



PRIME MINISTER

TRANSCRIPT OF JOINT NEWS CONFERENCE WITH THE TREASURER,
PARLIAMENT HOUSE, 18 MAY 1989

E & O E - PROOF ONLY

PM: We've just completed the Premiers' Conference and Loan Council meeting and very significant decisions have been made there.

In essence what has happened is that we have taken \$2.7 billion off the public sector demand on the community savings. That's made up by \$1.15 billion off the borrowing limits of the Commonwealth's own authorities, \$1 billion off the State's globals in respect of their authorities and \$550 million off the financial grants to the States. That means \$2.7 billion reduced demand by the public sector when taken into account with the \$360 million savings in the April Statement. That comes to over \$3 billion, which is equivalent to one percent of the Gross Domestic Product, so it can be seen that the Governments of Australia have responded to the economic demands of the situation confronting this country.

In opening the Conference I said, and of course Paul supplemented what I was saying in detail, that the problem confronting the Australian economy is that we have too high a level of demand.

In the last year, eight percent increase in demand and only a four percent increase in our output which meant, in fact, that something like half of the increase in demand had to be met by imports. This is not situation that as a country we can continue to tolerate and the exercise today therefore was simply to ensure that all levels of Government made an appropriate contribution to the reduction in demand in the Australian economy.

I would like to pay tribute to the work that's been done by the Treasurer and our own people in preparing us for this situation, but I'd also pay tribute to the positive cooperation of the States.

PM (cont): I believe there's been a certain amount of sound and fury that they've found it politically necessary to make in talking to the media. That's part of the game, that's part of life. But we can talk about what happened in there and I think we can say, Paul, it was one of the most docile and, in a sense, most cooperative meetings that we've had. This was our seventh one -

KEATING: The most.

PM: And it was the most docile and cooperative and what that reflected was the fundamental acceptance by the Premiers. Indeed they indicated this. There was a fundamental acceptance of the economic analysis that I and the Treasurer had put to them, an acceptance of the need for responsive and responsible Government reaction.

In essence the decisions that I've referred to reflect that agreement and to that extent, as I say, despite the necessary sound and fury that they feel it necessary to go on with in talking to the media, we thank them for their cooperation.

Paul, do you want to add anything?

KEATING: Well, just to perhaps recap the point the Prime Minister made that when we announced the April wage/tax statement we said we'd be looking at a zero PSBR for next year, at least a zero. Well, we're probably now looking at the better part of one percent surplus on the PSBR, which just means the public sector's continuing to push the pace of change in our financial structure.

That would simply mean that whatever savings we made today are ultimately savings off the current account deficit. If we are not making these bids on the savings pool, the savings, Australians would be making that much less of a bid upon overseas savings and hence the current account.

PM: Perhaps one other point which ought to be made is that in the area of housing, as a result of the decisions that we had made and with which the Premiers agreed, there will be an additional amount of funds for public housing. We agreed that some \$311 million have been converted from Loan Council borrowing to grants to be made available under the Commonwealth State Housing Agreement.

That will mean, as a result of their cooperation with our initiative, that there will be further funds therefore made available for public housing.

KEATING: And just to add to that, it will be spent on public housing.

PM: Yes.

KEATING: That is by taking away from the nominating arrangements where they were not particularly spent on public housing and put in under the CSHA, they will be spent on public housing -

PM: They must be.

KEATING: And then yesterday, of course, we announced this change in relation to the rental trusts which will give us about another two and a half thousand units a year, or about twelve and a half thousand over five years. So there's a substantial boost in there for housing.

JOURNALIST: Mr Hawke, Premier Ahern indicated during the conference today that he was going to refuse to sign the Loan Council Agreement, which included those about \$311 million package. Did he back down or have you come to some sort of deal?

PM: It's not a question of backing down on these things. A lot of noises are made in the lead-up to conferences and sometimes during them. It's what happens at the end that matters. So I don't want to talk about backing down, I mean this -

JOURNALIST: So there's no deal, he's just agreed to go along with the proposal by the Commonwealth?

PM: No deals.

JOURNALIST: Mr Ahern has indicated that you've agreed to consider some further borrowings under ... the economic infrastructure -

PM: Well see, what was being put to us was that they were being hardly done by and we were able to point to the fact, as it was conveyed to us by the officials, that they seemed not to have borrowed up to the limits that were available to them last year. That position was not consistent with cries of pain. Now he has a view, which he put to us, that the view put to us by our officials was not an accurate representation of the position. I did make the point to him that it is rather difficult if you've been refusing, as the State of Queensland has for a year, to provide the information. And we get given the information at midnight last night, which is when we get it, for us to be taking very seriously their cries, but being the reasonable people that we both are we said 'well, OK, if there is some dispute between you and your officials and ours, we agree to discuss the matter' and if, out of those discussions, there were some substance in what he was saying we agreed that we would look at it.

JOURNALIST: Mr Keating, you said today a number of times that the States should reduce their investment. Are you saying that particularly New South Wales and the Greiner Government there should try and fix up ... very badly in need of repair road system and hospitals and schools and things?

KEATING: No just that we should be reducing public investment overall and if the Greiner Government wishes to increase road funding or deal with pollution or whatever, it does that at the expense of something else.

PM: Just as we've had to do.

KEATING: Just as we've had to do.

PM: We've had to get our priorities in order and we've, as I said there in the opening, if you go back to the period which is relevant we've knocked off the order of \$10 billion. That's each year now and compared to our earlier outlays. Now that's required a series of very, very difficult decisions. I mean we sit for hundreds of hours in ERC making tough decisions and that means reordering priorities. That's not something just - which should be and needs to be - the prerogative of the Commonwealth Government alone.

JOURNALIST: Mr Greiner also claims that New South Wales has been singled out and always does at Premiers' conferences. Is that true?

PM: No, no and there's no basis for making that point. We have given effect to - in terms of relativities - the recommendations of the Commonwealth Grants Commission and he's got no basis for that claim.

JOURNALIST: Taxes and charges, Mr Hawke, have you received any assurances from the Premiers of a likely increase in -

PM: Well, I must say - Paul may have a comment on this - I was pleasantly surprised, looking back over the discussion, at the lack of threats that what we were going to be seeing was some great charge now in increases in the area of taxes and charges. That was not an element which in any sense pervaded the meeting.

KEATING: I think they accepted the fact that we want the public sector smaller, so therefore the call on the current account is smaller rather than them simply taking a cut here and then picking it up somewhere else in charges to maintain the same level of activity. I mean I think they understand that. They've been understanding it for a number of years, but they understand it better now.

JOURNALIST: Mr Keating worthwhile projects may have to be abandoned or postponed. What does worthwhile projects mean, you know, talking about major road projects or what?

KEATING: Well, I don't know, it depends, it depends. Look most things in the public sector have virtue.

PM: Yes that's right.

KEATING: I mean nearly every proposal which comes across the Prime Minister's desk or mine from Ministers has some virtue. The public sector's about doing things in the public interest. That's essentially what the business is about. But if we all took that view in national terms, we'd have a massive current account deficit because our savings can't tolerate it. So it's about setting priorities. So whenever you hear a Premier with a hard-luck story what you generally know is he or she is not setting priorities, or he's not setting priorities.

PM: In other words the other way of, just if I could sort of supplement what Paul's saying, is that the public interest is not to be seen simply through the prism of projects. I mean the public interest would be much more devastated if we in fact said yes to every spending proposal on a public project because the whole economy would collapse. So it's not as though they've got a monopoly on a perspective of the public interest. I mean our view of the public interest demands this sort of restraint and the important thing is that none of the Premiers question that fundamental analysis of the economic requirements confronting the country.

JOURNALIST: Prime Minister, what effect will this package of measures have on interest rates?

PM: Well you know that we're not in the business of making predictions in the immediate sense about what's going to happen to interest rates. All that you can say, and I want it understood the way in which I'm putting it, to the extent that we have reduced significantly the demands by the public sector in the way that we have then that is relevant to having the best possible environment in regard to both the current account and the interest rate situation.

JOURNALIST: How significant a change does this represent in fiscal policy and does it reflect concerns that the ... haven't been ...?

KEATING: No, it just means that we're continuing to keep that tone or if you like keeping the public system taut. It is not an attempt though to find four or five percentage points of GDP as some people would require us to do. It's about moving the public sector along with the change as far as we think it can reasonably be taken.

JOURNALIST: But you're ... over one per cent. Is that an important shift?

KEATING: It's a shift, yes. It's an important shift, it's a shift but it is not in satisfaction of the simplistic notion that we think that will just buy us a one per cent shift in the current account.

JOURNALIST: You said in April that you'd have at least a zero PSBR. It seems from that to represent you know some tightening. But how would you characterise it?

KEATING: It just means that the Government remains ambitious to keep the policy direction on the right track. I mean this has been true of its full entire history hasn't it. We have these debates when we are not turning handstands on fiscal or monetary or wages policy, every three months we get the occasional maudlin debate at these press conferences 'have we gone stale, have we slowed up', when in fact we're still the only Party, the only Government prepared to make the kind of changes Australia really needs. That's just obvious again today.

JOURNALIST: On the topic of interest rates, a few of Australia's leading banks have posted record profits today. How do you feel about that fact in light of this week's talk after the balance of payments that interest rates will continue to rise?

KEATING: Well it's not a matter of how I feel about it, it's how their customers - I mean their relationship is between themselves and their customers and if they want to shorten terms or lift repayments and post profits it's a matter of their relationship with their customers.

JOURNALIST: ...

KEATING: It's not a matter for me to be making judgements about them.

JOURNALIST: Your state colleague called for a moratorium on interest rates, Mr Carr. Would you agree with that proposal?

KEATING: Well everyone's got to live by their own rhetoric in this business.

JOURNALIST: On page 2 you indicated ...

KEATING: That's just generally the fact that the deflators we had in there were, for the forward estimates as published in April, were from those which were obtained at the end of the calendar year. All that's happened since then is that the consumer price index and other things have changed. That was worth about \$110-120 million.

JOURNALIST: What's the new ...

KEATING: Off the top of my head I can't tell you.

JOURNALIST: Exactly how much money did you take off NSW and put into these new taxes that they're raising for ... sewage system and ...

KEATING: What we did was we implemented the Grants Commission recommendation completely rather than phased it. We introduced it completely, the full transition in one year.

JOURNALIST: ... NSW ... also have the same sort of effect on West Australia?

KEATING: It's a one year implementation and it was larger than I think most States thought it would be. And it's larger because population shifts have been larger, that some States have enjoyed higher revenues than other States because of property and share market booms etc, and because of that the States always regard the three year adjustments as being too long and the adjustments therefore too big. So they thought that if went to a one year adjustment the adjustments would be small. In fact the adjustments have been much bigger than they thought. So the States which are dealing with those adjustments have really got to be then wrestling with their budget as a result. So we thought you can't very well phase a one year adjustment so we introduced it in completely in one year.

JOURNALIST: ...very large cuts in global borrowings for the Commonwealth authorities. What does this mean for example for Qantas - a few less jumbos over the next couple of years?

KEATING: No, Qantas wasn't dramatically cut. We basically tightened up on most of the other authorities and in part on Qantas. But by and large Qantas still has a very big re-equipment program which we are funding.

JOURNALIST: Out of internal funds or -

KEATING: In part internal funds but a lot of it borrowings.

JOURNALIST: ... as a result of this cutback ...

KEATING: Telecom as I said in the meeting is financing about 94% of its program out of internally generated funds, in other words without an increase in tariffs. But whether it wishes to increase it's tariff over the years is a matter for Telecom. But we just simply make the point, when some State authorities are not even covering running costs Telecom is actually funding, by internal generation, 94% of the biggest budget in the nation. There is no authority larger than Telecom, there's no authority with a program of \$3.1 billion, and it's doing 94% of it on its own fat without borrowings.

JOURNALIST: What did implementing the Grants Commission recommendation in one blow instead of phasing it mean? How much money would they have got if you continued to phase in the Grants Commission -

KEATING: It doesn't mean anything for us, it just means within the pool some give up funds and others pick it up.

JOURNALIST: So how much less does NSW get because of this?

KEATING: I can't remember precisely what NSW got but whatever they lost another State picked up, we didn't pick it up. You understand?

JOURNALIST: Yes I understand that but how much did they forgo by deciding to raise taxes in the middle of ...

KEATING: They didn't forgo, they picked up another \$200 million in tax and charges.

JOURNALIST: So they lost \$200 million.

KEATING: No, no, they picked up \$200 million.

JOURNALIST: ... responsibility. You're giving them a certain amount less. How much less are you giving them because of that?

KEATING: Well, we didn't make any adjustment in relation to that. What we did was just fully introduce without phasing the Grants Commission adjustment.

JOURNALIST: Which had what impact? I mean, what does that mean in tax terms.

KEATING: To NSW?

JOURNALIST: Yes.

KEATING: I can't recall but it means nothing to us because it's paid to the other States, it's part of the pool. The only saving to the Commonwealth comes off the bottom line which is \$550 million.

JOURNALIST: That's not the way NSW is looking at it?

PM: Bad luck.

KEATING: I'm sure they will because they understand the Grants Commission as well as I do. Obviously better than you do.

JOURNALIST: Mr Keating, are you concerned that the States may ... creative accounting and get around the global limits and have you considered more tightly defining what constitutes senior Government authority ...

KEATING: I think the Prime Minister's recollection of these events and mine, and I'm sure over the last six or seven years has been that by and large we've had very substantial compliance with the global limits. I can't remember any year when people were actually flouting them.

PM: ... it's also that you get many examples of underspending too, of underutilisation of the limits.

JOURNALIST: Mr Hawke, the Northern Territory thinks they've been treated fairly generously, especially with the housing ... subsidy being continued. Will that help Labor keep Warren Snowden's seat ...?

PM: Warren Snowden was going to keep the seat very very comfortably for two reasons, one that he's an excellent Member and two, the alternatives are atrocious. So he was there, he was home and hosed. I can't imagine that what we've done today in the reasonable approach that we've adopted towards the Northern Territory will disadvantage him in any way. The decision wasn't taken for that purpose, we didn't have to save Warren Snowden, he as I say was home and hosed. But we did take account of the very very narrow revenue base of the Territory and so we felt that the process that we'd initiated last year of grants to help the phasing in of the adjustment that they must make should be continued this year.

JOURNALIST: Mr Hawke, the National Australia Bank ...

PM: They've announced did you say? I didn't hear your question, what did you say?

JOURNALIST: The National Australia Bank has foreshadowed a ... in the next couple of weeks, ... basically cancel out the tax cuts?

PM: No.

KEATING: No, the tax cuts are enormous. Where have you been living, under a rock?

JOURNALIST: Mr Keating, do today's decisions signal new parameters of constraint ... your discussions?

KEATING: It just means that the discipline which we've had on, we've been saying that a fourth consecutive year of negative outlays is our objective and you can't have it any tighter than that.

JOURNALIST: Mr Keating how would ... August Budget ... in the light of today's decisions.

KEATING: It will have all of the discipline and style of all the others.

JOURNALIST: Mr Keating you've already wrapped a total of \$910M in cuts from the States and the Commonwealth so far. Would you be tempted to go for the extra \$90M in the August package of a round billion?

KEATING: I don't know. It might just be lost in numbers I guess.

JOURNALIST: Mr Hawke why single out housing for special treatment?

PM: Well I wouldn't say it wasn't singled out for special treatment but it made much more sense to, in a sense, regularise the concepts that have been there before. It was money available for housing but which wasn't in fact being specifically utilised for that purpose. It's interesting to note that the proposal that we put up was agreed, I think, virtually without -

KEATING: inaudible

PM: I mean there is a need in the area - the arrangements that had hitherto applied had meant a looseness and a lack of certainty about the application of available funds for housing. What we've done now means that the funds that have been there notionally available will be used.

KEATING: And it's for the bottom end of the market. I mean all of this goes to the bottom end of the market. It all goes to CSHA - Commonwealth State Housing Agreement funding will increase. It'll take our program from something like \$700M to about \$1B which will be spent directly rather than some subterfuge ways which is now being employed under the nominating arrangements and a rental trust will also be directed at those sorts of low income accommodation.

JOURNALIST: Mr Keating the NSW Government has put out some figures this afternoon based on CPI forecasts for next year - 6.9%. They claim they got that figure from the Federal Treasury. Is that an official forecast for the next year?

KEATING: 6.9 is a number that we have put about, I think, as our best guesstimate at this stage for the CPI.

JOURNALIST: Average over the year?

KEATING: I'm not sure it's average or through the year. I just can't remember. One of you asked me before about the parameters for ... That's not the ...

JOURNALIST: inaudible

KEATING: And I couldn't remember what that number was.

JOURNALIST: Mr Hawke changing the subject slightly. ... Tuckey and Mr Moore's comments on 4 Corners program, can we have your view on that and secondly are there any parallels between Mr Howard's demise as Opposition Leader and that of Bill Hayden?

PM: Well really I don't think you need my comments from the performance of Mr Tuckey and Mr Moore. I think the comments that have been made by their 'friends and colleagues within the Liberal Party' are devastatingly accurate enough. The sorts of things that have been said by Mr Howard about their performances that it indicates the pattern of treachery, I think that's a reasonably fair description and I wouldn't seek to engage in any hyperbole. I think that's a fair enough, accurate enough, telling enough description of what's happened in the sort of environment amongst that happy bunch of pilgrims which constitutes the Liberal Party. As to the parallels now I've obviously thought about this. This is very interesting and I suppose I can speak with as much authority as anyone in the land about challenges. Now on the basis of that authority it would match your own intelligence and that is in my case I was very much aware, fully aware, of what was going on during the process of the challenge. I was not at arms length from what was happening, I new. I wasn't a challenger without knowledge. And for Mr Peacock to suggest ingenuously or dishonestly as he has that he was the draftee knowing only on the Thursday before the event, does not correspond with my own experience or with the intelligent appraisal that would be made by anyone who knows anything about politics.

JOURNALIST: None the less, what's the point of having numbers men if they can't tell you what the numbers are?

KEATING: Very profound. Well said.

PM: That's a brief and abrupt and accurate analysis ... An analysis that would be shared by everyone in the country except Mr Peacock, who would have Australia believe otherwise.

JOURNALIST: Mr Hawke how much has the state of the economy stopped you testing popularity of the new Liberal leadership at the polls?

PM: Well let's just get back to what I said before. Remember this. There's only one person, only one person, who was talking about an early election and that was a bloke called John Howard. And John Howard was doing that for two reasons. One because Keating and Hawke had brought down what Keating and Hawke had promised twelve months before - that is very significant tax cuts to come in on 1 July. So there's an attempt by the late Leader - and I use the word late only in a political sense - the late Leader of the Liberal Party to try and divert attention from the delivery of that promise by saying, 'well this was just an election gimmick', that was the first reason he did it. The second

PM (cont): reason he did it was that he was aware of a fairly considerable degree of dissatisfaction - if not the extent to which that discontent had developed - but he was aware that there was a discontent and he hoped, I think, that if he was able to create the suggestion of an election just around the corner that the forces seeking to change him may be dissuaded. For those two reasons Mr Howard was talking about an early election. I never talked about it. I mean you realise that we still - only two years - not two years from the last election - I hadn't been talking about it, Paul hadn't been talking about it, no-one had been talking about it but Mr Howard. So why do I keep getting questions, 'am I thinking about an early election?' I mean I'm not. Hadn't been and am not. I mean they know I have a very, very strong constitution. They are doing their best to tempt me, I know, but I've filled up now a very, very good and enviable reputation of the capacity to resist temptation.

JOURNALIST: What about the prospects of a half Senate election to hold off ... Bob Hogg ... option open for consideration. How seriously is it being looked at?

PM: I just go back to what - I'm not thinking about elections. I'm not thinking about elections.

JOURNALIST: Can you understand with your track record ...

PM: Our track record's quite clear. In 1984 there was bringing the elections together. We had the situation there where the Parliament then ran - the second Hawke Government ran virtually its full term, very close to its full term, 84-87. The third Hawke Government will run much longer I would think than the average of Parliaments in the post-49 period. Now how long the fourth one will run, I'm not sure, but you don't want to go that far ahead, do you?

JOURNALIST: The admission of high interest rates are in fact impacting badly on the Government.

PM: No. You're a strange crew - loveable but strange. I mean if there's an easy, direct, uncomplicated answer to something, repudiate that because there's no story in the easy uncomplicated answer - let's try and find something devious. I mean I would think you know your track record in recent times in actually forecasting and seeing what's happening, you're not too good. I mean you really want to sharpen up your game. I mean I told you in the Parliament - I didn't go down and secretly tell a couple of you - I stood up in the Parliament and told you what was happening. I told you the numbers, I told you the timetable. But you didn't have the wit, wisdom or the pertinacity to follow the lead that the Prime Minister gave you.

JOURNALIST: Mr Hawke who told you?

PM: I have my deep throat. And deep throat is staying as deep throats should. Totally unidentified.

JOURNALIST: Was it Mr Greiner's office, Prime Minister?

PM: Now if I say no to that then you say, 'was it?' and I say no to that you might get me, mightn't you. I am remaining above temptation again.

JOURNALIST: Back to the economy for a minute.

PM: Yes Peter. You're much more interesting on Liberal Party machinations.

JOURNALIST: If monetary policy fails to slow down imports in the next couple of months, are you prepared to take fiscal adjustments in the Budget?

KEATING: Well to offset I mean are we prepared to adopt -

JOURNALIST: If monetary policy does -

KEATING: Let me put it in more simple terms. Are we prepared to adopt the crazed, manic Sydney Morning Herald prescription? The answer is no. No. The answer is no. Unambiguously, definitely no.

JOURNALIST: inaudible

KEATING: No, no. That is not to say we stop or move the other way. I mean they're still arguing their line about their billion dollars. As I say to you it'll be whatever number we end up with, they'll be \$1B in front of us.

PM: At least.

KEATING: Yes \$1B. They still will say that they're a comfortable billion ahead.

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