



PRIME MINISTER

**TRANSCRIPT OF NEWS CONFERENCE, PARLIAMENT HOUSE
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JOURNALIST: When are interest rates going to come down Prime Minister?

PM: You haven't learnt anything since I've been away. You know I don't make a prediction about that. All I'm saying is what I said before I went. That is that all arms of policy, including monetary policy, will remain as tight as they need to be for as long as they need to be to achieve the objective of policy, and that is to bring down the level of demand in the economy. There are mixed signals at the moment as to whether that is being achieved at the rate that we would like but on balance my own feeling is that we are starting now to see the impact of the tightness of the three arms of policy, including particularly monetary policy. As I say, all those arms of policy will be kept tight until we've achieved the objective which is necessary and that is to get a greater, a more appropriate correlation between the level of demand and production in the economy. We can't continue a situation where essentially we have demand running at 10-11% and supply at about five per cent. We're not going to move away from having policy calculated to eliminate that gap.

JOURNALIST: While you were away Prime Minister some backbenchers, including Bob McMullan, said there should be an increase in sales tax on luxury goods and possibly postpone the drop in the top marginal rate in order to finance a mortgage relief package for the lower income earners. Will that be seriously considered, that type of proposal?

PM: Let me say again what I have said before I went away. When you're conducting economic policy you try and keep abreast of whatever range of suggestions may be made about relevant areas of policy. Now that doesn't mean, and I want to make it quite clear, it doesn't mean because some work may be done in certain areas that there is any intention of bringing into effect the sort of proposal upon which that work is based. We regard it as appropriate that all members of the Government, including backbenchers, should have their ideas about economic policy and other areas of policy. Where we think that it's appropriate to do any work on a particular suggestion which may in fact have been done any rate, then that will be done. But I want to make it clear that as far as the settings of economic policy are concerned, we think that they are right. Any suggestions

PM (cont): about a luxury tax for instance cannot be seen, and I wouldn't imagine are seen, by any of its proponents as going to the fundamentals of policy. By definition it only affects a particular area of demand. It can't therefore be a substitute for the basic settings which, as I say, we believe are correctly set.

JOURNALIST: How seriously is the Government considering a mortgage support scheme?

PM: It's not a correct statement to say that the Government is considering it. All I would say is that that's an area where you would need a lot of work to be done before it could even be considered. It would require a great deal of work. The fact that work can be done, I want to emphasise, does not mean that any such proposal will be implemented. As I had cause to say before I went away and I merely repeat now, it seems to me that in regard to some suggestions that are made it is appropriate for work to be done and that will be done. But we will look at any such suggestions in the context of the overall setting of economic policy. What I've got to emphasise again to all of you is that as far as the three settings of policy, that is fiscal, wages and monetary, we believe that those settings are fundamentally correct. Any of these suggestions cannot be seen, and would not be seen, as any substitute for those fundamentals.

JOURNALIST: When do we find out the Government's attitude on these suggestions? In the Budget or before?

PM: We're about something like six weeks away from the Budget. We'll be getting into the hard work of ERC in the very near future. I think it would be unlikely that any significant decisions would be made before the Budget which is, as I say, in six weeks time. It would be very unusual I would imagine for anything to be done before that.

JOURNALIST: Is it going too far to call this kind of suggestion and the work that's being done now work on ratbaggery?

PM: I think some proposals that I've seen could, without an undue stretching of the English language, attract that sort of label. But I wouldn't apply it to all the suggestions that have been made.

JOURNALIST: Would revamping the First Home Owners Scheme be an appropriate way of reducing the pressure on people suffering under high interest rates?

PM: I understand some suggestions have been made in that regard but you would have to have considerable doubts about any proposals which involved increases in the outlays side I would think in the present circumstances where what you're concerned about is bringing back the level of demand.

JOURNALIST: Is there any possibility that the top tax rate cut due for January will be postponed?

PM: That's not something I've considered.

JOURNALIST: Are you satisfied with the way Mr Willis is handling the question of waterfront reform?

PM: Yes.

JOURNALIST: A bit slow though isn't it?

PM: I've given you my answer. Let's talk about slow. What are your standards of slowness? I can't remember, not that I must confess that I'm an avid reader of your writing, but I don't recall in my passing reference to your scribblings that I ever saw in the period of the seven years of the conservative government that you were talking about rates of reform in that area then. But if we were to set the standards of that period as relevant, then what's being done by this Government in the area of microreform generally and on the waterfront and the maritime industry in particular is a hurricane pace.

JOURNALIST: Did you get a feeling overseas during your recent visit that the international economic outlook is more positive than has generally been thought and that this might give greater support to the Government's economic policies over the next 12 months?

PM: I'm certainly not going to use reverse policy now that I'm home going to refuse to talk about overseas matters. Let me say that generally speaking, yes. I thought that the sorts of things that were being said by the politicians, the political leaders to whom I spoke and economic commentators, seem to me to be putting a somewhat more optimistic view about the level of activity in the year or so ahead than perhaps had been talked about before I left. That I think is a reflection of two things. Both the types of policies that are being followed by the major economies and related to that the sorts of assumptions that are being made about commodity prices over the same period. If you take the two things into account I think it is valid to say that the international settings within which we'll be operating in this period that you refer to are somewhat better than perhaps had been anticipated earlier this year.

JOURNALIST: What's your response to the Fitzgerald inquiry findings, in particular the gerrymander recommendations?

PM: Let me say generally that I think Mr Fitzgerald has performed magnificently. It's very difficult to comprehend the magnitude of the material that he had to deal with, comprehend, distill and then report on. I join with others who congratulate him on a job well done. I think he rightly makes a quite foundational point that if you have government corruptly elected - and I'll explain that in a moment - then

PM (cont): you are likely to have the circumstances in which corruption can flourish. When I say corruptly elected, the electoral system is obviously a corrupt one in the sense that there is a perversion of the system in terms of giving one particular group an overwhelming advantage. It helped to create the situation in which that group thought it could never be thrown out of government because the system was corrupt, the electoral system was corrupt. If you have a government which thinks it can never be put out of office then that is precisely the sort of environment within which corruption can flourish. That was the essence of the analysis by Mr Fitzgerald and it was for that reason logically that he therefore said that there should be immediately moves to end that corrupt electoral system. Let me say on that that it is somewhat surprising to me that the Premier of Queensland who has said he will deliver lock, stock and barrel on the recommendations of Fitzgerald should now be hedging, as he so obviously is, on that foundational point and talking of conceivably going to the next election on this corrupt basis, this corrupt electoral basis. In that regard let me say this. The Australian Electoral Commission has, I believe, an enviable record for integrity and competence and I understand that the Australian Electoral Commission would be happy to provide such assistance to the Queensland review as is appropriate. Now let me make it clear what I'm saying there. I'm not trying to intrude the Federal Government into this matter but I am saying if there's some suggestion about a difficulty of getting a review in Queensland in the time scale before the next state election is scheduled for then I understand that the services of the Australian Electoral Commission could be available. I would certainly ensure that whatever resources were required were made available. But I make it quite clear that's a matter for the Queensland government. I'm simply saying to the Queensland government that if they want the assistance of the resources of the Australian Electoral Commission I understand that the Australian Electoral Commission is available and I'm saying that I would ensure that whatever resources were necessary to facilitate that would be made available.

JOURNALIST: There's been new recent support from economic experts and business for a consumption tax. Are your arguments against such a tax, which would help increase savings, essentially political or are they economic and could you outline them?

PM: The essential economic argument of course Michelle is that this was on the table some years ago. It was rejected by a pretty broad spectrum of the community. In the context of that rejection we then moved to a very broad diversification of the tax base by a range of measures with which you are familiar. We are now faced with a situation where one of the issues that we have to be sure that we have under control is the question of inflation. That is important intrinsically. It's also very important in terms of getting the appropriate wages outcome. I can't stress too much in terms of the appropriate economic policies at

PM (cont): this time the crucial nature of the wages policy that we've got and getting the right wages outcome. If you'll excuse me I'll just spend a moment on this. It's directly relevant to your question. We expect, as you know, to get out of the wages system in 1989-90 a wages increase of the order of six and a half per cent. Anything that was to disrupt that by the expectation of a significantly greater inflationary outcome than the one which has been talked about would be economically disastrous. May I say, it's our capacity to get an appropriate wages outcome which amongst other things very significantly distinguishes the Government from the Opposition. I am amazed still to see while I'm away and when I get back that they are talking about a wages policy which would again guarantee the economic disaster for Australia that they inflicted upon Australia when last in office. They inflicted the disaster of 11% unemployment, the first time the economy had gone into negative growth, the worst recession for 50 years for many reasons but essentially the main reason was they had no wages policy. We have and that's what can guarantee that the Government rather than the Opposition can effect the proper handling of economic policy in this country. But you see Michelle, if you were to talk about a consumption tax now you would undermine the very foundation of your wages policy. Because that outcome that we're talking about of six and a half per cent, which is historically an unbelievably low rate of inflation given the level of economic activity, would be brought asunder if in fact the unions believed that you were going to be having an inflation outcome significantly different from that which has been part of the negotiations. So it is essentially an economic argument that is appropriate in my judgement for the rejection at this stage of a consumption tax.

JOURNALIST: You said earlier that it was no time to be contemplating increases in outlays. Is the Government considering any major cuts in Government spending in the August Budget?

PM: The processes of preparation of the Budget, as I said, will be starting in the Expenditure Review Committee shortly. I can say that there will be some areas in which there will be savings. There will be some areas but I'm not going to go beyond that.

JOURNALIST: Why is the Government continuing to have any work at all done on a luxury tax or mortgage relief when the Treasurer has said that such measures are mere embroidery on the fabric of policy?

PM: I've had the opportunity of reading everything that the Treasurer has said since I've been away, including that phrase. I've also read where he's said that it's appropriate that work be done in a number of areas, including the ones that you're talking about. The fact, as I say, that you do work in certain areas carries no guarantee at all that action will be implemented in that area. But it's simply responsible to see what are the range

PM (cont): of implications of undertaking a particular course of action which is in the economic arena. It doesn't mean that every suggestion that's made that you do work on because some of them plainly don't warrant any work at all. Some are of sufficient prima facie relevance to do that work. As I say, I've read everything that Paul has said about this. As I said when I was overseas, I am at one with him in all that he's said in this area.

JOURNALIST: What assessment has the Government made of the impact of the tax cuts on the level of demand in the economy?

PM: We believe that the first thing about that is that if you hadn't had the tax cuts then you would've had an increase in wages which would've been economically unsustainable. Obviously there is an increase in demand associated with tax cuts but the question, with respect, is simplistic if you think that's the beginning and the end of the question. What you've got to ask yourself is what would've happened in the economy generally if you hadn't had those tax cuts? Would you have had a containable wages outcome? Now the answer is of course you wouldn't have. You would've had a very significantly greater increase in wages which would've had two things associated with it. At least the same level of increase in demand but importantly you would've had a greater cost impact associated with that level of demand. The beauty of what's been done by the work that we did in the early part of this year in getting the tax and wage trade-off is that you get for a given level of tax reduction with whatever level of demand increases associated with that, you get it at a much lower cost to employers than you would if you went the other way. So I just put to you it's a very simplistic question if you say what level of demand is going to be associated with the tax cuts. You've got to say what level of demand and what level of cost would've been associated with leaving a situation where you would've had a wages free for all. In economics you can never, or very rarely, be certain of anything. The one thing that you can be absolutely certain of as a result of what we have done is that any given level of demand will be associated with a significantly lower level of costs for employers in this country. I go back to what I said in answer to Michelle Grattan's question, that this is what distinguishes the Government and fundamentally distinguishes it from the Opposition. The Opposition made an absolute mess of the economy in an historically unprecedented way in its previous term in office because it didn't have that third arm of policy. It didn't have a wages policy. So the only way you could control demand was by absolutely running the economy down and giving yourself the historically unprecedented experience of double digit inflation and double digit employment. If you're going to have a proper control of the economy, including control of demand and costs, you've got to have a wages policy. That's what we've got and what the Opposition can never have.

JOURNALIST: Your earlier answer on the outlays question suggests that if there should be any sort of relief package ... would have to be revenue neutral and funded either by cuts in outlays or increasing revenue. Is that correct? ... of general fiscal policy it would have to be revenue neutral?

PM: It's a good attempt to try and get me to give you a detailed outline of the decisions that are going to be taken. I'm not going to do that. But I think I can go as far as to say this. That quite clearly if you look at the fundamentals of Government economic policy over the last few years they have been associated with three successive years of real reductions in Commonwealth outlays which have enabled you to achieve this massive turnaround in the demand that we make upon the community savings. A turnaround of seven percentage points in the public sector borrowing requirement. Turned the significant deficit into a very significant surplus. That's all been associated with, as I say, in the last three successive years of real reductions in Government outlays. We're not going to be turning that policy around at this stage. So without going any further in answer to your question I can tell you that that context of whatever increases in outlays there may be having to be accommodated to our overall aim of reduction in real outlays will continue.

JOURNALIST: Prime Minister there will be an increase in real outlays in the environment won't there? Is that one of the areas you will have to accommodate?

PM: Well we have already talked about that, but that's part of a very very large total. What we have done in six years of government, Laurie, is where we've brought down this massive deficit that we inherited and moved to a very substantial surplus, it hasn't meant that every area of activity has been cut. The secret of the success of this Government in creating massive increases in employment, in having a situation where, I would remind you, as it was pointed out in the appendix to the last May Statement, a situation where the proportion of Commonwealth outlays going on social justice programs has increased from 50 to 55 per cent. Where you've have an \$8.8 billion increase in 1988/89 in welfare programs. All that has been accommodated in a situation of real reductions in outlays. So what that has meant is that you've had to make the decisions about reorganising your priorities. Now obviously, Laurie, one of the great priorities facing this Government and any responsible government around the world today is in the area of the environment. So yes there will be significant increases in outlays.

JOURNALIST: What I mean is, I wonder how you rate the environment as an issue compared to the economy?

PM: It is not a question of it being an alternative. Your question seems to pose it as an alternative. You don't say do we have economic growth or do we do something about the environment. You do both. We will be able to accommodate significant outlays in the area of the environment. We will be able to accommodate those within the general program that I referred to which will involve a continuation of overall real reductions in Commonwealth outlays.

JOURNALIST: Your response so far to the reaction to date by ASEAN on your proposal for a Pacific trading group?

PM: I am very pleased with the way its going. What you have to appreciate is that the meetings that are taking place in Brunei are now in two stages. What they've done, the meeting of the ASEAN Ministers, they've noted the Hawke initiative, if I can put it that way. When they've finished their meeting they then have the post-ASEAN Ministerial Council Meeting. Gareth Evans will be getting there today, as will be the foreign ministers or their equivalents, for two or three days of meeting with them. And now it is in those meetings that there will be more detailed discussion about my proposal. On all the indications that we have had so far, not only from the ASEAN members but also from Japan, Korea, New Zealand, the United States and Canada, I am very optimistic that we will see that idea progressed and processed.

JOURNALIST: Mr Hawke, Premier Cain has proposed at the last Premiers' Conference that the Commonwealth repay some of the State debts and the Government promised a response to that. What is your response to that?

PM: It won't be given at a press conference.

JOURNALIST: When will you be responding to that?

PM: I will have to talk with Paul and Peter Walsh about that. We'll be having a talk about that in the near future. They'll get a response in the relatively near future.

JOURNALIST: Mr Hawke, on the environment again. Given the seriousness with which you take the environmental issues and particularly the Greenhouse Effect, could there be a case for mounting Senator Richardson's referendum proposal at the next election?

PM: Well I suppose you could say there would be a case. But I am not saying that because there's a case that that's what will be done. There may be a greater case for not doing it. This is an issue that I would just want to talk through not only with Senator Richardson but others. It really hasn't got to the stage yet of us considering it as a matter of Government policy. It's obviously worth considering. I haven't anything more to add to that.

JOURNALIST: Mr Hawke, do you favour Bernie Fraser becoming the next Governor of the Reserve Bank?

PM: I think you may appreciate that the question of the appointment of the next Governor of the Reserve Bank will be on the Cabinet Agenda, the meeting to which I am going very shortly. I don't intend to pre-empt consideration of that matter by my Cabinet colleagues through making any comment at this stage. I would simply say that I find rather ludicrous the observations, the gratuitous observations, that have been made in regard to this matter by people in the Opposition.

JOURNALIST: Will we get an announcement on that appointment today, Mr Hawke?

PM: I would think so.

JOURNALIST: Is it a field of one Mr Hawke?

PM: I can't talk about Cabinet secrets like that Laurie.

JOURNALIST: Mr Hawke, before you went away you said you were following events in Papua New Guinea on a day-to-day basis. There have been some more developments while you have been away. What are your feelings about that and will you be discussing the situation of Papua New Guinea with Rabbie Namaliu at the Forum in Kiribati?

PM: I can assure you that while I have been away I have continued a day by day following of it. I have had the cables and read them and discussed the issues with those travelling with me. I think one must say that you can't be but disturbed by developments there, developments not only on Bougainville but with the murder of the Minister in the highlands. There is a degree of instability there which must cause very considerable concern. When you remember that the Bougainville copper mine provides the best part of 20 per cent of the revenue of the Papua New Guinea Government, that's been closed for some time now and its opening is uncertain. You have not merely the concerns of law and order associated with what is going on in Bougainville but you have the economic implications of it as well. So yes I will be discussing these matters with my friend Rabbie Namaliu. He will be travelling with me to the Forum and I will have considerable opportunity to discuss these matters with him. I'll do that because we as a nation have a very real concern with what happens there. I can assure you that we will do everything sensibly that we can to try and ensure that the nation of Papua New Guinea has the best possible opportunity of developing, free of what are assuming rather worrying proportions now in terms of questions about its stability. That's going to require understanding on our part and on the part of the people of Australia. As far as I am concerned that understanding will be forthcoming.

JOURNALIST: Prime Minister, how do we know how to interpret the growth in demand that will take place in the next month? Can you tell us what the projection from Treasury is?

PM: That was a bit too convoluted for me. Would you put it again? Now that we know what?

JOURNALIST: Now that we know how to interpret the growth in demand that will take place from this month, could you tell us what the projection is?

PM: I am not going to refer to any details that I have from Treasury on this matter.

JOURNALIST: Were you pleased or disappointed by overseas reactions to your idea of a wilderness park ... Antarctic?

PM: Well generally speaking I was pleased because I knew as distinct from some of those travelling with me what the situation was in the United States. ... I had cause to say that we got this great story about the rebuff to Mr Hawke from President Bush. It may come as some surprise to you to know or not. But we knew what the position of the United States was, and we knew what the position of the United Kingdom was. So nothing new there. We weren't certain about the degree of support that we would get from France. We got magnificent support following discussions that I had with the Prime Minister, and I am putting it in the chronological order that I spoke with them, the Prime Minister, the Foreign Minister and the President. We got full support for our position. That was tremendous. And then in Germany I got the undertaking from Chancellor Kohl that they would examine, without commitment, that they would examine our position. I left with him a fully detailed document on that position. And in Hungary I also got the same commitment there that they would - they were very favourably impressed by our proposal and undertook to examine it and let us know what their position would be. So, if you take the position that we knew the United Kingdom position and the United States position, there's no change there, and we got the fully positive reaction from France and indications in Germany and Hungary that they would examine our position closely, I think that was a very good outcome. I think we can say that with the support that we have from India and France, the indications that we have of favourable attitude in Stockholm, Brussels and Rome and what I think will be inevitably the fact, and that is that the public opinion on this issue will substantially increase in favour of the proposal. I have a degree of optimism beyond what people might have had a couple of months ago.

JOURNALIST: How detrimental is it that the US and the UK ... in what you know is their position on this?

PM: It's not a question of detriment. We said when we made the decision we realised that we'd have a long and pretty gruelling fight to persuade people to our position. I think that the advance that we have made in what is now less than three months since we have made the decision is really far beyond what people might have expected at that time. All I can say is that I hope that the pressure of informed public opinion around the world, including in the United Kingdom and the United States, is going to lead a clear majority of the nations concerned to embrace the Australian position. I am hopeful that that is what will happen.

JOURNALIST: Prime Minister, in the unlikely event that the world doesn't embrace that position, will you still leave open the possibility of signing the Minerals Convention?

PM: No I am not looking at that because I think that if we were to say well yes that's something that we could look at I think people would question whether we were serious. And we are serious, we are totally serious. I mean it doesn't seem to us to make sense if you believe in the fragility of the Antarctic and its importance to be retained as a pristine continent, if you believe that, it doesn't to us make any sense that you talk about protecting it via a Minerals Convention. I am really, as I say, optimistic that we are going to be able to get the degree of support which would persuade people to change their position. I think there is starting to emerge an understanding that the context within which that work started, you can say the end of the 70s and the beginning of the 80s when the idea of the Minerals Convention was starting, people are understanding that the context at the end of the 1980s is a quite different one. There is simply a much greater understanding around the world now of the importance of these issues and the fragility of that sort of environment. So I think that we are not going to be faced with the position of people saying we have invested all that work in the Minerals Convention, wouldn't it be a shame if we didn't culminate that work. I think people are starting to understand that the environment is different.

JOURNALIST: Did the Department of Foreign Affairs and Trade nevertheless advise you that you need that option open and did you ignore that advice? Is it true to interpret then that you have ignored that advice?

PM: Well you're using a reasonable amount of imagination there but I don't think I'd disclose any state secrets to say this. That there are a lot of people in Foreign Affairs, not only in our Department of Foreign Affairs but in their counterparts around the world, who have invested a hell of a lot of time and effort over the years in trying to work up to this Convention. It is therefore understandable that they have a degree of interest and commitment to it and some of them may want to keep it much more on the table now than I would think is appropriate.

JOURNALIST: Prime Minister, do you still believe that living standards can be maintained this year and gradually raised over the course of the ...?

PM: On this question of living standards let's get some basic facts established. In the period since 1982-83 up to and including 1988-89, the financial year just finished, real household disposable income per capita has increased by over 10 per cent. Of course that's reflected, as you know, the very significant growth in employment and also the very significant decisions in terms of increased welfare payments. And in this last year that has just finished, what I said would happen, that is that there would be an increase in standards, has in fact happened. You've had a fairly significant increase in real household disposable income in 1988-89 because of a number of factors. You've had employment growth, significant employment growth, you've had significant increases in profits, they are up, rural incomes were up. You've also had the situation where average weekly earnings were up around, the increase in average weekly earnings were up around the inflation rate. So in 88-89 there has been, in general terms, a significant increase in real household disposable income. Having said that, let me make it quite clear that I recognise that for some people who have had significant increases in their mortgage repayments that that generally valid observation wouldn't apply for them. So there are some people, of course, who have been obviously adversely affected. Now that's the position from 82-83 up until the present and particularly the delivery on what we said in 88-89 that there would be an improvement in standards. Now as far as what extent there can be of future increases in real standards of income per capita it will depend obviously upon the success that we have in bringing back the level of demand from the unsustainable levels that it is now. That will be a reflection of how long we have to keep tight monetary, fiscal and wages policies. So I hope, as I said earlier in this interview, that we will be successful relatively soon in bringing back that level of demand. But as to the likelihood of increased real disposable incomes per capita in this year that we have now entered, 1989-90, we have to keep in mind that the effect of the tax cuts, we have to keep in mind the reasonably significant wage increases that will be associated with the award restructuring processes and also keep in mind the record that we have in making sure that we look after those in the community who most need assistance. So if you take those things into account, as I say in the last year there has been an increase in standards. The extent to which that can be furthered in 1989-90, the year that we're in now, will depend upon precisely how those factors operate. What I want to see as compared to the position of the Opposition who seem to have learnt nothing from the disastrous way they conducted economic policy when they were in, we want to see that we will keep the arms of policy tight enough long enough to get the level of demand down to sustainable levels but in a way which will enable us to do what we've done through our whole period of office. That is to keep employment growth going

PM (cont): within reasonable levels of inflation. If we can do those things as we think we can then while we think there will have to be restraint and not the improvements in standards that otherwise would've been possible, nevertheless we hope that as a result of the combination of all the factors that I've referred to, that we'll be at least able to maintain this increase in standards which has significantly occurred in the last year.

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