

PRIME MINISTER'S

PRESS CONFERENCE FOLLOWING READING OF BUDGET SPEECH BY TREASURER

16 August

Prime Minister:

There are one or two important factors about the Budget which I'd like to remind you about first. The Treasury paper estimates that by next June or earlier inflation in Australia will be down to 5%. That's going to be below most of our major trading partners. Japan and Germany might have a lower rate of inflation, but the United States, Canada, Britain, France and Italy are countries that will certainly, I would believe, have higher rates of inflation. That will mean that through the course of this year Australia will come to be performing better than the average of OECD countries, both in relation to inflation and in relation to output. That in itself will do much to encourage investment from Australians, it will do much to encourage investment from overseas. As a country that is very well endowed with natural resources, we are well placed to attract more than our fair share of investment from overseas, providing we can offer a stable economy, political stability, and common-sense in our dealings with other nations. Under those circumstances I think Australia is much better placed to extend the difficulties of world trade whatever they might be than are many other nations. Our performance on inflation is now starting to assist our own exporters, assist our own industries in a very material way, and that's going to be reinforced. One of the threads, twin threads coming through the newspapers this morning is that it is recognised that the Budget will bear down on inflation further and it is also I think recognised the Budget will make it possible to continue the steady but sustained movement downwards in interest rates. I have indicated before a 2% fall in interest rates to an average home buyer is worth something like \$10 a week. A move down in interest rates helps all businesses, helps anyone who borrows money, helps home purchasers, helps exporters, helps farmers. If we are to get back to the kind of economy that is necessary, to the kind of economy which does offer jobs to all those that want to work, then getting inflation down and keeping it down, getting interest rates down and being able to keep them down I believe is of quite critical importance. The Government's Budget is certainly contributing to both these objectives in a very significant and major way. The overall impact of this particular Budget on the Consumer Price Index of the December quarter should be to make the Consumer Price Index movement about $\frac{1}{2}$ % less than it would have otherwise been without the impact of the Budget, and that just goes to reinforce the overall thrust of the Budget that John Howard introduced last night.

QUESTION: Prime Minister, when would you expect Building Societies and Banks to lower their interest rates?

PRIME MINISTER: I think that again you can't put a firm time scale on that. There has been a pause in the interest rate movement in the last few months. A pause in the first instance because of the run down period of April, May, June and then because of the blow-out of last year's deficit I think there was a further pause while people waited to

see what we were going to do in this Budget. Well now they know. There is a Government loan in place, open for subscription, and getting the results of that will also be very important of course in further development of these policies.

QUESTION: Do you expect interest rates to come down within three months time?

PRIME MINISTER: I would be expecting a movement down through the course of this year. Without putting a specific timetable on it, I would hope the movement can continue, because there has already been a significant movement in Government rates. I would hope that the move can continue sooner, rather than later. Much sooner rather than later. I'm not putting a figure on that, because all through we have emphasised a steady and sustained move down in interest rates. We don't want the kind of situation that developed in the United Kingdom, where interest rates came down very rapidly, and then in the April, May, June period of this year interest rates went up 3½%-4% again.

QUESTION: Can we assume what's said on page 27 of the Budget, that the Federal Government will start to tax for public servants wages (inaudible)

PRIME MINISTER: You can assume from those sentences that if the wages bill rises unduly and significantly beyond our own expectations, we will then again look at the programmes of Government. We are seeking to emphasise the point that there is not a bottomless fount out of which wages can be paid irrespective of what people demand, irrespective of what the Arbitration Commission determines. Quite plainly private employers have had to alter the number of people on their own payroll as a result of wage decisions. One of the reasons for the shortfall in revenue was lower company taxes than had been anticipated I think because of less success in the wages front than we had anticipated. It has to be understood that the trade union movement as a whole has the choice before it. It can choose to press for ever higher wages for those in work at the expense of those out of work, or to show some greater degree of moderation to enable the circumstances to be developed in which more jobs can be available in Australia. I know that there are some people who get up and say they've been trying to grind down real wages, but on the figures that I have average weekly earnings increased last year marginally more than the Consumer Price Index. Now that doesn't sound like the erosion of anyone's living standards. It doesn't even sound like restraint.

QUESTION: On the rise in the price in petrol (inaudible)

PRIME MINISTER: If you look at that element by itself of course it does contribute to an increase in the Consumer

Price Index - about .6% or .7%. But you have also got to understand that that's not only a revenue raising measure. It is also designed to achieve the proper and best allocation of resources. Looking at the effect of the Budget on the Consumer Price Index you have got to have in mind the total impact in the Budget. The health financing changes, the reductions in sales tax on automobiles, have a very significant effect of reducing the CPI, and that movement more than outweighs the increases that would come from greater exercises in taxes of that kind or from the oil levy. So overall the impact of the Budget in the December quarter should be, on our calculations, a favourable one by about $\frac{1}{2}$ %.

QUESTION: Prime Minister, how dependent is the Budget, the success of the Budget, on the fact that the Arbitration Commission would toe the Government line, and also because of the increase in personal tax would you now expect trade unions to move outside indexation to try to compensate.

PRIME MINISTER: No I wouldn't. I wouldn't expect them to move outside, because if the Government has to pursue a certain matter as one of policy, it's quite wrong for one particular section of the community to try and insulate themselves from that policy by other countervailing actions. I would expect the Arbitration Commission to recognise that and to recognise that very plainly. Indeed in relation to the movement towards import parity price for oil which began a year ago, the Arbitration Commission has already recognised that, so I would expect them to continue with the decisions that they have already made, and I also believe that even if there are some trade union leaders who don't recognise it, the overwhelming majority of trade unionists know quite well that wage increases that run too fast take jobs away from other people, lead to inflation and don't do them any good at all.

QUESTION

Apart from the CPI rationale, what reasons are behind the sales tax on motor cars. It obviously goes against the ..(inaudible)?

PRIME MINISTER

I don't know that it does. It is an industry that has been in difficulty. Most of the industry sales tax are in the 15% range, and cars have been for a long while at the higher end of the range. We thought it ought to be reduced. It is a very significant employment area - the component industry is a very large one, and we believe that it would be sensible and rational if automobiles were brought down into the general industry range of 15 %

QUESTION

A follow-up on that. Was the CPI consideration a main reason for bearing the higher cost of this health insurance ..(inaudible)?

PRIME MINISTER

No, the main reason is the greatly simplified universal health care that is now available.

QUESTION

But it is very expensive for the government?

PRIME MINISTER

Health care is expensive however it is paid for. It is much more simple. There was plainly a degree of complication in the operations as they were - as they are now until the changes are introduced. I think it had been shown that that complication was undesirable. What we are doing, we are not altering the hospital side of things at all, we are offering a basic cover for all people, leaving it open for themselves to decide whether they want to insure for anything over and above that basic cover. So the individual choices are much more simple. The CPI element was one part of the total decision, but I don't think you can pick one part out and say it is more important than another

QUESTION

Inaudible .. overall revenue ...?

PRIME MINISTER

No I don't think so because you have to look at other things. You had to look at the changes that were going to have to come in Medibank if it had not been altered - increases in the levy, increases in the levy ceiling, matters of that kind.

QUESTION

Prime Minister, can I ask you how long you think the Federal Governmen

will subsidise at a rate of 40% of scheduled fees?

PRIME MINISTER

I can't see any reason to change it. We have made that decision.

QUESTION

You think this will last for a number of year?

PRIME MINISTER

I think quite plainly we have got the continual battle to contain health costs. A number of matters that Ralph Hunt has introduced have been very successful in that. Negotiations going on with the States about hospital financing are designed to achieve a greater rationalisation of hospital costs, and a better use of hospital beds than has occurred up to the present time, because, as I am advised, some States are opening new hospitals when they only have a 60% use of existing facilities. That seems to be very costly to the total community. I believe that any government would be foolish if it committed itself absolutely to a particular detail, knowing that the containment of hospital costs, medical costs, generally is one of the most serious problems that every government has had to face - western-type governments - in recent years.

QUESTION

Do you anticipate, Prime Minister, that this scheme as such will be maintained by the Government?

PRIME MINISTER

The scheme as such yes, because it is a great improvement and it is greatly simplified.

QUESTION

What will happen when bed charges rise and (inaudible)?

PRIME MINISTER

I don't know. That depends upon detailed negotiations with the States about the restraint in hospital costs generally. I have got very little sympathy for a view that says let's not worry about being responsible in terms of hospital cost management, let's just put up bed charges regardless to cover the costs of our own inefficiency - I don't think there should be much sympathy with that sort of view anywhere. We will want to get to a situation in which there is greater rationalisation and greater economy in hospital costs in the States. It is also worth noting that between the States there is a very great difference in hospital bed charges. I don't think anyone can draw a conclusion from that that in some States people are looked after much better than others. I think the additional costs come from

different reasons.

QUESTION

Will the decisions on taxes backdated to July 1 - the decision to only have one pension increase a year - are you confident you have the full support of the Senators in those two areas.

PRIME MINISTER

Of course we have. You have got the circumstances in which the tax cuts that were introduced on February 1, together with half indexation, still leave a very substantial benefit to the taxpayers of Australia. I think you need to understand the reasons why it was necessary to have the temporary surcharge throughout this particular year. At this time last year tax underestimated the need for refunds by about \$350m. In addition to that, non-PAYE tax was over estimated by about \$400m. If we hadn't had those circumstances, which were estimates given to us, we would have had a different base, and I believe this temporary surcharge would not have been necessary. In addition to that and looking further into the future, the outlook for the rural area, rural incomes is much better, and I would think the outlook for company incomes is also much better. We should strengthen the revenue position next year and beyond. I would like to make one other point about the surcharge. Without tax indexation of course it would not have been necessary. We would have quite deliberately been able to keep the extra money coming through the inflationary process and maintaining tax scales as they might have been. So this is an example of tax indexation forcing governments to do what we said would happen in the very outset - that if they felt it necessary to raise extra revenue, they would have to do it plainly and openly and not through the secret process of inflation. I think that is healthy and I think it is healthy that we have to justify it.

QUESTION

Mr Fraser, next year when you reach your projected 5% inflation rate..

PRIME MINISTER

I would just like to interrupt at that point because people might have greater reliance on that figure if they know that that is the official Treasury forecast, in other words, it is not a political figure - it comes from our official advisers who have some expertise in these matters.

QUESTION

Point taken, When it is reached next year will you then consider some stimulation for the economy to correct unemployment?

PRIME MINISTER

Obviously you judge the economy as it goes and from the outset we have had no reason to change the main thrust of our policies. One of the things that people forget, I think, is that one of the greatest stimulus that can come to this economy is through lower inflation itself and lower interest rates. Most people look upon stimulus as something that is Government induced - by Government spending more money in this direction, a Government spending more money in another direction - no recognising that in circumstances of high inflation and interest rates that are too high that kind of government stimulus just doesn't work and hasn't worked anywhere in any country that has tried it. Quite obviously the proper level of government expenditure needs considered judgement as each year passes. The point I want to emphasise is the stimulating effect of getting inflation down, leading to a return of full confidence and getting interest rates down, which also, of course, will do more to help all people - whether it is home buyers, pensioners, businesses, small businesses, large businesses, farmers, exporters - it will do more, these two things, inflation and interest rates, will do more to help these people than any single act of government.

QUESTION

Prime Minister, you have stressed that the 5% inflation prediction comes from the Treasury is the Treasury responsible for miscalculating the Budget deficit by \$1.2 billion last financial year, and if they were how do you as Prime Minister feel about this sort of expertise?

PRIME MINISTER

I believe the Treasury officials and Tax officials are highly skilled, highly dedicated and very capable. Also, I think we need to understand that over the past there have been swings and changes in the Australian economy that might have tested the models of the past. At the same time I would believe that the forecasts, and because of that experience last year, the forecasts for this year will, I believe, be more than cautious, done with more than usual care. After what fell out last year I think that is only natural. They were obviously estimates that came from our official advisers, but I don't say that as a point of criticism or as a point to detract from the responsibility of government in relation to it.

QUESTION

Isn't it fact that you are now forced into tax increases because of this miscalculation?

PRIME MINISTER

That may be, and I have indicated that but at the same time, I believe

Australia is as well advised in these particular matters as any particular country. I did draw attention to the fact that in recent years a number of countries, including Australia, have been through swings and changes which I think test the models of former times, and therefore sometimes make forecasting more difficulty than it might otherwise be. I then went onto make the point that because of the experience of last year I have got no doubt that the forecasts and estimates for this year are cautious and very very carefully made.

QUESTION

Do you see any contradiction in your advocacy internationally of freer world trade and the imposition last night of another 12½% customs duty on imported manufactured products?

PRIME MINISTER

Not at all because that is coming in an area where there is quantitative restrictions of some kind. I think it needs to be understood that our markets by comparison with the markets in most countries around the world are open and open in the extreme. In spite of some ill-advised comment from time to time to the contrary, I will continue to assert that. I have had correspondence from a particular textile firm that sought to export textiles to Iran and to the Philippines, and on trying to do so in both countries was told, no, this is a high labour intensive industry - we reserve it totally and absolutely for the local market, the local producers. There is a textile firm in Australia that is capable of competing in those markets, it is obviously doing a good job, it is obviously efficient, and it obviously ought to be given an opportunity to compete. I think that puts a different perspective on it, especially when we import more textiles, apparel and footwear, sensitive goods, from developing countries, and in particular from ASEAN countries, than any other developed country in the world - we are now up to about \$3 a head, while the United States and other countries are down around 50-60¢ a head, or even much less than that. I have made the comment before that if United States and Europe, and I think Japan also bought as much per capital from ASEAN of these sensitive goods as Australia does those countries would be selling an extra \$1.2 billion worth of goods a year. Let me take another example of how our market is an open one: we allow overseas manufacturers to compete for about 20% of the Australian automobile market. If you go to Europe you don't hear very much about it - they have negotiated voluntary restraint agreements with the major exporters to their market, which is basically Japan, and a voluntary restraint agreement is not particularly voluntary because it is always negotiated under the threat that there will be no access unless you come along and sign. In Britain it is restricted to 10-12% of the market; in France to 3-4% of the market; and Italy to 0.1% of the market. Compare that access into those markets, allegedly free and open markets, with access to our market of 20%. It really is time that Australia stopped doing itself a disservice by continually trying to point out how protective we are by comparison with other countries, when in fact our markets are much more open than

those in most other countries.

QUESTION

You reaction to two things: Bill Hayden's claim, statement, that we are heading for unemployment in excess of half a million; Bob Hawke's statement that this Budget will cost an Australian family an average of \$7 each week.

PRIME MINISTER

How much more this Budget will cost Australian families in part will obviously depend on how much tobacco and how much alcohol Australian families consume. You have also got to understand that many Australian families will be relieved from paying the health levy, and that's a reduction in tax, and depending on what choices they make, I would believe the insurance they take out will cost less than the levy, or cost less than the full medical benefits insurance that they would now be pursuing. So there is a gain to Australian families there. In addition to that, an Australian family who happens to be buying a new motor car, will save, depending on the price of the car, around about \$500 - that is a saving for anyone who does buy a new car and there is obviously a consequential saving on second-hand cars, and further we want to note the tax advantage that came from half indexation on the 1 July. The extent to which this Budget does cost Australian families will depend, to a not insignificant extent, upon the decisions of the family concerned.

QUESTION

Unemployment claim by Mr Hayden - half a million and more?

PRIME MINISTER

Last month the unemployment figures were - I am not going to say they were optimistic, but they were better than had been expected, and whether that is a month which turns out to be an aberration or whether it is the beginning of a different trend or not, it is too early to say. One thing we do need to understand: the special training programmes of the government are doing a very great deal to assist many young people, and over 100,000 are in training at the present time. These training programmes are going to be maintained, and additional funds are going to be made, very substantial additional funds, through the course of this year. Our concern with those who are unemployed is as real as compassionate, as any person's in the community. The argument is about how you overcome the problem of unemployment. Our political opponents have always had the view that if governments spend more money - no matter whether they get that money by taxes, or whether they just go to the printing press or buy another printing press because they run out of capacity to print - they believe that that solves the problem of unemployment. They believe that governments spending more money solves the problem, whatever problem that might be in a community. I don't believe that, the government doesn't believe that.

I do believe that getting the underlying balances right in the Australian economy is the only thing that will lead to a better employment situation - getting a proper relativity between wages and profits; getting inflation down and keeping down; and getting interest rates down. These are the things that will affect employment. In terms of this Budget nobody has denied that it will get inflation down further, nobody has suggested that it won't help in getting interest rates down. That being so, I suggest that it is the Budget that will do more for employment than any alternative that might be open to us.

QUESTION

Prime Minister, the official inflation forecasts, of 5% - what is the official unemployment forecast for next year?

PRIME MINISTER

I don't think it varies very much. The unemployment situation is not good and we haven't tried to hide that. It will be significantly affected by what happens on the wages front, but one of the things which is holding unemployment high is quite clearly the continued rate of increase in wages. I have already made the point that average earnings increased more in the 12 months to June than the Consumer Price Index. That doesn't indicate any restraint on the wage front at all - indeed, the reverse.

ENDS