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PRIME MINISTER

TRANSCRIPT OF UNEDITED INTERVIEW WITH IAN McMINN, RADIO 3AW, 22 AUGUST 1990

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McMINN: Prime Minister, thank you for joining me from Canberra. Last night's Budget seems to be between two distinct areas and that is in terms of the popular Press, Paul Keating being regaled for pinching pensioners and yet from the Australian Financial Review, if you like, it doesn't go far enough.

PM: Well that's been a lot of the reaction. Either you wimped it or we've been too tough and that's reflected of course, in the media release of John Hewson which he put out last night. It was an economic statement that Peacock would've been ashamed of I must say. He started off on the first page by attacking us for further cuts in living standards and then spent the rest of it saying we should've cut further. Now let me make the point, Ian, in regard to those who say we should've been tougher. There is no point in just being hairy chested for the sake of saying look how many hairs I've got on my chest. The point of good government and good economic decision making is to exercise that degree of restraint which is necessary to address the problems of inflation and your current account deficit but without allowing the economy to dive into recession. I believe that we've walked that fairly difficult, tight path effectively.

McMINN: Well what do you make of the criticism that it's half a Budget? There seems to be a fair bit put off in it.

PM: I've been quite open with the Australian public about that. We've had a situation where we have initiated more micro economic reform than has ever been done in this country before and a lot of that is still continuing. For instance, Bob Collins, the relevant Minister, is accelerating work in the waterfront area. But in two respects, that is in regard to Telecom and telecommunications and the question of the airlines, we require a decision of our conference, of our Party, to enable us to make changes in that area. I've quite openly said to the people of Australia, well until we've done that we can't properly incorporate something into the Budget on the assumption that we would get the authority of the Party. Now what we'll be doing is having that conference next month and I'm confident that

we'll get a sensible decision from the Party and then before the end of this year we'll be making decisions that will accelerate that process of reform.

McMINN: There seems to be a lot of assumptions though, Prime Minister. One of the assumptions, of course, is oil and the Gulf crisis. I mean to what degree can there be any guarantees that the figures that you're suggesting - that is the basis of the Budget - will actually be sustainable.

PM: All we can do in a situation like that, Ian, is to make the best sort of assumptions using the best advice available to us in regard to oil and on that basis we've used a figure of \$23.00 - that's US dollars - a barrel. Just let me make a couple of points to your listeners that I made in the Parliament yesterday and add something to it. The first statistical point to understand is that the loss of oil from Iraq and Kuwait is about 4 million barrels per day. Now fortunately, in a sense, this crisis arose at a time when world oil stocks were at about their highest level ever and in that situation it is assessed that we could de-stock at the rate of about one billion barrels per day relatively comfortably and that would leave about 3 million barrels a day to be made up by increased production from within the OPEC ... countries. There's a fair bit of evidence that the other oil producers are not only prepared but want to do that -

McMINN: The Saudi's.

PM: Well there's not only the Saudi's, they are certainly going to do it but others as well. Now if that shortfall in production is made up, as it well could be, then there is no reason to expect a continuing high figure, it's very volatile, it was \$20.00 a barrel before the crisis. It shot up at one point to 30 but it's back to about the mid 20's and the \$23.00 which we've used as an average for 90-91 is consistent with prices staying high for a while now and then falling back in the second half of this financial year. What we've got to understand is that the world is certainly less dependent on oil today than it was 10 years ago. We haven't got the same sort of parameters of crisis that existed then but 10 years ago, Ian, the oil accounted for 5-1/2% of the GDP of all the OECD and today it's 1-1/2%. The world has become much more flexible today than it was 10 years ago. It's digested the impact of the two oil shocks of the '70's and there's an ability to move to oil substitutes in production. So all those reasons are behind the figuring of the \$23.00 per barrel.

McMINN: Are you concerned at all in the ACTU the President position you occupied for some time? The President, Mr Ferguson, turns around and says that the union movement will not accept any moves to discount wages if oil continues to rise.

PM: I noticed Martin's general reaction to the Budget last night and I thought it was very positive and constructive. Let me say this, that we're now in our eighth year of government and I don't know how many times the prophets have ... and predicted the death of the accord. Now the accord has been a very, very flexible instrument and there has been a great deal of responsibility on the part of the trade union movement and flexibility on the part of the Government to deal with changing circumstances. Now I think that the most likely situation is that the predictions that we've made and on which the Budget is based will be brought out and therefore the existing arrangements will not need any reconsideration.

McMINN: Well what do you say when you hear or read headlines saying the elderly, the sick and the unemployed will bear the brunt of Paul Keating's hold the line Budget?

PM: Well you're in Melbourne, I come from Melbourne, I remember the vicious and unfounded campaign that was particularly run by the Melbourne Press - and particularly the Melbourne Herald - at the time of the assets test. As I've said looking back to that, you would've believed that it was the end of civilisation as we know it. Now it was unfounded and unfair, that campaign, just as it would be to try and mount any such campaign here. Let's look at the two elements of the Budget which affect pensioners. The first in regard to pharmaceutical scripts. Perhaps the most single important statistic in the Budget speech of Paul Keating's last night was his reference to the fact that it took almost 40 years - from 1948 to 1985 - almost 40 years for the cost of the pharmaceutical benefits scheme to rise to \$.5B, 40 years to get to \$.5B. It then only took another 4 years for it to rise by another \$.5B. This country would've been faced with the disintegration of a scheme of protection for those most in need in this country if we hadn't taken some action to try and contain these costs. Now we've done that in two ways, not just by dealing with the question of pensioners scripts and so on but also with the restructuring of the pharmaceutical industry. But as far as pensioners are concerned, the simple fact is that no pensioner will be worse off because the question of the \$2.50 per script up to \$130.00 and then it cuts out, it's free, will be compensated exactly by the \$2.50 a week increase in the pension rate. Now it's quite clear therefore that this is an important and absolutely necessary structure of reform but which is not being implemented at the expense of the pensioner. Now the other decision which affects pensioners of course is deeming. Now the fact is, Ian, as I think you'll appreciate is that under the system that existed until last night, the pensioners of this country were simply subsidising the banks. They were putting millions and millions of dollars into very, very low interest bearing accounts, 3 to 4%, and the banks

lending it at 18%. I mean that was just a straight subsidy by the elderly of the banking system and through the banking system of others.

McMINN: Well presumably they were trying to minimise the amount of money they made.

PM: No, no. It was so that they would be able to retain the benefit card. Now no pensioner will lose those cards but under this system over the longer term there will obviously be savings but not at the expense of pensioners because what they can do is invest their money at the higher amount and if they do that then as the statistics in the Budget showed last night, many of them will be better off than as it is now. What they are doing is simply subsidising the banks. Now I concede that this will be somewhat bewildering for some pensioners -

McMINN: Very confusing I would've thought.

PM: ... and so we're spending money. We're spending money to increase the resources within the Social Security Department to give financial counselling services to our elderly citizens so that they will know exactly what they need to do so that they'll be protected.

McMINN: But they've reached the end of their working life, Prime Minister. They would be confused, they'd be upset. All of a sudden the rules have changed again.

PM: Yes, well the logic of what you're saying is that if something is not operating properly, is operating against the interests of the community and against the interests of the pensioners themselves, you don't change it because there may be confusion. I mean if government didn't act because there would be either confusion or misrepresentation about their decisions, we'd be back in the cave. We would never progress. You can't, if you're going to be a responsible government, decline to make decisions on the basis that there may be either misunderstanding or criticism. I mean, as I say, if you acted on that basis you would never do anything.

McMINN: Prime Minister, Paul Keating made much of last night saying that it's a championship fight, you can't do it in one round. But I'd put it to you that the Australian public has had round after round after round of saying we'll hold the line, we'll be OK. I mean at what point does the Australian public turn around a say well we've had enough?

PM: Well let's look at round after round. Round after round of economic decision making by this Government. What fundamentally single most important statistic emerges, it's this, that we've created 1.6 million jobs which is a rate of job creation more than twice as fast as the rest of the world. That's what's come out of

round after round of tough but proper economic decision making. It's just no accident that Australia has a rate of employment growth twice as fast as the rest of the world from the decisions that we've taken. It's no accident that we are now in a situation where we are able significantly to increase our exports and reduce our imports because in that way we're tackling the problem of our external account and we'll be bringing our current account deficit down by a full one percentage point of GDP, or \$3B, in this coming financial year. The proof of economic management, whether in this country or in any other, is that no decisions and set of decisions calculated to meet the economic challenges confronting a country are capable of being introduced without causing some difficulties. Whether you look at the United States, whether you look at Europe, whether you look at the Soviet Union, there is no country in which proper economic decision making can be done without causing some difficulties. The essential thing that you've got to do is to have your target clearly in mind and the targets are bringing down inflation, restructuring the economy so we're more competitive and dealing with our external situation. Those are the targets, those are challenges and if we're going to make Australia equipped to meet those challenges of the present and the future then all of us have to be prepared to do things which for some of us may involve some restraint and the delay of the satisfaction of some of our aspirations.

McMINN: Prime Minister, I'd like to talk to you about the crisis in the Gulf.

PM: Sure.

McMINN: Before we get to that, you look at it from a national perspective even in the answer to that question you were talking about the United States, the Soviet Union, Europe. From a position in Victoria, if I can bring you to that, I mean here there is clearly a crisis of confidence and you've got a situation where the Budget's made certain financial statements, what hope for the business community in Melbourne particularly, in light of the fact that people just simply aren't investing. They're very, very concerned about the way they live.

PM: Well just on the question of investment, let's look at the scene nationally and that embraces Victoria. What we have seen over recent years is record levels of investment. In 1988-89 business investment as a share of GDP was the highest -

(tape break)

PM: ... as Victoria itself is concerned, Ian, I obviously do not seek to intrude on the budget making and economic decision making process of the Government of Victoria. I have confidence that Joan Kirner and those

around her will make the decisions - and some of them tough decisions - that need to be made to deal with the particular problems that she's inherited in Victoria.

McMINN: She's inherited indeed. Prime Minister, looking to the Gulf crisis, I am concerned, as anyone in Australia would be concerned about the fact that we have Australians there that could be used as human shields. I mean what, if anything, can be done to well not stop it but try to bring it to a position where some common sense can prevail?

PM: I wish I was able, Ian, to be able to say to your listeners and particularly to any of them who may have relatives or loved ones in Kuwait and Iraq that I've got an optimistic story to tell them. It would be dishonest so I don't say that. I mean it is an extremely serious situation. There is evidence of the disposition of a number of foreigners being held as hostages there to possible target areas although as far as we know at this stage this does not apply to Australians, but I have no reason to assume that it may not. Now the answer to your question as to what do we do is that we do not succumb to the totalitarianism of Saddam Hussein and condone his acquisition by force of Kuwait. Because if our history teaches us anything, it is that appeasement of dictators is the certain route to an enlarged conflict. If the relevant nations, particularly the British and the French, in the 1930's had stood up to Hitler when he made his first move as he did in March of 1936 into the Rheinland, breaking every solemn commitment he'd previously made, then if the British and French had stood up to him then that would've been the end. I mean it's a fascinating fact of life that the German military command had made a decision at that point on the basis that they expected the British and the French to move in a stop him, that they were themselves going to depose Hitler. But the appeasement which really effectively started then in March of 1936 and then went from the Rheinland to Austria and then to Czechoslovakia, that led to the greater conflict. That is a clear lesson of history and we have to understand that in this present situation that if we do not stand firm as a community of nations against this horrific aggressor then the price subsequently paid will be the greater.

McMINN: But it would appear to me - and I mean I'm just a journalist - it would appear to me from all the reading and listening and watching that I do that we're looking at a conflict. I mean the US is building up forces -

PM: Not necessarily so. I mean I have expressed the hope and I specifically put this point to the Iraqi Ambassador when he came to see me yesterday, I said look just examine this in terms of the interests of the Iraqi people, there is no way that a continuation of this situation can be other than disastrous for the people of Iraq. One must hope, Ian, that there are going to be

sufficient people there in Iraq, if not with the Leader himself around him, who will rationally come to understand that a continuation of this situation must mean disaster for the people of Iraq. I mean either way if it's merely a continuation of the embargo's, their economy will gradually disintegrate, their capacity to feed themselves will diminish and this will be a disaster. Of course if there were an escalation of the conflict, so would that be a disaster. There is no way in which a continuation of the present Iraqi course can be other than disaster for the Iraqi people. Now that reality must, one hopes, be increasingly dawning if not upon Saddam Hussein himself at least upon many of those around him. Therefore I don't think we have to be totally pessimistic and say that conflict is the only answer. But equally we must be honest with ourselves and say that is a possibility.

McMINN: Prime Minister, I know you're very busy but one last question, and I mean this with the greatest of sensitivity. If an Australian dies over there - and as I say I mean this with sensitivity - I mean what will go through your mind?

PM: Enormous sadness. I can't begin to convey to, as I say, the relatives and the loved ones of the Australians that are being held as hostages the two feelings I have. That is one of absolute repugnance at the action of Saddam Hussein and the depth of my feelings of concern for these people. I just hope as deeply as I possibly can that the sort of scenario that you envisage will not occur and that sanity and rationality will prevail.

McMINN: And just looking back at the Budget, you're happy that it's not a half-way house?

PM: Yes, I think we have struck the appropriate balance. It would be easy to be, as I say, hairy chested and say look how much hurt and harm I can inflict. But inflicting hurt and harm for the sake of doing it is no criterion of statesmanship or economic management. You've got to exercise that degree of restraint which is consistent with meeting the objective of keeping the level of activity to sustainable levels but not plunging the economy into recession.

McMINN: And hoping it will work.

PM: I believe it will work.

McMINN: Well let's hope it does. Prime Minister, thank you very much for joining me on the program.

PM: Thank you very much, Ian.

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