

PRIVATE CORRESPONDENCE

JOHN HYDE

Mr Hawke has advised President Reagan to cut his budget deficit. As US voters get 'tetchy' about foreign interference I doubt that Mr Hawke's letter will be acknowledged. Dare a President plead to a foreign head of government that Congress was unco-operative? Australia's interests might have been better served if Mr Hawke had sought less publicity.

So far as I am aware the following private correspondence was never written.

From the Prime Minister to the President:

Dear Ron,

You really should reduce your budget deficit. In Australia we know all about deficits---both the budgetary and the foreign account kinds. Since 1974 Australian governments have been spending much more than their revenues and our foreign account deficits have quadrupled our foreign debt in the last five years.

Even now our total public sector borrowing requirement is around three percent of our gross domestic product and only slightly less significant than your own. Total government dis-savings is a little more again. Believe me I am an old hand with deficits.

Budget deficits seem a good idea at the time when one is caught between the bleeding hearts in caucus and the ACTU demanding tax cuts, but they really are quite bad. At least that's what Paul tells me. He says they encourage people to buy more than they produce and this causes balance of payment deficits. Unfortunately deficits are really new debts which must be repaid one day I suppose. But then again, you and I won't be around then, will we?

Foreign debts are scary only until you get used to them. Since the United States became a net debtor only as recently as 1985 what it owes is a piss in the ocean, but it is surprising how debts grow. As you have no doubt noticed, investors and currency traders mark your currency down. (Can you remember the seventies when the Australian dollar was worth one and a quarter US dollars?) Eventually those arrogant bastards who issue credit ratings with no sense of political timing might reduce your country's rating to AA or less. When I first heard the Australian dollar referred to as the South Pacific Peso I

felt that somehow Paul and I had failed, but Paul says not to worry.

The Bundesbank and Bank of Japan are sick of financing your expenditure, even though a lot of it is to pay for European and Pacific defence. I am thinking of reducing our public dis-saving after the NSW election but you really must reduce yours now because the US is a big country and if you don't there might be a world recession.

In the meantime take heart, all is not lost for the Republicans in next year's Presidential election. By Australian standards you haven't yet got a real debt problem. The Australian dollar fell too---even against your moth-eaten dollar---and they re-elected me.

Your old mate,

Bob. H.

From the President to the Prime Minister:

Dear Bob,

Banana republics always want the US to fix their problems and some are very rude about it---almost as rude as the French. (By the way why did your Paul call Australia a republic?) Thank you for your friendly advice.

Its a funny thing that a US trade surplus is said to have caused the last Great Depression and now everyone is saying the US trade deficit will cause the next.

I really don't know much about these things but James (Baker) and his boys in Treasury aren't convinced there will be a world depression. In fact, they say that the banking system is in its best shape for some years and much better than in the 1930s, that many commodities are experiencing a boom now, and that while the stock market crash will put a lid on confidence and demand it need not do much damage to production and employment. He added, 'if politicians are sensible'!!

He did warn that if I can't veto Congress's anti-trade bills everyone, and particularly Australians, should hold onto their hats (and anything else they've got left to hold onto). As for the gurus on Wall Street: they should have indigestion from eating their own words.

James said 'Go tell Mr Hawke to reduce his own deficits. And while you are about it tell him to reduce his high trade barriers, his business regulation and his labour market nonsense.' James says if you do not do these things Australia will have a recession even when the rest of the world does not. He was a bit short, but since we are exchanging advice, I pass his views on.

He says Australia has problems the US does not have. I was surprised to learn that your overseas debt is so high and your wages system so rigid that the benefits of devaluation are quickly eaten up by debt service and wage increases. He told me a funny story about a thing called 'The Accord' which maintained the real value of wages just at the time when our unions were negotiating those big reductions. That must make it tough.

I wouldn't like your problems Bob but in a funny way they are your opportunity. With everything so bad there is lots of room for improvement. A twenty percent improvement in productivity does as much for competitiveness as a twenty percent reduction in wages. I am told of events at a place called Robe River where productivity was about doubled just by getting rid of a few silly work practices. How many more opportunities like that have you got?

James says, without adopting New Zealand's selfish attitude to the Western defence alliance, you could take a leaf out of Mr Lange's book---deregulate your economy. That way, over say ten years, you can repay your debts and raise Australian living standards too. What is more, if we should have a world-wide slump your economy would then cope with it reasonably well. Just in case of the worst, I would not wait until after the NSW election to cut government borrowing.

Donald Regan was Treasury Secretary at the time but, to tell the truth, I think James is a bit sore because your Paul got that 'World's Best Treasurer' award when Australia's inflation was higher than nearly everybody's---everybody who counts anyway.

Yours ever,

Ronald R.

PS. I really don't expect the US Government will lose its AAA credit rating.

ENDS