. One was in the period before we came to office. In 1981/82 -

CARLTON: The wages explosion?

PM: Wages explosion and that occurred - you had great boom in activity but you had no wages policy in place. Wages just went through the roof. In 1985/86 when the terms of trade collapsed Mike, the situation was there that you had a wages policy in place. We were able to control wages and we came through that with a lower level of activity but with still having economic growth and employment still rising. Now at this period we've got a tight policy which we must have for the reasons that I hope your listeners understand. I just want to make one more point on that in a moment. But we've got a wages policy in place which means that there will only be an increase in wages of about six and a half percent in this year. Now that means with a combination of the wages policy and the taxes position coming up in July, that we're not going to have a wages breakout. So in a position where the OECD has just announced that world economic growth is going to go on at about 3.25% this year and about 2.75% next year, we're in a world which is going to be continuing to grow but at a slightly slower rate, that's what we believe on the experience of the '80s we can do here.

CARLTON: It's a big gamble. For instance, if the prices for our wool and wheat and minerals fall, commodity prices drop, if you keep interest rates on too long we'll hit the wall with a huge bang won't we?

PM: Well, yes, and that's like saying that if your aunt had a different anatomical construction she'd be your uncle. The fact is that you can construct any sort of scenario and say if it was like that then sure you'll get a different outcome.

CARLTON: The risks are there.

PM: Of course the risks are there. I mean we don't live in a risk-free world. That was not what was ordained for us when we appeared on this globe and particularly at the latter part of the 20th Century. The world is full of risks. But the important thing is a world full of risks demands policies and toughness and a capacity to make decisions. And this Government has shown now through six years of inherited difficulties - remember interest rates you talk about now, interest rates under this Government haven't approached the level of interest rates under the previous Government. They ruined the economy, they had an additional quarter of a million people thrown out of work in their last twelve months of office, they had double digit unemployment and double digit inflation. We've got them both down and interest rates under them hit 22%, 22% and

PM (cont): that's for 90 day bills, 22%. Ours is only around 18%. Now that's high and too high but it's necessary. The important point is yes we live in a world of risks and dangers and problems and in this country you've got two alternatives. The others who wrecked the economy, threw people out of work at a rate never seen before for 50 years, with double digit inflation. We've created 1.4 million jobs, four times the rate of job creation under them because we've got the policies and at the moment unfortunately with the enormous growth that we've had, the risks and dangers that are around that you talk about mean that we have to have high interest rates. Because if we didn't have high interest rates now the economy would collapse like it did under the Liberals in 1981 when we had the worst recession in 50 years. So yes risks, and what's required is policies - we've got them. The other mob are still talking about doing precisely what they did in 1980/81/82 which brought the worst recession in history. So risks yes, but we've got the policies to deal with them.

CARLTON: Here in Sydney the first home buyer they say is now an extinct species.

PM: Well just let me give you the statistics on that. Under the first home buyers scheme, First Home Owners Scheme, we will be spending \$178M this year and there'll be 40,000 new home buyers just under that scheme, under our scheme. I mean it just isn't right to say that, talking about our country as a whole, the first home buyer is extinct. The problem is, part of the problem is that the level of home building activity has reached the highest point that it has reached in our history. We've got to scale it back. True it is, true it is that in Sydney there are particular difficulties but with the co-operation of the States - where I called the State Premiers together there two months ago - we are now adopting policies in regard to land release, which is you know the central part of the problem, which through time will start to ease those pressures. But you're quite right and I appreciate the problems that are facing a number of people in Sydney. Could I just say this Mike, I want to say to your listeners, I spend you know the great majority of my time thinking about these issues. What are the things that we can do to try and make it easier in tough times? We don't want to have interest rates higher for one day longer than they have to be. But I want your listeners to understand that in this situation where we are importing so much compared to what we're exporting, if we didn't have tight monetary policy, if we ease things off what would happen is that the dollar would just collapse and in those situations you would have then interest rates going through the roof, the total economy would collapse. I honestly believe that with some restraint at this time we are going to be able to come through this in a way which will enable us to keep employment growth and the economy going.