PRIME MINISTER

TRANSCRIPT OF QUESTION AND ANSWER SEGMENT WITH JOHN MCINTOSH, SATELLITE HOOK-UP TO NEW YORK - AUSTRALIAN INVESTMENT CONFERENCE - 28 SEPTEMBER 1989

E & O E - PROOF ONLY

MCINTOSH: Good morning. It is John McIntosh and I am talking to you now from the Metropolitan Club in New York, which was the Club founded by J.T. Morgan ... so we are here gaining inspiration. I have got some questions for you. We have a limited amount of time, I understand, so I might break five minutes before the half hour is up to ask you if you have some comments to make to our very enthusiastic and full audience here tonight.

PM: Right John.

MCINTOSH: My first question, Mr Prime Minister, is according to a Bureau of Agricultural and Resource Economics, commodities accounted for 85% of Australia's total merchandise exports of the 88-89 year. That is down only marginally from 88% in 1984-85. What this suggests to me is that despite the big falls in the $A a few years back, despite the substantial levels of investment which you say is going on, the Australian economy is still dependent as ever it was 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: Well thank you John. There is no question that primary commodities are going to continue to be a fundamentally important part of the Australian economy as far as we can see into the future. Because we are blessed in this country in many ways which together makes us amongst the world's most efficient producers of agricultural exportable products and of course the vast resources of minerals which go right across the range, of which your audience is aware. So let's understand that those commodities are going to continue to be fundamentally important. But we haven't been content just to sit there and say well we are going to leave it at that, because that leaves us far too exposed, as you know, to fluctuations in world commodity prices. So we are moving to change that profile of exposure to diversify our economy and to take advantage of the fact that we have in this country a highly skilled workforce, a well-educated community, and that we have the geographical proximity to the fastest growing economic region in the world. And we are moving in a whole range of ways to take advantage of that. Let me say that there are indications of the sort of changes that we want to see, John. If you look at the area of service exports, for instance, they were some 40% higher in this last financial year in real terms than they were two years ago. And manufactured exports similarly were about 16% higher in real terms than they were a couple of years ago. Business investment in Australia is now, as a result of our policies in the whole area of macroeconomic management, at the highest level and the highest proportion of our gross domestic product than it has been ever recorded at 13.5%. There have been 15.5% real increases in business fixed capital equipment investment in each of the last two years which is an extraordinarily high figure. And so you can see that the things are happening there in the investment terms to diversify our economic structure. Let me give you some examples of where we are moving in the right direction. For instance, we have got five projects worth $150 million in the food processing industries, four are worth nearly $100 million in textiles. These are just some examples of the way in which we are moving to give value added processes here to the fundamental commodities that we produce. In the area of steel, BHP has a current investment worth about $600 million, which will again help us to cater for niche exports in that sort of market. And so what we are really doing, and we are doing it in our macroeconomic policy and our microeconomic reform, creating an environment for business of which they are taking advantage to gradually but very significantly change the profile of exposure of Australia so that we will have both the strength of our commodity exports but taking advantage of a growing capacity for exports of services and manufactured goods.

MCINTOSH: You have emphasised on other occasions that Australia does not subsidise its farmers, does not subsidise its coal miners, and has embarked upon a five year program of tariff reductions. Yet in other parts of the world, including the US, the trend in recent years has been towards increased protectionism and 'managed' trade. How long can Australia stand aside from these global trends?

PM: Well, we are going to continue John, to take a leading role within the multilateral trade negotiations and bilaterally to try and bring the world to its senses. We have got a position where we established in 1986 the Cairns Group of Freetraders. There we have already established that Cairns Group as a significant and permanent group in the Uraguay Trade Round Negotiations that we were instrumental, I think, in breaking the deadlock that occurred in Montreal at the end of last year and getting the resumption of those talks going from April of this year in Geneva. So we are very very much committed with likeminded countries to making the world understand what is the economic truth. And unfortunately, I think, in the United States the leadership level, as in Europe at leadership level and Japan, we haven't got to sell the story of the economic insanity of increasing protectionism. The fact is, of course, that the cost and price structure of Europe and the United States and Japan is much higher than it need be because of the pursuit of false protectionist policies. If you take the United States, for instance, the OECD estimates that in last year, 1988, the United States subsidised its agricultural producers to the equivalent of about $38 billion. And the estimates at Congress suggest that commodity price support programs alone cost $13 billion. Now the simple reality to that, John, which I imagine your audience completely understands, is that if you go beyond the economic legitimacy of self sufficiency, which is a legitimate aim for any country, and then go into a process of subsidising your producers, then what you do is escalate your domestic cost and price structure. It means you are less competitive. It means there is relatively less employment opportunities available. Now we understand those truths. We are going to keep telling them. And I think there is some hope for the future. I certainly have got a positive response, when I was in the United States earlier this year, explained these realities. I think they were accepted. Of course the bottom line is not the understanding of the economic truths, it is a question of political will. And fortunately I think that there are forces lining up in Europe amongst manufacturers and organised consumers and workers which are saying, look we have had enough of being taken for a ride by a small minority. When you have something at less than 10% of population who are, significantly less than ten per cent, being amongst your primary producers. And they are the tail that is wagging the whole community dog. It doesn't make sense. And so we are going to keep telling that story.

MCINTOSH: I want to ask a question about the pilots dispute. In this country, the Reagan Administration's response to the air traffic controllers' strike in 1981 marked a watershed in labor relations, and the beginnings of a decline in union power. In this dispute you have authorised the use of taxpayers' funds to aid the airlines, the use of military and foreign strike-breakers to do the work of pilots, and the use of common law remedies to impose penalties on striking pilots. Do these actions set a precedent for dealing with future relation problems, or should we see this issue in isolation.

PM: Well I think it is essentially an isolation for this reason. That the organised trade union movement in this country, John, has pulled it completely into line in support with the uniquely Australian consensus wages accord approach. And the essence of that as you know, is that the trade union movement here has agreed to exercise very considerable wage restraint in respect of claims for increased money wages in return for which we as a government have increased the social wage in terms of providing universal health and hospital coverage, infinitely increased expenditures in the area of education and social welfare so that those social wage elements have been increased. And for that the trade union movement has accepted lower money wage increases. Now because we have that general support, and we have had a situation where, as is being recognised, there has been a shift from wages to profits, which the trade union movement recognises. There has been an historic shift from wages to profits which has enabled the massive investment that has taken place which in turn creates a more competitive structure of the economy which provides more secure employment. The union movement as a whole supports that. Now the pilots wanted, if I can use an Australian phrase, they have wanted five bob each way. They wanted to take all the advantages of the improvements in the social wage, that is the tax reductions that have occurred. They have got the top tax reductions. Improvements in superannuation. They have got the top superannuation packages while ordinary workers are getting their first taste of this. So the pilots have grabbed all the increases in the social wage, which have come from a mass of workers forgoing excessive money wage increases, and pilots say alright we will grab all that of the increased social wage but we will have the excessive money wage increases as well. Well the Government is saying, the airlines are saying, and the trade union movement is saying, that is not going to happen. So there is a unique sort of situation here in which we have felt it proper to use all the strength at our command, including some of the things that you have talked about. But that is not attacking the pilots as such. What it is doing is to protect a system which, as I say, has produced for workers in this country an increase of one and a half million jobs which is a rate job improvement, job increase, twice as fast as the rest of the industrialised world. Twice as fast. And improvement in the social wage. All those things have come with profits increasing, investment surging. That is what we are fighting to protect, and what we will do.

MCINTOSH: Your Treasurer has said that the blow-out in Australia's current account deficit reflects the surge in business investment spending. I have some doubts about where all this investment is going. If you visit Australia a lot of it seems to be going into office blocks in Sydney and Melbourne. And a couple of charts in your most recent Budget documents show that the proportion of the investment going into trade exposed industries, industries which will help pay off all the foreign debt, is shrinking. Can foreign investors be confident that Australia can in fact service the additional debt that you have taken on over the past two years?

PM: Well I am grateful for that question John, and I think you are aware of what is happening here and these trends in Australian investment do need to be looked at in the appropriate context. Now it is the case that total investment is at record levels. I have indicated that investment as a proportion of gross domestic product is at the highest level ever recorded. And if you look at it in five year terms the Treasury documents show that the rate of investment increase in this last five year period is light years beyond what has been happening before. Investment, John, in non-commodity trade and industries has risen very considerably since we came to office in 1983 and it has more than doubled over the period. There was a strong investment in commodity tradables in the early 1980s which, as you know, was associated with the resources boom in this country. Since 1985 investment in commodities has been fairly stable in the range of about three to four billion dollars per annum. Investment in so-called non-tradables has increased rapidly since 1987 and it is quite clear, as you will appreciate, that a lot of that investment will contribute directly or indirectly to foreign exchange earnings. I mean, as you know, investment in buildings and so on, which may be classified as non-tradable, can contribute very significantly to foreign exchange earnings through the leasing of office space to relevant companies. For instance, the resources and manufacturing sector. So that distinction is not always a real one. And similarly, of course John, non-tradable area includes the services sector, which includes the financial services and it is very clear, as you personally know, that investment in this area has given Australia a capacity to sell consulting and other services overseas. So the business sector, John, does not lack confidence in Australia in any sense. To the contrary. As you know most of the increase in foreign debt over recent years is attributable to the private sector. The fact is, of course, that as a Commonwealth, as a nation, the Government, we don't owe debt, we are a net creditor. But what has been happening is that you have had enormous investment by the private sector because they have made the commercial economic judgement that out of the investment that they make in this country they are able to earn sufficiently to them, and not only to service that debt in interest and in capital terms but to return a profit. And that is of course what has happened. If you look at, in the particular areas, there are many significant projects which are forging ahead now with the active involvement of foreign investors. I mean if you look in the minerals and energy area, we have just seen the north-west shelf project which I was opening the other day. Now in total that is a massive project involving some $12 to $13 billion investment and we've just started the first flow of liquid LNG to Japan and that's going to build up in the 1990s to export income for this country to the order of two or three billion dollars per annum. In tourism you're aware of the enormous investment there. In heavy industry we've got four major mineral processing projects at the moment involving a total capital outlay of around half a billion dollars, all due to come on stream by the end of 1990. In the aerospace industry Hawker deHavilland have a 20% share in a project to produce the new NBX helicopters in Australia which is going to generate something like $400 million in export earnings in its first ten years of production. So we have a situation there as I say. We owe no net Commonwealth debt as a government. What we are seeing - and I've just given you some examples of it - a situation where over 60% of the debt is owed by the private sector and it reflects these sort of investments which are going to provide substantial export earnings for us in the future. In other words what is being established John is a pattern of growth with an investment surge, rapid employment growth and with tight Government policies in the fiscal, wages and monetary area so that the pattern of production, the pattern of growth is being set in a way which while it is incurring as I say a debt at the moment by the private sector is being done in a way which they will be able to repay and which will create for Australia a very very significantly stronger economic structure and export earning capacity into the future.

MCINTOSH: Last week we saw the announcement of another record current account deficit. Are the Government Budget forecasts still on track?

PM: What we do when we draw up the Budget John, and I suppose what the major businesses do, you have to rely on, you use the best econommic analysis available to you. Ours is very good. Our Budget was drawn up relying on the best economic analysis available to the Government. May I just say these things about the August figures which I think are worth noting. I'm not trying - may I say to your audience John and ladies and gentlemen - I'm not in any sense trying to give some sense of complacency about the figures. We know that they are large and the general strategies we've got in place are directed towards creating a level of activity which overall will mean a level of imports which is sustainable and which we can purchase. But nevertheless let me say this about the August figures. It is a seasonally high month for imports and it was a surge of imports in the current account figures for August, it was the surge of imports rather than any decline in exports which brought that deficit. It also had two more trading days in August than in July which is a factor which is generally more significant for imports than for exports. There were the two one-off factors of a Qantas jet and one of these LNG ships that I was talking about with the shelf project. Those serve to push the August figure up somewhat but both Paul Keating and I have said that for the first six months of this financial year we expect these figures to be somewhat high. But the basic problem has been of course that we've had a level of demand running higher into this year than we could've expected before. Our policies therefore are directed, our wages policy, our monetary policy, our fiscal policy, are directed towards reducing that level of demand. But could I also make this point which is related to the answer I just gave a moment ago John. If you look at the composition of those import figures you'll see that the biggest increases are in the categories of other transport equipment and machinery, most of which of course is composed of investment goods. This investment growth will certainly, as I say, add to Australia's productive capacity. So bringing it all together the figures were too high, there were some special factors in it, but if you look at the composition of the imports that are coming in they are building up a stronger, more diversified, economically competitive export oriented industry in this country. Our macroeconomic policies will gradually bring down the overall level of demand in this country so that we will, we believe, get a sustainable position on our external account. But the important thing for your audience to know is that what we are about in this country is getting investment, including investment from overseas, to be part of this restructuring of the Australian economy which is going to produce, as I say, a more competitive and more diversified Australian economy.

MCINTOSH: In the last few days the $A has moved up towards 80 cents, partly on the back of very high interest rates in Australia. Do you believe this to be a short term move? If not does it have any bearing on the outlook for interest rates?

PM: You are obviously into an area where I must be very careful in what I say because any comments by a Prime Minister or a Treasurer can of themselves almost guarantee spurts one way or the other. So I must be very very careful in what I say but I don't want to avoid your question John. As you know, the value of the Australian dollar is determined by market forces. We floated the dollar and its level is determined by market forces, ... market forces in turn reflect many many factors. Reflect Australian interest rates, reflect Australian commodity prices and also of course in a residual sense the value of the Australian dollar will reflect to some extent the sentiment about a number of other overseas currencies. When you take all those things into account it causes the $A to fluctuate within a broad trading range. I'm not going to comment or speculate upon movements in those various factors which can cause movement in the $A within that range. Do note however I think it's relevant to observe for your audience that since early this year the dollar has fallen from about 89 US cents to be about 78 cents at the present. That movement in that period does reflect some advantage for the competitiveness of our trading industries. On the question of the interest rate outlook, well of course I have to be particularly careful there. But the level of interest rates is partly related of course to the stamps of official monetary policy. I make clear again, as I have been directly in previous answers, that monetary policy has been tightened and it has been tightened deliberately by the Government over the period as part of our general approach to try and bring down activity to a level which is consistent with our capacity to sustain a given level of imports. So we have had tight monetary policy together with tight fiscal and wages policy. I think your audience knows and you certainly know John about the tightness of our fiscal policy where we've now had another huge surplus, our Budget surplus, and we have now the fourth successive reduction in real Commonwealth outlays and a turnaround, as you know, in the net public sector borrowing requirement from a minus situation into plus. So our monetary policy has been tight and that's been reflected in interest rates. I just want to make these two points about our monetary policy and interest rates. As an intelligent bloke and as a politican, an intelligent politician, I'm not going to have interest rates higher for one day longer than is necessary. I mean I'm not a masochist. I'm not here to try and hand Brownie points to my political opponents. That's not my caper. What my caper is is to do the thing which is economically responsible for this country John. At this time it requires a continuation of tight monetary policy. We're not going to further tighten it, I don't think that's necessary. But we're not going to keep it tighter for one day longer than necessary, but I'm not going to loosen it one day sooner than is necessary. So there won't be any upward pressure on interest rates coming from a tightening of monetary policy. But, as I say, like the level of our $A, interest rates reflect a combination of a number of factors. This Government, this Australian Labor Government, has done what our conservative predecessors never had the wit, the will, the wisdom, the guts, the courage or anything to do. That is we have created a competitive situation. We've floated our exchange rate and we've created a situation now where we are a competitive market-oriented economy which in the fiscal area has produced outcomes which I know many in your audience would like to see done in the United States. You'd like to see a pruning of government expenditure in a rational way which would produce a budget surplus. We've done all that and created great employment increase in the process. Now out of all that what happens to your level of your dollar, what happens to your interest rates reflects, as I say, a number of market factors. I'm not going to speculate beyond what I've said as to what will happen there.

MCINTOSH: (inaudible)

PM: There is no doubt, speaking both through my mind and may I say perhaps more importantly in this case my pocket, the Hawkes will win. There is a lovely correlation. The Hawkes have been in the Grand Final each year for the life of my Government and I think that's a happy correlation. So I'm sticking with them. They will win.

MCINTOSH: As in the US, Australia currently has a very tight labor market and historically low unemployment, yet wages growth seems to be quite moderate by Australian standards. Can we be assured ot the continuing cooperation of the ACTU with the Government to keep wage growth down and in particular will there be another wage-tax trade-off in 1990?

PM: Yes I'd just like to say these things. As you know we have established - this is not just my statement but the statement of your successive presidents Reagan and Bush. The relationship between our two countries has never been warmer, more productive than it is now. Sure we have our differences but we regard the relationship with the United States as remarkably important. We welcome your investment here, we offer you a country of well-disposed people to the United States. We share the fundamental principles of commitment to liberty and equality of opportunity. We have a highly trained workforce here. We're well-placed strategically to the fastest-growing economic region in the world. We want to work together with you to add to our mutual economic benefit and to the benefit of the region and to the world as a whole.

MCINTOSH: (inaudible)

PM: Thank you John, thank you.

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