



PRIME MINISTER

TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING MP
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PM: I'll just say a few introductory things. One Nation is basically a four year plan for Australia, it's a Statement which I think will lead to a turning point in our economic history and our social history, it will help us bring on a recovery to lift employment to deal with the problems of jobs, the creation of jobs and it will continue to produce a gulf as it has, as to date has been the case, but I think an even wider gulf between what the Government stands for and what the Coalition stands for, that is the Party which has reformed Australia, taken it out of the Rip-Van-Wrinkle years of Menzies that made Australia an international place and which will continue to do that, that is, the Party which has reformed and built Australia will prove tonight: it is going to continue to go on doing just that. So I think it will contrast with basically the sterile approach the Liberal Party has taken, but most importantly what it does, it will accelerate the recovery, it will bring Australia back into growth, it will bring it back into growth in a cyclical sense, in the cycle, but improving the long-run structure for the productive base of the economy. So it has a lot of long-run portents and will set Australia up well for the 1990s. So I'll take questions from there.

J: Prime Minister what extent do the tax cuts you foreshadow merely off-set bracket creep?

PM: Well the important thing about the tax cuts is that Labor has in the 1980s given back more than bracket creep, more than bracket creep, but certainly fully off-set bracket creep. In other words the real incidence of taxation wasn't rising. But we did it in the context of precuring agreements about real wage restraint and producing lower inflation and as you know the tax cuts of 1989 are one of the principle reasons why we now have a low inflation rate. In part of our discussions with the ACTU, while we are not in a wage

tax trade-off like we were in the 1980s where we had a reduction in nominal wage outcomes in return for tax cuts for particular people within certain decile income groups, what this is is creating a tax environment which will be conducive to the maintenance of sensible wage outcomes. So it does two things. It will help us maintain that low inflation performance which, of course, will be a great boon to Australia and as well as that, it will provide an incentive for a great category of tax payers with a lower marginal rate of tax, that is, an incentive to earn more, to do more overtime for instance, create more income without losing it at the marginal rate step of now 38% reducing that to 30. But I make the point it is 30%, it's a structural change, it's 30% but need I hasten to add without a 15% string attached, without a consumption tax attached to it.

J: Is it as off-setting as

PM: It off-sets the bracket creep in the period.

J: Mr Keating, don't you lose the leverage that tax cuts will give you to bargain with unions?

PM: Well we needed a lot of that leverage when we had inflation running to 7-8%. It's very hard to run a system at 7-8%, but it's much easier to run a system with low inflation and because we are now moving into a decentralised wage structure where productivity opportunities will present themselves, the most important thing is to shift from aggregate wage outcomes to inflation so the guiding light in looking at our wages system and affordability of wages will be keeping our inflation rate comparable without trading partners. That will be the yard stick which governs what the Government says before national wage hearings, in its relations with the ACTU and the unions and in relation to taxation.

J: Mr Keating, is the message from the unemployment forecasts that the worst is over, it was not quite as bad as you thought and it's going to decline in time to come?

PM: Well we have got unemployment coming back to 10% in 1992-93 and then to 7 3/4 in 1995-96, but of course with very high participation rates, with very high participation rates. I mean if we were looking at the participation rates of the early 1980s and comparing it to these we would have much, much lower unemployment numbers.

J: Prime Minister, if that is the case then why is it that things like JobSearch, NEWSTART, Jobstart etc are being cut back?

PM: No, JobStart is being increased, Jobtrain is being cut back, only one. Because we didn't think there was any point in training people for jobs that were not there. There is a net addition to those labour market programs which are all described in the document.

J: Just looking at the document here it shows 3 specific figures that are a reduction ...

PM: No, there it is, JobStart 15, \$85M, 10; Jobtrain is a re-education; Jobskills \$30M, \$15M extra, and when you look at apprentices, the assistance retention of indenture to apprentices is \$3.2M in \$1.6 in 1991-92, \$3.2 in 1992-93, and of course need I say that in terms of vocation training it's a total revolution in education here. A \$720M program over three years to do for TAFE what the Commonwealth did for universities back in the 1970s and 1980s and so these vast retention rates which Labor has presided over giving children the opportunity of completing, in very large numbers, secondary school has been not only accommodated now in many places in higher education and universities, but as well as that now in future in technical and further education, a national system of technical and further education.

J: Mr Keating, ... high retention rates and also the fact that in the first year Dr Hewson ... 50,000 people off the dole queues, is it fair to say that you are using the training system to disguise the level of unemployment?

PM: I don't think you can say the revolution in education and whatever else you can call it, I think you can call it that is about basically changing the unemployment numbers. I mean high cynicism I understand but that is getting beyond the pale.

J: What convinced you that Australian families deserve this very generous one-off allowance gesture and what would you like them to spend it on ...

PM: Well it is up to them but I think that the categories of people who will receive it, Australian families will spend it generally. And the point of it is that it can happen early, it can happen in this budgetary year, it's not a matter of waiting until the next Budget. So before the profile of the stimulus comes from the public works programs the railways, the roads, and all the other great initiatives which are there which will build up through the course of calendar 1992. This, in terms of fiscal stimulus, will provide a much earlier profile to that rise. And so it is going to the people who I think need it and spend it, that is, families and of course, for low income families it is on-going. There is a \$250 million a year on-going expenditure under the Family Allowance Supplement. So there's two parts, there's a family allowance payment which is one-

off and the one-off of course doesn't have a cyclical - it's a cyclical matter of its essence. There is no on-goingness there on the Budget in 1993-94, but the vast part of it is a permanent \$250 million improvement.

J: Mr Keating, the financial markets have been skimpish lately and the dollar has been bouncing around a bit, do you see this package steadying the markets?

PM: Don't ask me to pour over them. I don't know what they think of this. I can only say this, I said we would do a responsible and a constructive thing. This brings the surplus, this produces a fiscal surplus in 1995-96. It has a cyclical profile to the spending and it drops away and as the economy recovers and the receipts recover, as the outlays drop away, as you see in those profiles, that the Budget balance goes from a peak of \$8 billion, dropping back to \$4.6 billion deficit, then \$600 million and a surplus of \$2 billion. So, I don't know. I think the financial markets would regard that as sensible, a sensible thing to do for a recession and a recovery, and a sensible thing to do for the long run.

J: Prime Minister, what do you say to Opposition criticism that the growth projections to deal with this deficit are too heroic by half?

PM: I don't think they are heroic at all. We've got in there for GDP 4 and 3/4 per cent. We had, I think, in '83-4 something like 6 per cent growth in that year. And if you look at this economy compared to the economy then, we've got a much better position with the profit share in the economy, we are much better aligned in the factor shares, you don't have these huge structural deficits overhanging the economy, you've got a stimulus there coming from, for a start, a competitive exchange rate and more recently, depreciation, the obvious changes which are going to occur from a change in international trading conditions and the breaking of the drought, and stocks. So I think it's very conservative, 4 3/4 is a conservative number.

J: Mr Keating, in this 4 year plan, in the scenario you don't say anything about what will happen to foreign debt over that period. Won't it be higher in the end and have an effect on the current account?

PM: No, on page 126 you'll find some text there on the current account. It says, talks about it coming back to 3 3/4. This would be consistent with a slight drift upwards in the ratio of net external liabilities to GDP. As a ratio of debt to equity financing however, returns to levels which existed prior to the excessive leveraging of the late 1980's, the net external debt to GDP ratio could stabilise or decline slowly.

J: So you are saying we can sustain the growth we had in the 1980s which we now have a blow out in debt?

PM: Well obviously we had a lot of leveraging, we had a lot of equity displacement with debt. They're saying go back to more normal levels of debt to equity in the financing of the Australian current account and that the, to read it to you again that a slight drift upwards in the ratio of net external liabilities to GDP, but then they say the net external debt to GDP could stabilise or decline slowly.

J: To what extent is that helped by the easing for foreign investment rules?

PM: Well it might be because there has been a big shift from debt to equity in the last couple of years as you well know and the easing of foreign investment will obviously facilitate more equity investment in Australia and therefore less equity is not attracted to interest rates where debt does obviously.

J: Mr Keating is the payment to families some sort of compensation to the bitter blow of the recession?

PM: Well it is obviously a help for families. It's a help for families and obviously some will do it tougher than others, but it is a help for families and it's a way of inducing some stimulus to the economy and I think an efficient way.

J: ... pensioners and they are worse off than families.

PM: Well they were adjusted with full indexation right through the 1980s and wage earners were not.

J: How much willingness do you think there is on the part of the private sector to fund public infrastructure projects?

PM: Quite a lot. What is in here is a very innovative change. As you know there is a very innovative change in the tax system here for private provision of public infrastructure, but the key is that it has to be private. In other words we are not changing those sections of the Income Tax Act where a business would claim deductions under these measures while the income of the business was guaranteed by a state government or a state instrumentality.

J: How are they going to turn a profit over 30 years?

PM: Well it depends on what they do.

J: Are we going to see toll roads in Australia?

PM: Well you may well do. I mean you will see, you have seen some already, but you will see I think a number of

projects in the land transport area which can be taken on as private ventures, and if they are they will get the benefits of these concessions. I mean it is a very attractive arrangement for a shift into private provision of infrastructure. Can I make this example, if we separate, as we propose here, power generation from power distribution and we have a grid company which breaks up the monopolies of the electricity commissions which is entirely possible under these tax concessions, the next major power station in Australia would be privately built, for instance.

J: Mr Keating why did you single out the sales tax on cars?

PM: Because I think the rate's been too high. We're producing the same number of cars now we were in the early 1970s, we have got a car fleet with an average age of 17 years which is inefficient, which is polluting the environment, which is costing motorists a lot in keeping them roadworthy which has obviously safety considerations about it and is not as a one-off but as a permanent change for the car industry. We reduced the sales tax up to the limit where the tax rate changes. For luxury vehicles we reduced it from 20% to 15% and hopefully that is about \$800 on a Commodore or Ford and hopefully it will stimulate the motor vehicle industry which needs a stimulus at this time and hopefully change over time the age profile of the Australian vehicle industry.

J: When do you look at finishing the wholesale sales tax?

PM: Well it has this virtue that you can actually decide whether cars, passenger motor vehicles, the cars most people buy are at 20 per cent and whether the luxury cars are at a higher rate.

J: ... suggest you might wait to the August Budget?

PM: Well a Budget is a Budget, you can do all those sorts of things, this is about a recovery, a stimulus and a recovery a continual change though on the production side of the economy through such things as depreciation, the vast change I mean the big business change in here, a vast change of depreciation arrangements, other innovative changes and the rebuilding of all the infrastructure so long left neglected. It's a quarter of a century since we put investment to rail, a quarter of a century and, of course, it is always Labor that builds the big projects, it's always Labor that takes the lead and it's Labor again which is going to give Australia a rail highway, it's Labor again which will give Australia a national electricity grid, it's Labor for the first time to give Australia an internationally competitive system.

J: And will this alone win you the next election?

PM: I think it contrasts, does it not, with the sterile accountancy of Dr Hewson's package.

J: Mr Keating with ... going to win the election campaign with 10% unemployment and \$80 million debt ... economy to turn out right by 1995-96, what can you say to the Australian people ...

PM: If you have sat here for any years we have got a structural budgetary position which is so tight that once the unemployment starts to drop back and the receipts start to pick up the budget swerves back into surplus. I mean we didn't sit there for seven and a half years cutting structural budget outlays to achieve other than a very tight budgetary system at the moment which has expanded because of the natural stabilisers, the recession, but which will close back. So it is not a matter of having any faith, I mean that is simply a mechanical matter a mechanical matter, but I think the more general point is the point, I mean the Opposition are about shifting the tax base from income to expenditure, that's essentially it. This is about continuing the micro changes, it will not change the travelling time for freight between Sydney and Melbourne, to pay you tax on your food, your clothing or your dry cleaning, it won't change that and there's nothing in Fightback that changes. It won't change the interface between the ports and the railways, there's nothing in Fightback which will change that. The sort of proposals we have here for electricity or the airline system or to give our children a change of a decent technical education. I mean the breadth and magnitude of this package, the imagination of this package compared to the accountancy, the sterile accountancy of a shift in tax from income to expenditure and of course the damning review which its principal econometricists paid it to say it will actually reduce GDP. It will actually increase unemployment, it will actually increase inflation. Compare that to this!

J: How did you come up with a figure of \$800,000?

PM: Well that's part of our modelling. It's simply about where we see employment growth and we've got \$150,000 I think in 1991-92, \$200,000 in 1992-93 and about a quarter of a million each year thereafter.

J: (inaudible)

PM: Well it's the package overall I think which is important, the impact on the economy, the depreciation, all of the other things. They have to in the end be about growth, GDP. The linkage between employment and GDP is pretty clear.

- J: In your 3 projections you've got demand outstripping supply in a big way, imports up on exports, GNE higher than GDP ...
- PM: Paul (Bongiorno) we have trained you well you would not have known, you poor old thing, what GNE was. It gladdens my heart. You have warmed me up, you could have paid me no greater compliment.
- J: ... how will we get better results after the 1994-95 election without slamming on the brakes, higher interest rates?
- PM: What will happen is that, the economy will respond to the investment. It will respond to a higher profit performance. It will respond to more demand. It will respond to a better depreciation schedule and demand for investment will rise. Therefore that will be reflected in imports. But it will taper off, obviously after that surge and we have it tapering off through the periods. We have been very conservative, I think, estimates on exports. Quite conservative on exports and if that's the case, we will do better. We will do better on the merchandise trade balance than we've got here. But even here we have got the current account coming back to 3 3/4 per cent.
- J: But will it taper off without the use of interest rate cuts? Will we revert to the late '80s?
- PM: Where are you? Oh Don (Woolford).
- J: ... in the late '80s?
- PM: Well, in the late '80s was a period of unprecedented boom in credit growth. 20 per cent a year for the last couple of years by a global financial market system which was funding credit often unwisely, chasing asset prices around the world. I mean that's the sort of... We had demand running at twice the product growth. This is not the case here. So that sort of monetary regime which we employ, to try and pull our demand, our spending back in line with our production, is not the sort of thing which is in here.
- J: Mr Keating do you have the ...(inaudible)?
- PM: Well, it says the Government wants the economy to grow. It's providing a stimulus to help it grow. We've got low interest rates now feeding into the system. We've got depreciation and a competitive exchange rate feeding into the system, a competitive exchange rate system which we've had since 1983. If we are comparing this to other recessions, we have got those changes. We've got the corporate sector now running very tight. The first shift in volume will go straight into profits. Straight into profits, so the profit share will rebound quite sharply. I think all these things

are great boosts of confidence and we are doing the work. We're not asking the private sector to spend, even though we do that through the depreciation allowance. We're doing it ourselves. We're going to spend. We're the people who are going to remodel the railway lines and build the ring roads, and do these other ... we are doing it ourselves. So all of that kick-start, that stimulus, will go into the economy and I think it will be a bull point for confidence and it should be a bull point for consumer confidence. And we are helping consumer confidence by putting money into families who we think will spend it.

J: Does your strong confidence in inflation mean that you have got the unions in your pocket now?

PM: Well, it is not a matter of having the Unions in my pocket. The Unions have been the most cooperative institution in the 1980s haven't they? They took reductions in real wages, they saw inflation come down. But what we are doing is we are keeping the place together. The difference between us and the confrontation of the Liberal Party is we're bringing together a partnership between Government and business, between Government and Unions, to maintain sensibly a hard won victory over inflation. We're not doing as Dr Hewson is doing, doubling the inflation rate with a 15 per cent tax on everything people spend and consume. We are not taking that risk. We're keeping inflation low. We've broken the back of a 20 year problem and we're keeping it broken and the Unions have the good sense, and the national spirit. We have got a very, we have had a very responsible trade union movement.

J: Back onto consumer confidence, will there be another interest rate cut?

PM: There has been an 11 percentage point cut in the system now and rates are at very low levels and I think, we are seeing some change in confidence levels in the recording of confidence levels and we have seen some improvement, notable improvement in employment since December. So I think the thing is starting to work. I think this document will do it. It will get it together. And it will get it together because we're tackling the problem as a nation, one nation, pulling it together - business, Government, unions - keeping the social wage, keeping the safety net, helping the families, helping the low paid, helping the people who will do things with a depreciation allowance, helping the people who want to invest in public infrastructure. It's these common goals which I think will help induce a better ambience and confidence in the community.

J: Do you think interest rates have reached bottom?

PM: Well, that's what you say.

J: ... allow foreign banks a licence?

PM: Because I think that foreign banks are likely to provide competition in the business area, that they'll be innovative, that they'll cash flow finance, that they will assess credit risk, probably provide competition to business lending and the assessment creditors, and I think they'll be a good competitive force and can be a good competitive force for our big banks.

J: ... Treasury-like document. Does this mean that you are going to hold a much firmer view about Treasury ...

PM: Where are you from, you keep asking me questions?

J: American Press Association.

PM: The thing is it is not a Treasury document, it's a social document.

J: But it has the old Paul Keating trade mark from his Treasury days.

PM: Let me just tell you, it's a social document, a document of social and economic change, and I think that's what's important about it. But it is, of course, laden with innovation and change. And to the extent that you think I've brought you other things laden with innovation and change, I'm please you think this is the case again. Thank you one and all.

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