



PRIME MINISTER

TRANSCRIPT OF QUESTION AND ANSWER SEGMENT WITH JOHN
MCINTOSH, SATELLITE HOOK-UP TO TOKYO - AUSTRALIAN INVESTMENT
CONFERENCE - 22 SEPTEMBER 1989

E & OE - PROOF ONLY

MCINTOSH: Good Morning Sir.

PM: Good morning John.

MCINTOSH: We're delighted that you could be with us this morning and we're talking to you obviously from Tokyo which is becoming an extremely important financial centre as far as we're concerned in Australia. So without further ado Sir I know that everyone here is eagerly awaiting the answers to some of the questions I have for you. The first question is, despite the substantial level of investment which you say is going on the Australian economy, it's still dependent, as it was ever, on volatile commodities. Do you think this will ever change, should it, and if so can you tell us what policies you are pursuing to reduce Australia's exposure to fluctuations in commodity prices?

PM: It is changing John. Let me just make the point in opening of course that Australia is blessed with abundant capacities for producing agricultural products and we have vast resources of mineral products. So for as long as anyone can see Australia is going to remain the world's most efficient producer of these commodities and it will constitute a very significant proportion of our export income. Just let me indicate a few figures which are showing the gradual move to diversification. Service exports in this last financial year were up 40% on the two years previously and manufactured exports were up some 15% on two years ago. As you're aware John business investment is now running at record levels. It's up to 13.5% of GDP and it's increased in each of the last two years by 15.5%. That investment is taking place in areas which will serve to strengthen the diversification of the Australian economy. Of course we are deliberately working to ensure the gradual strengthening of that change in our economic structure. I think your audience would like to know the sorts of things that we've done in the six years in office to undertake the most significant program of microeconomic reform in the history of this country. I would ask your audience to understand that in the period before we came to office, for only three out of the 34 years before that, before we came to office, had Labor been in office. For 31 years of the previous 34 you had a situation where the other mob were in

power and doing nothing about microeconomic reform. In this six years we've seen by common consensus more done than ever before. Just let me mention, and you John are aware of a lot of it. We have ... course undertaken massive tariff reductions. We've had reforms in the transport area, the waterfront and the maritime industries. In rail freight we've had a massive program of award restructuring which is underway now. We've lowered company taxes. ... two airline system we are deregulating the business environment of which you are very much aware. We're exposing business enterprises to a much more competitive atmosphere and we are further defining our research and development skills with the billion dollar science package announced earlier this year. We are now seeing, as I think your audience would like to know, a number of significant investment projects which are relevant to the value adding process of our raw materials industry. In particular we've got in the food processing area five major projects and some \$150 million now which are going to add value to that area. And in the clothing and textile areas a number of major investment projects there which will be involving the addition of value added to our basic commodities. In the steel industry BHP has current investments ... some \$600 million which will cater in part for niche export programs abroad. In the aerospace industry for instance John we are in the situation with Hawker deHavilland in partnership with McDonnell Douglas are going to develop exports ... helicopters which will be generating very very significant export earnings over the next few years, running into hundreds of millions of dollars. So I hope your audience will see that this Government, coming to office after 31 years of almost criminal neglect of our restructuring program, in six years has undertaken a massive widespread change in our economic structure and that is gradually starting to pay dividends.

QUESTION: My next question is, the statistics show that 80 of the countries account for no greater share of Australian exports than they did five years ago and Australian investment overseas is still almost totally directed towards the United States, Britain and New Zealand. Why is it that Australian companies seem so disinterested in developing export markets in Asia or investing in this region and what can your Government do to change this apparently narrow focus?

PM: Unfortunately ... not actually correct. While I do have some ..., if you like, for some of the attitudes of some Australian companies, the facts are that there have been some significant changes in the direction of our exports. Our exports to Asia have in fact risen from 48.9% of the total of exports in '83 to 53.5% in the last year. Certainly compared to when we came to office in '83 I believe it is fair to say of our Australian business colleagues that there is a greater consciousness than there was. Certainly the proportion of our investment going to the Asia/Pacific Rim has increased significantly. But I have to say John that there is some substance in, at least

what was implicit in, your criticism of the Australian business community in regard to their perceptions of the importance of Asia. Let me emphasise that as far as the Government is concerned John we are aware of the fact that the Asian area is the most dynamic growing region in the world, and that's why, particularly as Prime Minister, I personally have devoted so much of my attention to the region. I think it is acknowledged now that we have better relations than we have ever had before. A particular example of what I do in this regard is when I go, as I did on my last trip to Asia at the beginning of this year, I asked leading Australian businessmen to accompany me. They did, and as a result of them being there with me there is more business going to be written. I also would emphasise John, as you and I hope many of your audience are aware, that it was in Asia in Seoul in January of this year that I launched the Regional Economic Co-operation Initiative, which I'm very pleased to say has been positively responded to by all the countries of Asia that we have been in touch with as well as the United States and Canada as part of the Asia/Pacific Rim. We will be having at the beginning of November a full scale Ministerial meeting and the purpose of that initiative to which there has now been such gratifying response will be these things. Firstly we will seek to add our combined weight to the processes for ensuring that out of the Uruguay Round there comes a more liberalised international trading environment. Secondly we will seek, by establishing our own co-operative arrangements, to liberalise trade within our group but in a non-discriminatory way. And thirdly by pooling our knowledge of precisely what is happening in each of our economies in the region to try and maximise the opportunities for the complementarity between our economic advance that is obviously possible. These sorts of things have been talked about for too long and I decided at the beginning of this year that the time for talk had passed, that we should translate talk into action. That's now in the process of happening.

QUESTION: You talked about liberalisation of trade. Australia of course doesn't subsidise its farmers, it doesn't subsidise its coal miners and it's embarked on what I firmly believe is the right approach for a five year reduction in tariffs. Yet in other parts of the world and notably the United States the trend in recent years has been towards increased protectionism of managed trades. How long can Australia stand aside from these global trends?

PM: I think the right question John has got to be to the countries that are following these increasingly protectionist policies, how long can they afford the cost of it? May I direct my remark particularly to Europe and the United States. In the past, as you know, we've had some criticism of our friends in Japan but it would be churlish, less than fair, if I didn't acknowledge that over recent years in Japan there has been an increasing understanding of both the international and the domestic cost to Japan of high levels of protection. I certainly hope that the

liberalising measures that have characterised Japan in the last couple of years will increase. But of the people in Europe and the United States the question has increasingly to be asked John, how long can they carry the cost of these billions of dollars which are being spent simply on inflating their own cost and price structure? They pay that cost and price in terms, flowing from the higher cost and price structure, they pay it in terms of a decrease in competitiveness, they pay it in terms of higher levels of unemployment than would exist if they were more competitive as a result of having a liberalised trading policy. We will not desist in any way from the leadership role that we've taken - there's forming the Cairns Group and having the consistent chairmanship of that since the beginning. We will be in there in the Uruguay Round trying to make people understand the insanity, the economic insanity of increasing protectionism. As I've had cause to say before John, what people have to understand if they understand anything about history at all is that once you lapse into economic autarchy where people act on the misguided belief that they can be islands unto themselves with increasing levels of protection, history shows you that economic autarchy is the precursor to political conflict. We've paid heavy prices in the past for conflict and the thought of conflict in the future is simply untenable. But if people do relapse into that economic autarchy where they act under this misguided apprehension that if they push their own cost and price structure up that somehow they're going to advance their own economic interests then, as I say, it's economically insane and politically very, very dangerous. So we will continue, not only ourselves but within the Cairns Group and in this new regional association, that I hope we see ourselves able to form in collaboration with our friends in the Asian Rim, that we will, in a world which in every other way is each day becoming increasingly interdependent - just look at this link-up we've got now. It's not Australia one country, Japan another, where we sit down and write a letter and send it off and see one another in writing three or four days later. We are inextricably linked, the world is inextricably linked. And if we don't understand that the best opportunity of maximising our economic health and our growth is by the interchange of trade in services and in goods of all sorts then we are simply acting against the interests of our own people and against the interests of the international community.

QUESTION: Yesterday the current account deficit figures were released and I'm sure everybody in this audience has heard that ... \$2.5 billion, so there's certainly been a blowout in that area. ... the Treasurer ... a lot of this investment spending is not necessarily going into productive areas. However my question is why should foreign investors be at all confident that Australia can in fact service the additional debt that we have taken in over the previous two years.

PM: John I hope you have got a ... grin on your face as you say that because obviously in your highly successful enterprise you're not entirely dissociated with these trends. I congratulate you for your entrepreneurship and the way in which you have come to the forefront in these activities. Now you know John, as well as I do, that these facts are relevant. First of all that overwhelmingly Australia's overseas debt is held by the private sector - over 60% of it, 61%, and the rest is made up of 14% by State Governments and 25% by State Authorities. The Commonwealth Government representing the people of Australia not only owes no net debt but is in international credit. Now of course as you know John, as I think most of your audience realises, those decisions which are made by independent Australian companies represent investment decisions. Those investment decisions are based upon a cool-headed assesment of the economic opportunities involved with the investment and they involve the judgement that the investment projects which are being undertaken will be able to generate a flow of income which will enable them to service their debt obligations and will pay capital. Now I don't want your audience to assume from that answer John that there is any level of complacency on the part of myself as Prime Minister or on the part of my Government about the external situation of Australia. But what Paul Keating has been saying - you referred to Paul - and what I have been saying is if you examine much of this investment you'll see that it's going into projects which in the future are going to increase the export earning capacity of this country. For example, in the figures for last month which were released yesterday, some \$300 million plus of that \$2 billion figure was represented by a large Boeing aircraft for Qantas and one of the LNG carriers for the North West Shelf project. Just look at that. Those two objects, sure, they provide a big lump in our current account figures but they will be generating export income into the future. On Tuesday of this week I had the great pleasure of being in West Australia for the launching of the LNG project. May I say to your Japanese audience there in particular and to the Japanese community generally how pleased we are that we are further interlinked with our Japanese friends by the purchase ... utilities of LNG from Australia. You see, in that project that is representing in total an investment of some \$12 billion. While much of that work has been done in Australia of course also it's represented an inflow from overseas. But now that project which over the period has represented adverse figures on our current account figure, as we go into the 1990s John, that's going to be representing annual export earnings of the order of \$2 billion per annum. So I make those points, not in any sense of complacency. We have our policies, as you know John, in the area of fiscal policy, wages policy and monetary policy very tight. We are gradually trying to reduce the level of demand so that we will be able to have a level of activity which will mean growth, economic growth, employment growth, but at a sustainable level of imports. But the fact is that into the future much of what we are seeing in the current

account deficit figures through the months will be translated into export earning capacity which will reflect what remains the indisputable fact which I stress to your audience, and that is the overwhelming advantages that Australia has into the future. What are they? They are first of all a land which is blessed with abundant resources and capacity for production. Secondly the paradox of, if you like, the demographically ethnically heterogeneous population but one of the most politically homogeneous populations of the world. We have one of the most stable political environments in the world. Thirdly, we have a highly skilled and increasingly skilled workforce which is accepting wage restraint in a way which has never been seen before in this country, where we have a massive reduction in the level of industrial disputation - 60% down since we came to office. We have of course this proximity and increasing relationship, and warmth of a relationship, with the most dynamic economic region of the world. Those are the fundamentals John which ensure the future strength of this economy. We're undertaking the policies now which while we are seeing, as Paul and I said at Budget time, for the first six months of this financial year '89-90, we'll have some tough current account figures, they will come into a better relationship in the second six months of this financial year. But in terms of the medium and longer term future, I confidently assert that for all those fundamental reasons there is no country in the world to which people can look with greater confidence than to this country which regards itself - I emphasise to your friends there - as an intrinsic and irreversible part of this region.

QUESTION: The next question ... referred to the level of disputation, I'm sure that you wouldn't be at all surprised if I asked you a question about the airline pilots dispute.

PM: I'd be disappointed if you didnt.

QUESTION: The dispute of course has created an enormous amount of interest in this part of the world and you've undoubtedly seen some of the comments by Japanese travel associations. But as I see it it is a watershed I think in government ... relationships ... interpretation, but I wonder if it ... In this dispute you've used taxpayers funds to aid the airlines, there has been certain use of the military and employing strike breakers to do the work of pilots and you've used your common law levities to impose penalties on striking pilots. Can you still hear me Prime Minister?

PM: Yes I can. Is there a punchline to the question? Is this a watershed in industrial relations do you say?

QUESTION: Can you hear me?

PM: Yes I can John.

QUESTION: The Prime Minister may not have liked that question.

PM: No, no, on the contrary John. I was hoping against hope that you'd ask it. John I did hear your question. Let me answer it. You have in fact opened up a very important issue and if you and your audience will - (tape break)

QUESTION: ... Hello can you hear me? I guess you're getting the gist of my question ... As well as the things I mentioned about the use of overseas pilots and the military, the use of common law ... to impose penalties on the striking pilots ... I'm just very interested to know what sort of precedents this sets for the future.

PM: OK, John. I'm glad you asked the question. I hope you and your audience will just excuse me if I take a little bit of time to answer it. I want to start off by saying what is the obvious truth that any businessman, whether they are Australian or businessmen in Japan interested in this country, if I can coin a phrase, 'would be out of their cotton picking minds' if firstly they didn't fully understand what this is about and fully support the Government and the trade union movement in the position they are adopting in this dispute. You referred to the action against our union, the Pilots' Federation, but it is important to understand this fact. That the Pilots' Federation are first of all, they are not affiliated with the trade union movement, but in this dispute have deliberately chosen to act outside the mainstream of the approach of the Australian Trade Union Movement. Now what is this dispute about? Well I wonder if I can be a little bit didactic, John, and to your audience so that you can understand precisely what this dispute is about. I want to turn to the document, the Budget Statements, which came out with the Budget just last month. If the television cameras could just come in on this graph, because here is the story. It is very simple. This graph shows a relationship between overtime and wages growth in the period since 1968. Now you will see if you look at it. Going back here there is this correlation. As overtime goes up, which is a measure of the increase in economic activity, as it goes up in the past, wages climb up with it. There back in the end of the 60s, there again in 74, up goes the level of activity, up goes wages with it, inevitably followed by a recession. What happened again at the end of 81 here, up goes the level of activity, wages go up above it, slump, into the worst recession in 50 years here that we have experienced in Australia. But then it all changes, can you see. From the period when we came in, then economic activity going up. Up, up, up. Growth, which is averaging four and a half percent per annum. But instead of wages going up as it has everytime before and going into 'slump, what has happened. Stability in wages. Straight across there. Everywhere else up then slump. Up, level of activity, slump. Up, slump. Now, activity up, stability in wages. Now that is what this is all about. Just let me show you the other side of that coin of course. You see that where you have had that, the other side of the coin is what's happened to profits. You have had the situation when we came to office, profits 11.3

percent of GDP. Now at the highest ever. 16.5 percent. Now there is the raw material of what this dispute is about, John. And if there is any businessman in Australia, or overseas, who is not right in there behind the bulk of the trade union movement in this country, and the Australian Government, then they should be sacked by their shareholders. Because that graph tells it all. Previously, wages just shooting up with activity, slump. Here activity going up, wages stable, transfer of a share to profits, out of which comes greater investment and greater jobs. And is it any wonder, in those situations, that on the 16th of September, John, you had in the Financial Review, this being said, and just let me read to you and your audience, what was being said there which reflects those facts, it says here, 'I would like to report that the Hawke Government's wages accord is crumbling under the weight of the pilots' dispute, the writer says, it would make a good story. However, only mugs allocate their portfolios on the basis of good stories'. He goes on to say, 'look at all the massive restructuring of the awards taking place'. And he concludes with these comments, in the relationship to the pilots' dispute, he says, 'the accord has kept the lid on wage inflation, during what has been Australia's biggest economic boom, since at least the early 1970s, the ACTU, the trade union movement has said, has deliberately facilitated the biggest redistribution of national income from wages, to profits, for at least a generation'. He says, 'this fact conveniently seems to be ignored, forgotten, by those who are now squawking for abandonment of any centralised rail on aggregate labour costs. The accord', he concludes on this point, 'the accord has underwritten the corporate profit boom, which in turn is funding the current surge in business investment job'. There is the story. The trade union movement of this country, in co-operation with this Labor Government, has turned its face on that disastrous history of just pushing wages up, when activity goes up, level wages, reduction in real unit labour costs, transfer to profits, higher investment, investment up to the highest proportion in GDP ever, and it is out of that that we have got jobs being created twice as fast as the rest of the world. Now, the pilots say, that's for mugs. The rest of the trade union movement, they can exercise restraint which has seen this move to profits which the trade union movement has deliberately facilitated, to get more investment and more jobs, more growth. The pilots have said, that's for them mugs. What we are about is saying, we will use our industrial muscle to smash the accord, we will grab our 30 percent increase, and hang the consequences. Now what is happening here doesn't represent any change, it represents a total continuation of commitment by me, by my Government, and by the trade union movement to a continuation of processes which have seen this rate of employment growth, which is five times faster than when our conservative opponents were in office. Twice as fast as the rest of the world. And the trade union movement and the government are saying, that's better for Australia. Much better because in place of massive wage increases we have given improvements in the social wage, in jobs, in education, in welfare, so

that we, as a government in the community of carrying some of the wages costs that would otherwise be involved in higher money increases. Now no change, no watershed in our attitude, but an attempt by a small group of 1600 people to say, Australia has benefitted in that way, businesses benefitted, the community has benefitted, we are going to smash that. We are not changing. We are saying to the Pilots' Federation that we are determined to see that Australian workers, Australian business, the community as a whole, is going to continue to get those unparalleled benefits from co-operation between the trade union movement and the business community which has seen that massive shift which has allowed to profits, which has allowed massive investment, unparalleled economic growth and employment growth. And as I say, any person in business who wants to smash that and go away from that, ought to be sacked by his shareholders.

MCINTOSH: I think we have run right out of time. I want to thank you very much for participating today. As always you have been extremely informative and very co-operative and certainly we at McIntosh ... and I'm sure everyone here in the audience appreciates very very much your participation and we thank you.

PM: John, thank you and congratulations.

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