



PRIME MINISTER

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E & O E - PROOF ONLY

JOURNALIST: Prime Minister, do you believe at the moment that we could be looking at a civil war with the army units in China moving into position to fight with each other?

PM: We've been in continuous contact with our embassy there and while they're saying that the possibility of conflict, of serious conflict between the armed forces is still there, they are saying as in the last report to me that there's no firm evidence that it's reached that stage yet of serious significant fighting between units which would constitute the beginnings of this civil war syndrome that's been talked about. Nevertheless there is firing going on still. One story that we've been told is that a convoy that was going to our embassy to pick up luggage of those people that were flying out was in fact in a situation where there was firing, it was involved in firing upon it and it had to turn back. The luggage was in fact not picked up. So that will be indicative of the seriousness, the continuing seriousness of the situation there.

JOURNALIST: It does seem that there was actually ... of one of the diplomatic compounds. That would seem like there's some sort of animosity at least towards foreigners perhaps.

PM: I haven't received a report. It's different from when I'm back in the office and I'm getting them fed in in an almost minute by minute sense what's happening. At the last report I had which was a couple of hours ago I hadn't had a reference to that and certainly if it has happened it would represent a serious escalation of the danger for the non-Chinese community.

JOURNALIST: Will the embassy staff in Beijing be remaining there for the time being?

PM: We have evacuated a lot of the families and I think we would not be continuing to fully man the embassy there. But clearly we want to keep in place a capacity to monitor the situation, to be able to report to us on what's happening. I must say that the work that's been done so far has been quite outstanding and those involved are to be congratulated on their commitment and tenacity.

JOURNALIST: The situation seems to have deteriorated in Shanghai as well. Have you had any information on that yet?

PM: Well yes, that it has become more tense there. But the problem that's plaguing us, not merely in regard to Shanghai but in Beijing generally is the lack of absolutely firm evidence as to the state of play. For instance the suggestion that now there is a new Secretary-General and that that confirms the disappearance of Zhao Ziyang. This has all been put to us in terms of - it looks as though this may have happened without there being definitive statements, which is a reflection of the fact of course that effectively there is no governance of China now. The great hope must be, as I've said in the last 24 hours or so, the great hope must be that the action that's been taken by those who are issuing orders, including the elements of the army, will not go to the point where Zhao Ziyang is going to be taken out of the picture entirely. Because he is in my judgement not merely the voice for moderation but the person who has the capacity and the vision to bring China together and to enable it to come out of this absolute tragedy which in such a short time has set back the years of constructive work that had preceded it.

JOURNALIST: Are you concerned that he might have been hurt or in ...

PM: There was one report at one stage that they were considering execution. Now that seems not to have been given effect to, certainly there've been no reports to confirm that. It really is my profound hope that he is not only going to be spared but that the forces of moderation will come through in a way which will see Zhao Ziyang being able to assume a position of leadership. Because I think the welfare of his country very significantly depends upon his capacity to survive and to be reinstated into a position of leadership.

JOURNALIST: You're backing Zhao Ziyang against Deng Ziaoping?

PM: Obviously you support a man who has opposed the use of force, who has counselled moderation and consultation.

JOURNALIST: Do you know anything of the man who is supposed to have replaced him?

PM: No, the only indication that we have is that Gao Shi has been connected with the intelligence area. I believe it's suggested that he may have had a son who spent some time in Australia but I don't profess at this stage to know anything more than that general observation that he has been connected with the intelligence area. I repeat, I can't emphasise too much the significance that I attach to the survival and re-emergence to a position of power of Zhao Ziyang. I just know the qualities of this man and it would be an absolute tragedy for China if he was removed from a position of authority.

JOURNALIST: On another issue, it does seem today that the message is coming on loud and clear that interest rates are hurting. It does also seem from the finance industry, as we saw them today, they'd very much like you to consider assisting Australians to save more. Can you hasten that process in any way or -

PM: Just^{let} me pick up the two aspects of that. Obviously high interest rates hurt. I've made it quite clear that I know that. They're not high because we want them to be high, they're high at this point because it's necessary that we lower the level of activity in the country because we can't sustain the high level of imports that are associated with that high level of activity. I think that's increasingly understood, I think people know that I wouldn't be stupid enough to have interest rates higher than it was necessary to have them. I hope and believe that they are understanding that. I repeat, they will not be kept higher for one day longer than is necessary to achieve the economic purpose of that. As to the second part of your question about proposals to increase savings, as I've said, and I really haven't got anything to say in addition, that is that we observe, take account of various proposals that are made, I have them examined, they are looked at. But you've got to understand this, that while it's easy for some people to say from their perspective, if you do this that will mean an increase in saving of benefit to us in the finance industry or somewhere else, but you've got to understand that if that involves tax concessions then that is substituting certain savings, the certain removal from consumption for an uncertain corresponding saving if that saved taxation concession is put back in the hands of individuals. Now this doesn't mean that the ... proposals are not worth looking at. You have to have that particular point clearly in mind when you refer to these sorts of proposals.

JOURNALIST: In the longer term do you see any merit in a scheme which taxes only real interest rather than nominal interest with the corresponding -

PM: On both sides of the ledger. Well, that is one of the proposals that has been around and it comes within the category Michelle of what I said before of it being examined. But I've got to insist that the fact that we say that these things are being examined does not mean that they are on the agenda, that we're deciding that we're going to do these things. But it is a responsible thing to do when people express concerns about these issues and make suggestions, it's a reasonable and responsible thing to examine all the implications of them. That's been done.

JOURNALIST: Can you elaborate on your point earlier today that it was very good advice to say to people to save the tax cuts?

PM: Well for the very simple reason that why we have high interest rates at the moment is because the level of demand is too high. If you look at the national accounts figures for the last 12 months you have a situation where the local production is only able to satisfy about 50%, just under 50% of the growth in demand. So what we need to have is a situation where both on the investment side and the personal consumption side, there is a reduction in the level of demand for goods and services. That's why it is better, if people can, to save the income that's derived from the tax cuts and the family welfare payments. We recognise of course that obviously there's going to have to be some expenditure, people are going to need to do that. But where there is in a sense a choice, in their best interests and the best interests of the country are involved in not spending but saving because that both reduces the level of demand necessarily, and it also reduces the call upon overseas savings. The more we can save internally the less we have to borrow from abroad.

JOURNALIST: Do you think many people have that choice in realistic terms given the tax cuts are all skewed to middle and lower income earners?

PM: To the extent they are skewed to middle and lower income earners, that's the direction which you would want the skewing in terms of giving the greatest assistance.

JOURNALIST: But they are the people with greatest need also to spend that money ... higher interest rates...

PM: But what I'm saying is that they relatively are the ones who are going to get the greatest benefit. As I was saying on television the other night, if you look at the average income level with one income and a wife and two kids, the average picture will be about \$24 a week derived benefit in tax reduction which is obviously over \$100 a month. On average that would be well in excess of the increased payment involved for a higher interest payment. Now, that is an average picture and I don't for the moment ignore the fact that that average will describe some circumstances where people have much more to pay out than they will receive. But on average that will be the situation. What I'm saying to my fellow Australians in this sort of situation, may I say a situation that I've been through myself. I remember when I first went to work at the ACTU I had real problems about meeting mortgage repayments, so it's not something of which I'm unaware. I'm simply saying to people that they are going to get significant tax cuts starting in just a few weeks time in July and I ask them to the extent obviously that they have to use those to meet additional burdens like mortgage repayments for some of them, well obviously that has to be done. There are some items of outlay which they need to undertake, I understand that. I really am saying use the tax cuts to meet the added burden that you may have of interest repayments for this period, purchase what you've got to purchase, but to the extent that you've got the choice, save because that will be in your interest and in the country's interest and it will make the sooner that point at which we can look at a reduction of these high levels of interest rates which are currently necessary to lower the level of activity. I hope that's putting it in non-technical jargon in terms that people can understand. Putting it as simply as I can, what's happening in Australia why we've got high

interest rates is that the level of demand for things that people are purchasing and the level of investment by business is at such a high level that it's involving bringing in so many imports that we can't sustain. Therefore we have to lower the level of activity and if in those circumstances people get more money coming to them with the tax cuts, the sensible thing to do is not to use that to increase the level of demand but to help us to save more as a community. In that way there can be co-operation with Government in trying to bring a situation where we can reduce interest rates sooner rather than later.

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