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Jim Waley: In spite of continuing gloom at the state of the economy, the leading voices of Labor's federal government were unusually silent this week, hushed perhaps in the hope that given the stage to himself, Opposition Leader Andrew Peacock would fluff his lines during his five day, five state mock election campaign. Well, the coalition's dummy run is over, and so is the government's forbearance. The Prime Minister Mr Bob Hawke is in our Canberra studio this morning. Here to talk with him again are Laurie Oakes and political analyst Alan Ramsay from the Sydney Morning Herald. Laurie.

Laurie Oakes: Thanks, Jim. Prime Minister, welcome to the programme again.

Prime Minister Hawke: Thank you very much.

Laurie Oakes: Before we get onto domestic politics, do you agree with Sonny Remphal that half a dozen of our top rugby union players going to South Africa would hurt or jeopardise the Commonwealth Games?

Prime Minister Hawke: It must be on that side of the ledger, and I sincerely hope that the fellows in question will not accept the invitation. The simple bottom line is this - that they are being invited to go to a country in which there is dramatic inequality of opportunity. There is dramatic inequality in the funds devoted to education, sport and training opportunities for non-whites. In the end the simple fact is that you can't have

equal sport in an unequal society, and I hope that our fellows whose rugby playing capacities I admire enormously, I hope that they will not make the mistake of giving comfort to a regime which is still internationally unacceptable.

Laurie Oakes: Are you going to take any action to try and stop them going?

Prime Minister Hawke: Well, two weeks ago we contacted the Rugby Union Board and indicated the government's position on this, that we hoped very much that they wouldn't go. But as you know, we have never and will not go to the position of stopping people's passports. This is a free society. As a government we try to give a lead as to what should happen in terms of international relationships, but I trust that the gentlemen in question will see this in the broader terms. I don't, let me say this also, I don't doubt the integrity of some of the people within South Africa, in the cricket field and in the rugby field. I am sure that there are people whose integrity is beyond question who would want to see not only equal sport but equal sport within an equal society. But this is not the way to go because in fact the situation in that society, in some senses worse, than its ever been before and they use these attempts to have international recognition in terms of international sporting contacts as an argument that they are condoned and accepted. So I hope, as I said, Laurie, that our blokes will not, even if its unwittingly, as I imagine it would be and certainly unintentionally on their part, in fact be giving aid and comfort to an abhorrent regime.

Laurie Oakes: We've got the British rebel cricket tour which is on. Alan Border says it could happen with Australian cricketers

because the dollar rules. Isn't the sporting boycott thing breaking down now?

Prime Minister Hawke: Oh, I think it's hard to say it's breaking down. There are certainly cracks in it. I accept that, but generally speaking they are pariahs in the international sporting community. I think what we've got to remember is that there are

Laurie Oakes: Their not really pariahs. We had a couple in our test team that went to South Africa, and they're back playing quite happily.

Prime Minister Hawke: Well, they've paid a very significant penalty, and may I say that in respect of one of them - you've got Terry Alderman - that penalty has been paid and he's making a magnificent contribution now. But I think Australian cricketers generally do understand that they have a commitment beyond themselves and securing a financial future, which is understandable. They've got a commitment beyond that as we all have. I mean, there are so many people who could make financial advantage out of doing things which are not too proper. You've got to have other considerations than just financial advancement.

Alan Ramsay: Prime Minister, you're opening tomorrow's Commonwealth Foreign Ministers Committee Meeting in Canberra.

Prime Minister Hawke: Yeah.

Alan Ramsay: What's your attitude to tougher sanctions against South Africa?

Prime Minister Hawke: Well, I think the right position, Alan, is to concentrate on the line of enquiry which I initiated two years ago at the Commonwealth Heads of Government on the question of financial sanctions. I think that is the one and certainly

from indications within South Africa that's the one that they're most worried about. They've got very very big rollovers coming and there are indications that there's going to be a tougher attitude towards them. The governor of the reserve bank in South Africa and the Minister of Finance have already indicated that existing sanctions have had a very very adverse impact upon them. Now I would think that the biggest opportunities are in the area of financial sanctions, but, Alan, can I make this point. I think you know it, but I think it's important that viewers know it. Neither I nor my government have any interest in sanctions as such. I mean, I abhor the necessity for sanctions. Sanctions are not an end in themselves. They are instrument to try and bring the South African government to the negotiating table. And I wish they would come to the table so we could forget all talk of any sanctions.

Alan Ramsay: You talk about financial sanctions. What about trade sanctions?

Prime Minister Hawke: Well, I think the trade sanctions that are there should be kept on. It's a pity that non-Commonwealth countries are not giving the same sort of strength of support as has been given by those within the Commonwealth. But there is no doubt that they have had the adverse impact. There's no point in relying on my judgement, Alan. As I say, there is the published statements just a few months ago of the governor of the reserve bank in South Africa and the Minister for Finance of the very significant, tough and adverse impact that the sanctions have had on South Africa. That's their own assessment.

Alan Ramsay: Prime Minister, before we go to domestic issues, Paul Keating brings down his seventh budget just in, what, nine

days time. How do, can the Australian people expect him to be any more correct this time than he was with his ... forecast last year of which some of them were hopelessly wrong.

Prime Minister Hawke: Well, I, that's a fair comment and question, Alan, but I think you need to make this point and put it in this context. Paul and the government were not Robinson Crusoe. Every perfectional public and private economist in Australia underestimated the level of demand at that time. He wasn't one (phonetic) out. Now the governor of the Reserve Bank, Bob Johnson, has indicated that they were wrong. We were wrong in underestimating the strength of demand. Well, that's the nature of economics. We will do our very best to make sure that the budget is premised on the best assessment we can possibly make. And I think if you look at the whole period since 1983 we've done a fairly good job in getting it right.

Alan Ramsay: But it's going to be a budget, presumably the last one before the next election. And I say presumably.

Prime Minister Hawke: Yeah, presumably, Alan.

Alan Ramsay: People can, shouldn't people be cynical about it simply because of this aspect of it?

Prime Minister Hawke: No, no, I mean cynicism is much more a monopoly or preserve of the media as you know, Alan. But I think you're fair enough, Alan, to say, alright, there was an underestimate of demand last time but I believe that the evidence is there that the policies that have been tuned since the budget, I mean a budget is a year ago by definition. We've had the April statement since then which has been a - made a - massive adjustment, further very significant reductions in the public outlay side involving the states and the commonwealth, a further

reduction of the public sector borrowing requirement. You've seen the relevant fine tuning since August and that has been the mark of this government, Alan, that we have made the adjustments as you go along which are necessary. And we've got at the present time the very tight policy to bring down that level of demand which you rightly say was to some extent underestimated a year ago.

Alan Ramsay: Prime Minister, without asking you to give away any deep secrets, its obvious now that there's going to be a very very big surplus in the budget that Paul Keating will bring down - seven or eight billion dollars. Won't that give you scope for new tax cuts down the track? Perhaps early next year?

Prime Minister Hawke: Well, by definition if you've got, what we've done as distinct from the Opposition, if you have created a very substantial surplus by being very very efficient in bringing down the levels of public outlays, as well as rationalising your tax system, that gives you a position in which you would be able to fund tax cuts as distinct from the unfunded proposals that have been floating around from this undisciplined Opposition for some time now. Now, judgements would have to be made as to what was the appropriate way of using that surplus. Now it is true that one option would be in terms of overall macroeconomic judgement if you wanted to try and secure a lesser wages outcome, you could look at the question of a wages tax trade off. Now that's obviously a possibility in that situation. You would have to weigh that against what could be achieved by using that surplus for other purposes in terms of retiring debt. But that is obviously a theoretical possibility. What we would have to do, what any sensible government and that's what we are,

what any sensible government has to do in the circumstances confronting us right now, what's the best decision in terms of economic outcome.

Alan Ramsay: Well, putting theory aside for a second, what would be your wish? Would you hope to be able to cut taxes further?

Prime Minister Hawke: Oh, we have taken the view that if you can do that equitably, then you would examine the need for further tax cuts. But the thing that distinguishes us from the Opposition is that we have done it on a funded basis. We've made the tough decisions. First, create your position where you can fund your tax cut, and that's what characterises us and what distinguishes us from the Opposition. You go back to 1987. They hadn't done the work, they just made the promises. They're doing the same thing again now. I mean, how long do we have to wait before they'll get to the position of saying where the cuts are. Where have they expenditure (sic) cuts which will fund their tax promises.

Alan Ramsay: Prime Minister, Andrew Peacock even concedes now that interest rates might fall before the end of the year. How far do you think they've got to fall before voters are prepared to forgive and forget.

Prime Minister Hawke: Well, I don't know the answer to that question, Alan. I think the important thing as I read the political situation now, Alan, is that, I don't know whether you blokes would agree or not, I think there is an emerging greater understanding in the Australian electorate that we haven't been caprices about the question of tight monetary policy, that there are reasons and valid reasons for having the high levels of

interest to reduce demand. There's a greater degree of acceptance. They don't like it, I mean I'm not being silly about that, of course they don't like it. I think what they will want to see out there are interest rates coming down and consistent with that the application of the other arms of policy which will keep the economy growing and keep employment growing. If you have that consistency of factors, that is, the growth that's characterised our six and a half years in government, the economy growing, employment increasing and interest rates coming down in that environment, I think that's the sort of mix that the Australian electorate will both want and, may I say, are entitled to expect.

Laurie Oakes: Prime Minister, we'll take a break there and will be back in just a moment ... Welcome back. Prime Minister, interest rates coming down by the end of this year. The announcement of tax cuts early next year, that sounds the kind of scenario you need to win the election, doesn't it?

Prime Minister Hawke: Well, just let me make the point, you were talking about interest rates coming down by the end of the year. You remember Alan said that that's what Mr. Peacock said. Now, I certainly hope that's the situation. I'm not making any forecasts. I hope that's the situation. And your question went from that scenario for an election early next year. I've got really nothing to say, Laurie, beyond what I've said all along that I thought that this parliament would go its full term and that tended to mean an election by the middle of next year.

Alan Ramsay: But surely, Prime Minister, you've got to get interest rates down for the government to have a realistic chance of winning next time.

Alan Ramsay: Oh, obviously, Alan, our chances of winning at the election are very significantly improved by interest rates coming down, but the point is that we are not mugs. We have not pushed interest rates up because we like to get some art form masochism, or sadism, and hurting people. They've been there for a necessary purpose. Now once that purpose is achieved, and you can be sure that the level of activity is coming to sustainable levels, then your interest rates will come down. The policy will be eased. Now the fact that we've got to have an election sometime, OK, that's a fact there, but demonstrably over that period we've made the economic decisions that have been necessary for the time. I mean, you remember, Alan, before the 1987 election, I was told by virtually everyone that the economic decisions I was taking then were a recipe for economic disaster. Well, I just think that the electorate is somewhat more sophisticated, and I think you'd agree, now than it was before. Having said all that, obviously I want interest rates down and down for some time before the election.

Alan Ramsay: Mr. Hawke, I realise that you're under some constraints in talking about the budget, but I guess you can talk in general terms.

Prime Minister Hawke: Alright, let's have a try.

Alan Ramsay: Well, how much embroidery are we going to see in the budget.

Prime Minister Hawke: Well, embroidery I suppose, can be in the eye of the beholder, like beauty. No, we will have a budget, I can tell you this, we will have a budget which in my judgement now will both be economically relevant and I think also acceptable. Sometimes what's economically relevant is not too

acceptable. But I think this will be a well received budget because it will have that mix of responsibility and toughness but one which is also going to be addressing fundamental questions about this Australian society and economy now and into the future.

Laurie Oakes: How much will be there to perhaps please the battling home buyers. Have they got any hope at all of relief?

Prime Minister Hawke: Oh, Laurie, I can't go into those things.

Laurie Oakes: Luxury tax?

Prime Minister Hawke: Can't go into that, Laurie/

Alan Ramsay: Can we try another one? What about the elderly people in the community? I mean, over the years you've alienated to some extent pensioners, particularly assets test and that sort of thing. Do you think this one will get them back on side?

Prime Minister Hawke: Well, Alan, I'm not going to dodge your question. I'll say something about it, but could I just go to the premise of your question first. I don't accept that we have alienated elderly people generally. I think that there are some we have, certainly with regard to the assets test we would have alienated the millionaires and the people who were getting the pension before. But I think generally speaking there's now the acceptance of the correctness of that decision. And I ask you to remember this. Remember the fever pitch of hysteria of your Peacocks and your Howards and your Opposition when we brought it in. This was the end of the world as we knew it. What's the position now? They have basically embraced the concept of the assets test in regard to the pension, so I don't accept altogether your premise. But now going to the question: I can say this, without going into details, that the budget speech and the

associated budget papers will have a considerable relevance for the aged.

Laurie Oakes: You've shown great forbearance, said nothing all week about Andrew Peacock's mock election campaign. What's your verdict?

Prime Minister Hawke: Well, let me say, basically its been a silence that's arisen from the fact that I've had my head down and my bottom up in the cabinet room working on finalising the budget. I mean, that's, we've been working, he's been mocking. Now, as far as the campaign is concerned, I'm not here to knock Andrew Peacock. If they want to make the decision that that's a thing that they should do, OK. It doesn't seem to me to have been terribly impressive, and particularly, Laurie, when you remember this. He started off on day one with the great initiative about the inflation adjustment.

Laurie Oakes: Sounded a pretty good one.

Prime Minister Hawke: Ay?

Laurie Oakes: Sounded a pretty good one.

Prime Minister Hawke: But where is it now, mate. It's like wrestling with a column of smoke. I mean, what is it that you're applying to. I mean, first of all, just look at what, for instance has been said in the Friday, the week-end press. I mean, it's quite clear, without being unfair, I don't want to be, to knock Andrew in personal terms, but it's the unanimous opinion that he doesn't understand. He personally doesn't understand what was put. I mean, Milton Cobeman (phonetic) said there on Friday that an economically literate radio interviewer with half an hour to spare would tear him apart, and so it's something that the Leader doesn't understand. We don't know whether it's a policy

or a proposal they're thinking about. Certainly Senator Stone has poured the great buckets of cold water on it, and there's disagreement between them, as between Hensen and Peacock as to what goes in it.

Laurie Oakes: But what's wrong with the idea in principle, Prime Minister? Why don't you do something similar?

Prime Minister Hawke: Okay, let me just go to it in some respects. First of all, let me say it would be an administrative nightmare and it would have the potential, the capacity, to totally disrupt the economy. I mean, secondly, what flows from that, what's required in the community is an increase in savings. That is an increase in production relative to consumption. But what does this proposal involve? It involves a tax break for passive income and a very significant penalty for those who invest, for those who invest in productive assets. Next point, we are part of an integrated world economy. How could we possibly inflation adjust when nowhere else in the OECD has done it. Next point, and this is not exhaustive but let's just consider the next point, how can you partially adjust part of the system? ... you adjust for interest rates but not for the depreciation of assets... Next point, I mean, as far as you can follow from what he says, he'd inflation adjust for new loans only. Now, just consider the implications of that. How do you differentiate between old debt and new debt? How do you deal with roll-overs. It would be a massive disincentive for people to put away outmoded financial arrangements and move to new ones. And, look at it on the other side, if that's what he's going to say, only allow inflation adjustment for new debts, on the other side only have inflation adjustment for new deposits, so what do people do

then? They just redeposit. Or if they don't, it's one-sided, and therefore its massively expensive. I mean, you've asked me for ... I can go on, do you want some more?

Alan Ramsay: We're getting the impression you don't like it, anyway.

Prime Minister Hawke: Well, no, look, it's like a lot of things in life and in politics and in economics, an idea which sounds alright, but it is full of conceptual difficulties, administrative nightmares and counterproductive economic... I'll tell you what, and you know I'm not bad, I haven't got a bad record in predicting what happens on the other side of politics. I'll tell you now, mark my words, they will not go into the next election with this proposal.

Alan Ramsay: Prime Minister, bottom line. Why does the government allow big businesses to be subsidised by ordinary taxpayers on their borrowings, particularly only just for take-overs.

Prime Minister Hawke: Well, its not just a question for take-overs. Now we've had this

Alan Ramsay: But often, often just for take-overs.

Prime Minister Hawke: No, just lets go back to this business. We've had this line running around now for two or three years about the way in which the result of the combination of what's allowed for interest and the taxation arrangements that companies don't pay their tax. Now, there are these points to be made. That argument has been blown out of the water in detailed terms by the papers distributed by Paul, by Paul Keating. It's shown to be not true. Secondly, there is no government, Alan, and I think you'll recognise this, there is no government that's done more than this

government to massively improve the equity of the tax burden in this country. The companies, previously, were able to avoid an enormous amount of tax responsibilities, and not now. Why is it that the companies of Australia are now screaming out against this government and against our tax commissioner for the increased auditing of companies. For the first time now under this government the screws are being put on Australian companies.

Laurie Oakes: Prime Minister, if I could interrupt, I think you've made your point there. We're nearly out of time.

There are two more things I want to raise with you quickly, if I can.

Prime Minister Hawke: Right. Fine.

Laurie Oakes: The first thing is the Anzus frigate project. How do you solve the problem? Bob Carr, the NSW Labor Leader says that if it goes to Melbourne as the Defence Department then you'll be slammed by the NSW Labor Party ...

Prime Minister Hawke: Well, I made the point to the NSW delegation when they came to see me that, and including the Premier, I said, I seem to recall that when I had to make a decision within NSW in terms of the third runway at Kingsford-Smith or going out to Badgery's Creek, ... he pleaded with me to make the economically rational decision, and with a wry grin I conceded yes, they had me to do that. I said, we will make the economically rational decision in this one

Laurie Oakes: Will politics play a part there?

Prime Minister Hawke: No, I must say that the Australian newspaper had that all nicely wrong. It was almost to the point of having to see my lawyer. And what I'm saying, and what they know that I said to them, is that I will not allow political

considerations to determine this decision. Let me be quite honest. Obviously, from my point of view and for the government's point of view the easiest decision would be to say, look, we won't even go through a process of analysis of what's been done by the Defence Department, it will go to Newcastle. It would be politically better for this to go to Newcastle. And in that sense, all things being equal, I'd like it to go to Newcastle. But, I'm going to have in the cabinet the considerations put before me, and if on those considerations it is appropriate for it to go to Newcastle I'll be happy.

Laurie Oakes: The final issue I want to raise

Prime Minister Hawke: But if it's clear, if it's clear it should go the other way, that's where it'll go.

Laurie Oakes: The final I want to raise - Andrew Peacock has challenged you to a debate. The question is, are you game to debate him, and if we arrange the debate here on the Sunday Programme next month, will you take part?

Prime Minister Hawke: Now, look, ... to be made. I will consider a debate against the Leader of the Opposition in the period before the next election. I'm becoming increasingly sceptical in my mind as to whether it's going to be Andrew Peacock who'll be in that position. But I'll consider it at the appropriate time.

Laurie Oakes: You won't be in it next month?

Prime Minister Hawke: Oh, next month is probably a bit early. But I'll, I'm not worried about Andrew. Just let me say this to Andrew as I've said to other people, "don't make a mistake in terms of thinking about 1990 in terms of 1984." They are full of mistakes, the Libs, that would be another one.

Laurie Oakes: Prime Minister, thanks very much.

Prime Minister Hawke: Thank you very much.

Laurie Oakes: Back to you, Jim.

Jim Waley: The Prime Minister talking there with Sunday's Laurie Oakes and Alan Ramsay of the Sydney Morning Herald.

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