



PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P.J. KEATING MP,
QUESTIONS AND ANSWERS, NATIONAL PRESS CLUB,
15 SEPTEMBER 1992**

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Q: Don Woolford Prime Minister. According to figures released on Friday by the Japanese Embassy, Australian direct investment in Japan amounts to only 0.8 per cent of Australia's total overseas investment. I'd like to ask if you are happy about these figures and if you believe that to any extent at all they are attributable to constraints the Japanese put on our investment and if so, will you be taking that up in Tokyo next week?

PM: Don, it's not on the theme of 'Fightback' and I'd prefer the question was, but I'm happy to answer it. The issue is that Australia runs a huge trade surplus, with Japan and thank God it does because one wouldn't know where our balance of payments would be without it, and as well as that they've been a source of savings in capital to fund our current account deficit and to take large slabs of equity in Australia. And if Australian businesses want market access in Japan they've got to do the hard grinding work in a culture which is somewhat different to Australia to create that market access.

But Australians don't want their leaders needlessly putting off our major trading partner. I notice Dr Hewson saying yesterday, I'll stick up for Australia. It's not sticking up for Australia, punching in the nose the country with which we enjoy the largest trade surplus, that's not being good to Australia, that's not being loyal to Australian interests, it's being absurd, it's being immature. And I think Australians understand that we've developed an important basis of trade with Japan and that they want that trade relationship treated properly. That's not to say you don't argue for market access. This Government has been arguing for it and getting it for a long

time – in minerals, in agricultural products, in meat, but Dr Hewson has been saying we've been letting the Japanese into Australia for investment – indeed we have. Who else is going to provide the capital? But would he now say that we've done the Japanese a favour taking hotels off our hands at \$600 million which today are worth \$400 million? Does he regard that as the sort of favour they should thank us for? These are all the comments of someone who has basically wanted to be noticed, to get himself out of a terrible problem with the National Party, that is, he has a zero tariff on sugar and he'll wipe out the north Queensland sugar industry. And in the middle of pressure on that, he decided to divert the attention by attacking the Japanese. You notice the Japanese Embassy has stood its ground now over the weekend and for a couple of days, and they're entitled not to have their position misrepresented. It's doing Australia no favour behaving immaturely, stamping your foot when you've got a very mature relationship, and I hope to develop that relationship further when I go to Japan. I'm not going for any particular purpose, for any particular initiative, but simply to advance our understanding as trading economies and societies further.

Q: Maxine McKew, ABC Radio current affairs. On a similar theme, in the same way that President Bush is drawing international condemnation for decisions such as extending the Export Enhancement Program and the sale of F15 Fighters to Taiwan, at home the same decisions are drawing domestic applause. Do you not think then that perhaps similarly Dr Hewson might be touching a domestic nerve with his comments about access to Japan?

PM: You mean in the United States or in Japan?

MM: No, here.

PM: In Australia?

MM: Yes.

PM: I don't think so, I think Australians are quite wise about these things, they know that Australia has had to trade its way in the world, they know it's been difficult for us, they know we've now made a very large transition. This year for the first year in our history we exported more manufactures than we did agricultural exports or mineral exports. They know that this Government has made this transition. That is, we've taken Australia from the Stone Age, without making a pun, to the age – that is a Hewson/Howard stone age where we basically went backwards in manufactured exports – to

a stage where we're now seeing manufactured exports being greater than rural and mining exports. They know that's all hard tack, they've watched those balance of payment figures now at least for six or seven years, at least since the terms of trade crisis of 1986, and I don't think they take lightly to silly people doing silly things, and Dr Hewson going on as he did, needlessly attacking the one market where we enjoy a huge trade surplus, is no good for him, no good for us, no good for Australia and I don't think it rings any chords anywhere.

Q: Dennis Grant, Prime Minister, from the Seven Network, pay television if I might.

PM: You guys have given the GST a sleigh ride for now nearly a year, there's been no real critical analysis of it by the press gallery and even when the Government gets up to critically attack it, we're on to pay television.

DG: Thanks Prime Minister, pay television, pay television then.

PM: It takes some dexterity to shift subjects, I know that.

DG: What is your view of a mandated role for the ABC in pay television, what of your previous position that the ABC should be in the queue like everyone else?

PM: This question is not encouraging me to put Channel Seven in the queue, I can tell you that. These are matters for discussion, the Government came up with a good model for pay television. In the big sweep of events, in the big sweep of subjects this is not again like a GST, a first order subject, certainly a subordinate order subject. But that said, we're better to get it right than wrong. And I don't want to see Australia's pay television system shanghaied to an inferior technology: that is I don't want to see the satellite being the sole delivery system of pay television. Not when we're seeing your sponsor, Telecom, extending its fibre optic network across the country in a milestone investment decision in the '80s, which gives you the capacity to speak back as well as to be spoken to, that's for interactive services, I don't want to see us simply relying on the satellite alone. As far as the ABC is concerned, I think the ABC has a real question to ask itself - whether, if it's sidelined as a pay TV operator, it doesn't see its free to air charter diminish. I think that is a very great possibility and the ABC needs to think about that, and the ABC Board needs to think about that.

Q: Stephen Spencer, Macquarie News, Prime Minister with, thankfully, a question about 'Fightback'. Many of your back benchers would like to see you announce a 12-18 month tariff pause to further underline the differences between you and the Opposition you've been making known in recent months. Is that something you're likely to adopt before the next election or are you determined to stick to your previously announced tariff policy?

PM: We've been the only government that has reduced tariffs in Australia. Tariffs actually went up when Dr Hewson was advising Mr Howard. Under the Fraser government tariffs rose, protection rose. The only governments that have reduced tariff protection in Australia have been Labor Governments; the Whitlam government in 1973-74 reduced tariffs by 25 per cent, they then rose under the Fraser government, under the advice of Dr Hewson when he was advising them. This Government has studiously and carefully put into place a discussion with Australian business and unions on a phased reduction in tariffs. The big program '88-'92 was completed on July 1 this year where everything above 15 per cent went to 15, that's every tariff above 15, that's the ones in the 50 and 60 per cents, went to 15 and everything between 15 and 10 went to 10. We're now phasing the 15 and 10 to 5 by 1996 and 2000. And for the plant areas we've got 15 per cent for cars and 25 per cent for certain areas of textile, clothing and footwear. We think we've got it about right, and, being serious about it, we're not about to be buffeted by again the theoretical prescriptions of Dr Hewson, who did not seek to join the consensus with the Government and adopt the Government's tariff policies, its phasedowns and endpoints, and say this Government has done what we would never have done, it's done something good for Australia, it's taken on a sensible thing that will actually stick, we will maintain the consensus, adopt the Government's phase downs and endpoints. No, no he has a cheap one up, we'll all go to zero. And we're supposed to say, my God isn't that tough, isn't that strong where in truth it's just silly and it is disruptive and that's why the motor vehicle industry and other industries are now so put out about it. And well they might be, the whole city of Adelaide is put at risk by Dr Hewson's policy, a large part of the state of Victoria is put at risk by Dr Hewson's policies. So we've made careful judgements about it in the 1980s and again in 1991 when we announced the '92, '96, 2000 phasedowns. So they are all there and we think we've got the judgements pretty right.

Q: Keiren McLeonard, Network Radio, Prime Minister, you spent a lot of your speech bucketing 'Fightback' though you do admit it will be alive at least until the next election. The Coalition admits that they haven't yet sold

'Fightback' that it is still causing concern and trepidation in the community. Given that they're not the underdog going into the election and you are, isn't it quite possible that Australians want to take anything except a Keating Government for three years and is it also possible that you won't be looking to try selling anything positive to the community until the economy picks up, that's your only strategy on positives?

PM: Kieren it's only that colour co-ordination of yours and that wonderful hair-do that encourages me into giving you a very nice reply because you always put the most charming questions, and that is that I can't see the Australian public being at all attracted to a policy which says we will take \$27 billion off you and we'll give \$26 billion back, but it will be largely going to removing other taxes and replacing them. And the result of that is to add 6-7 percentage points to inflation and for all of that they then go and pay for private health insurance, they have their tariffs cut to zero and they have industrial confrontation. That's basically what 'Fightback' is - it's a crude tax switch which taxes expenditure rather than income and which basically cuts tariffs to zero which makes people pay for their private health insurance and is generally socially upsetting. Now, contrast that with the Government's change over the '80s to a more competitive country, contrast that with our evolutionary though radical changes to the labour market, with low inflation, with exports rocketing along, with a strong trade surplus and growing, contrast all that with low inflation in the '90s and say give all that up, see the social net destroyed, see Medicare destroyed, see people tipped off unemployment benefits after nine months as Dr Hewson proposes, see the social security program knocked about, see all these things occur, but we're so enamoured of Fightback with its consumption tax that we take that. I don't think they will Kciren, and that's the point. And that's why I think that upon mature reflection that won't happen. Now, I saw your Mother and Father over the weekend in Bathurst and they told me that you would ask me a nice question and I wanted to thank you for it.

Q: Lyndal Curtis, radio 2UE and 3AW Mr Keating, from the consumption tax onto Labor's taxes, was the report in today's Australian correct that you and John Dawkins pulled out details of your tax increases from the Budget? If so was it a bad move considering the scare campaign the Opposition has been running against it?

PM: No, the story is not correct. At any rate it is a bit academic because tomorrow the Treasurer will be making a statement and introducing legislation on this very topic. The fact is not only was the story not withdrawn, but they were left explicitly in the Budget papers. That is, the

measures that the Government might consider were actually announced in the Budget papers, but the notion that details had been considered by the revenue committee and adopted to be then withdrawn was wrong, and I don't know whether Laura is here, but she was told it was wrong but she still wrote it. One little chink of it is right, but the general thread of the story is not right. That is, the Government did announce that it was looking at these things, the revenue committee never considered the prescribed payments system or the WST, never. It did consider the FBT but no decision was taken as to its introduction leaving, that if it were desirable, to the Prime Minister, myself, and the Treasurer. So we then put in the appropriate text saying we would consider some of these measures and if we thought it necessary at a later stage adopt them or otherwise and we have stayed true to form. But you compare that with Dr Hewson, the sleight of hand, here he is the other day saying we'll consider in office what is the nature of the charges for motor vehicles. In other words, he has a \$4.5 billion set of charges for roads which he is politely saying he will consider in office. And he has also said on the record in September that charges ought to be levied on the basis of mass of distance. So it is either going to come as a registration fee or as a tachymeter charge on trucks and on cars, and it is huge. The fact of the matter is that he has to be as accountable as we have, but as always we are always the accountable ones. As I have made the point to you before it was November last since any of you insisted him doing a press conference in Canberra, and as a result he is quite happy to deal with the fire engine chasers and the rest where he knows there is going to be no follow up questions. And on this question there had ought to be follow up questions, that is who and how, how will the \$4.5 billion be levied and who will pay for it?

Q: Bruce Juddery, freelance, Prime Minister. You deplore Dr Hewson's penchant for experimentation of proposals. As I recall, as Treasurer and now as Prime Minister, you committed yourself to an accord with the Unions which effectively has emasculated the Government's capacity for intelligently using fiscal policy to manage the economy, you have got yourself locked into a situation, up until a year ago or so, where all you had going for you was control of interest rates and we seem to be in a pretty pickle as a result of all that. When did you develop this abhorrence for experimentation, Prime Minister?

PM: Bruce, occasionally you ask one that goes right over the shoulder, this one is one of those. The fact is the Government has had total flexibility in policy. Let me explain to you - you write for a business magazine, this will be of interest to your editor - these are the points; the first is that fiscal policy was

so tight in the 1980s we produced \$20 odd billion worth of surpluses. That gave us the freedom to produce deficits as we needed to, which the United States does not have, in US Budget deficits now sitting at about 6 per cent of GDP and the Chairman of the Federal Reserve Board, Mr Greenspan, told an audience in Wyoming three weeks ago fiscal policy in America can not be used to stimulate the economy, it has run its race.

In this country it can be used, it is being used now. Why? Because of what we did in the 1980s. Total flexibility on fiscal policy.

On monetary policy we have had 13 reductions in interest rates since 1990, total flexibility there.

And on wages, flexibility there, we are talking again about another wages system where three quarters of the people adjusted are not going to be in the centralised system, and yet we are seeing enterprise deals been done with very low costs and low inflation portents about them.

So on wages, fiscal and monetary policy we have flexibility and we are using it. What would Dr Hewson have? He wants no conversation with the unions, no Accord, no flexibility on wages.

On monetary policy he would only stick interest rates up because the consumption tax would add to inflation and therefore the inflation effect would obviously climb into interest rates.

And on fiscal policy he would be left with the same starting points we are left with. That is we are contemplating changes to deal with the starting point deficit in '94-'95 and '95-'96 so the same problem would apply to him were he to be the Government. That is, because revenue declined by \$5 billion between June and August this year, that \$5 billion declines at the starting point out there at '94-'95 and '95-'96. If it is a problem for us it is a similar problem for Dr Hewson. What's he going to do about it? Tomorrow we are going to announce measures which will improve that in '95-'96. What is he going to announce? Or does he get let off again, does he get let off again, the no explainer? This reply you get from him and Mr Reith - 'it is in Fightback read it' - as if those of you are deficient and you have not been able to read the thing. The truth is it is not in Fightback, and this guy is not accountable and the starting point problems of '94-'95, '95-'96 would be just as much his as ours were he to be the Government but he wouldn't have the flexibility on monetary policy and on wages policy that we have because he has no truck with an Accord and no agreement with the unions.

So the confrontation is simply him saying – we will kick you off awards, your holiday pay, your rates of pay and conditions will all go, you will fall out of the system, you have got to make a contract with your employer. So the employee gets a phone call from the managers office – come in you have got to make a contract with us and the person says, I am not making a contract with you, I have got an award. You make a contract or you are out. Now that is going to produce a lot of confrontation. That's exactly what some of the senior executives of this country have been saying the last three weeks – we don't want this confrontation.

We are now moving to a harmonious change in our industrial relations system, a productive change to enterprise bargaining, we don't want confrontation now and that's why Dr Hewson's policies are so out of kelta with what is happening in Australia and the mood of this country and its needs.

Q: Glenn Milne from the Australian, Prime Minister. Two points; one, the first a clarification. Your previous answer on tariff policy, was that a yes or a no? Are you ruling out any change to either the timetabling of tariff reductions under your Government or the pause?

PM: Glenn, we have made that clear in the past where we stand. We didn't think about these things quickly or in an opportunist way, they were put together carefully and we announced them carefully, and when a lot of people were not aware of all these issues the Government was doing a lot of careful, consultative work with industry in putting those endpoints together. I was one of them, John Button, myself, others making sure that the 15 per cent end point for cars could be lived with. We believe they can.

Q: And the second question, you raise doubts in the presentation of Fightback in your speech about the economic value of income tax cuts. Why then did you offer your own income tax cuts as part of the One Nation statement?

PM: No I didn't. What I am saying is all of this is supposedly to provide income tax cuts, this whole nasty bag of tricks in Fightback, the joy is supposed to be a 30 per cent rate at \$20, 700. All I am making clear is that the Government will be doing a 30 per cent rate at \$20,700 with no consumption tax.

That is, we will be able to put into place, because of the fiscal policy we have put there, tax cuts without a consumption tax and, in macroeconomic

terms, an inflationary, disruptive change to the economy. That was always a possibility, and why is it a possibility? Because of the strength of Labor's fiscal policy in the '80s, because of the underlying strength of the outlays. That is, because the outlays were reined in in the '80s we have the fiscal flexibility to do these things. But what then is the point of having a very costly and complicated tax switch which is going to hurt many Australians, a socially disruptive change to provide the tax cuts which the Government itself will provide with no consumption tax.

Thank you very much.

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