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## PRIME MINISTER

TRANSCRIPT OF QUESTION AND ANSWER SESSION, AUSTRALIAN  
FINANCIAL REVIEW POST-BUDGET DINNER, MELBOURNE,  
16 AUGUST 1989

E & O E - PROOF ONLY

Mr Andrew Scott, Coles-Myer

QUESTION: Prime Minister, in deference to your tendencies, I have placed a personal bet of half a dozen bottles of wine, that the 90 day bank bill interest rates will be below 15 percent for a full one month period before the end of June 1990. Is it a safe bet?

PM: I'm not sure that I heard your question. Is it that you have engaged in a betting transaction involving alcohol? If so, I'm appalled. It's nine years ago that I was in that sort of caper. But that interest rates would be, this is mortgage interest rates would be at what by when?

QUESTION: Bank bill rates would be -

PM: Bank bill rates would be?

QUESTION: (inaudible)

PM: By June of 1990?

QUESTION: (inaudible)

PM: Well I've got to disappoint you because I have made a practice of not predicting (laughter) I haven't finished, of not predicting actual rates at a particular point of time. I am prepared to say that I think we have in place the policies which will mean that before the end of this financial year, which is relevant to your transaction, that interest rates will be moving down. Now it's just a question of whether they'll reach the point that you're talking about, but I'm not going to put a figure on it because if I do put a figure on it, the very fact that I say that, and it's an awesome responsibility, I tremble about it (laughter) I do, I tremble about it every morning under the shower and the very fact that Hawke said they'll be at a particular point at a particular time will effect the actual movements. I will assert that before the end of the financial year the rates will be moving down and I hope you win your bet.

Mr Keith Lambert, Deloitte Haskins & Sells

QUESTION: Prime Minister, I think, if my maths is correct, there's some 33 weeks between now and April of 1990. Could you tell us please what would be the additional annual cost of paying the pensioners their \$2 a week from now, what would be their additional cost of paying them the full increase from now? Given that you're expecting a \$9 billion surplus, I wonder if it would come as any surprise that some of the pensioners are referring to this as the two bob Budget?

PM: Yes it does and fortunately when you're in the position I'm in, unless you want to drive yourself absolutely insane and I haven't got that wish, what you do is to deal with those people who, through their experience and commitment and involvement, have the authority to be regarded as spokespersons for their constituency. In that regard it's important to note that two people who satisfy that criterion - Maureen Hewitt who for a very considerable period of time has been a very effective spokesperson for the pensioners in this country and, on a more general basis, Julian Disney from the Australian Council of Social Service - have both applauded the Government on what they've done.

Before I come to specifically answer the question you put I think it's appropriate that I give you the context in which we've acted. When we came to office, the pension, as a proportion of average weekly earnings was about 22 and a half percent. We've got it up now to virtually 25 percent. Even if we had given no further increase, it's likely that as we went into next year it would still be at 25 percent at that point after the adjustment in April, but we wanted to make sure that there would be no doubt about that and so we've made the decision to award that extra \$2 a week from April of next year.

So what we have done at this point of time is not some aberration, but it's another instalment in what has been a steady improvement in the relative position of pensioners in the community. We've been able to do that because, as I indicated in the speech that I made, more than any other Government before in the history of this country, we have targetted assistance. That's what any sensible community in this day and age is going to have to do and to do increasingly. We regard it as an obscenity that we were wasting resources in the pension area upon millionaires, we brought in the assets test which you may recall particularly in this fair city of Melbourne, if you read the Melbourne Herald, that that was going to be the end of the world as we knew it - the assets test. Well of course now it has become the conventional wisdom.

Now, of course, when you are looking at this question of the adequacy of the decision we've made, therefore you see it as a step in the culmination of what we've done. But it wasn't all that we've done. What we've done in the area of pensions of course is to increase the tax free area of additional income that pensioners can earn and that is being extended so that you will have an identity of income, additional income, and the tax free area and up to the point where it's now determined that by 1995, no full or part time pensioner will pay tax.

So it's not just the increase that's been given which is significant, but it's part of an overall approach and package which as I say has been very, very strongly applauded and welcomed by the people who do have the responsibility of speaking with authority for that constituency.

In my own personal experience I met a lovely group of pensioners today at Parliament House and without exception they applauded what we've done. Of course, I think it's worth making the point without spending any time on it, that equally important on what we've done in the pension area is not only for those who are in the pension area now, but the most significant thing we've done of course is to tackle, as I said, this problem for the future so that there will be incentives to savings and .... superannuation. As to what the costs would be, well I think the full year, full year cost of what we've done is about, as I recall, I say this subject to correction, about \$320 million. So you can work it out yourself, even without a calculator.

Mr Peter Hill, Trade Indemnity Australia Limited

QUESTION: Mr Prime Minister, as a result of yesterday's Budget do you believe Moody's will downgrade Australia's international rating? If not, why not and if yes, what effect do you believe such downgrading will have on our economy, both locally and internationally in the future?

PM: I don't know whether the rest of you have had the same difficulty as I am having in hearing the questions, but fortunately I've got them written down here. The answer to your question, do I believe that as a result of yesterday's Budget Moody's will downgrade Australia's international budget, no I don't believe they will. As far as you can tell from what I've heard on the news so far, a spokesman whoever he may be, but he was described as a spokesman for Moody's, spoke in fairly laudatory terms about the Budget. So if there is any logic at this stage of their career in what they do as distinct from the sort of noises they've been making recently, then if they are applauding the Budget you would think that they would not further downgrade us. If they did downgrade us it would be a surprise and an irrelevancy.

Mr Chu

QUESTION: Mr Prime Minister, you are stressing about incentives and motivation for the people, how do you expect us to improve motivation or productivity if the maximum tax rate of the upper income groups is actually 50.25 if you add in Medicare tax, as compared to the corporate tax rate of 39 percent? Are we kidding ourselves to expect the managerial resources of the country to work as hard as you want us to do?

PM: Well, let me just very quickly put the background to this. You know what we've done already in this area, of changing the tax rates. We inherited a top rate of 60, we've brought it already down to 49 and at the beginning of next year it will be coming down to 47. So, if you want to make comparisons between alternatives in this country, the other mob left you with 60, we'll have it down to 47 at the beginning of the year. The lower rate down from 30 to 21. Now that's a very significant change. You do, in a sense, put your finger on a problem when you talk about the gap between the top personal rate and the company rate. We believe that, of course, what we've done to very significantly reduce that gap is in itself important.

Secondly, of course, we have in our period of Government taken an unprecedented number of measures to smash avoidance schemes and to ensure that the resources of the Taxation Commission are available to do what they should do and that is to ensure that everyone who should pay their tax pays it. Therefore I think the degree of incentive that existed under the extraordinarily lax and objectionable system that was left by the conservatives, the incentive that was there to avoid and to have artificial schemes is significantly less now than it was because of the two things. We've reduced the gap and, as I say, the people who want to go about the processes of artificial reward .... know that it's very much more difficult than it was before.

Now that then comes to the fundamentals. Are Australians people who are only going to work because they say, well I look at what my disposable income here is compared to what it might be in another country and because there is some difference I'm either not going to work so hard or I'm going to uproot myself and go. Well, I make a different judgement about the Australian people than you do. Obviously, all of us, and I don't exclude myself from that, I guess generally speaking, you'd like to get as much out of what you do as you reasonably could, but I don't think Australians are overwhelmingly driven by that consideration. I think there is an understanding that if we want to undertake a number of the things that we have to in creating infrastructure in this country, then there are certain things that Government has to do.

You will understand from the statistics I've already given that this is a Government which has not increased its take in the taxation area. We now have a taxation as a proportion of GDP which is lower than it was before and that the creation of the surplus has been by way of cutting of expenditure. Now that means that if Government is going to undertake the things that are necessary to create the infrastructure that industry wants, then you've got to have your financial where-with-all to do it and there is a limit to how far you can go in tax changes. Having said that, I would on balance hope that at some later stage we may be able to somewhat narrow that gap further. But that is, let me make it clear, is not something which is on any immediate agenda. We have just made a very, very significant change, very significant tax reductions and it is appropriate that they should have their effect in the system.

Finally, I make the point that I think that Australians do have a greater sense of motivation than that upon which your question is predicated. You predicate your question upon the assumption that either the only or the overwhelming consideration as to how Australians are going to react to the challenge facing them is what is in the end the disposable income they get as a result of the equation between wages and salaries and tax. I don't think it's as simple as that. I think Australians have, a lot of Australians and I think the majority of Australians have motivations which go beyond that.

Mr Gavin Ross, Gavin Ross and Company

QUESTION: Mr Hawke, in economic theory the way to cure a balance of payments is to devalue the currency. Imports become more expensive and we import less, similarly exports become cheaper and we export more. Why not devalue the currency and lower the interest rates?

PM: I'd love to see your text book, love to see your textbook comrade. I understand that the theory that you're expounding suggests that if we devalue the currency, we'll have a situation where we will import less because the imports will be more expensive and we'll we'll export more and the economy is going to go into boom time and that will enable us to lower the rate of interest. Well, I don't know which particular land of fantasy you come from or you want to go into, but it's not the real world. I just wonder what, for instance, you would think, without going going into all the complications of that absurdly simplistic proposition, but what you would think might happen in the area of wages policy. For instance, when our import prices went soaring upwards our inflation rate went up and the trade unions, as well as employers who naturally take the automatic adjustment as their holy right, I mean, if the cost of employers go up they automatically must adjust for the increases in their costs.

So they put their prices up and the unions would also, of course, would be saying well up go our wages and in no time you'll become completely uncompetitive. So, get the right theory book comrade.

Des Moore, Institute of Public Affairs

QUESTION: Prime Minister, in his Budget speech, the Treasurer said quite correctly, I believe, that .... demand is only half the story. The other half is to lift the supply of goods and services. My question is first, why, given the great achievements claimed for the Accord, there has been virtually no growth in productivity since 1984/85 and why the 1989/90 forecast implies no growth again in productivity this year. What has happened to the productivity agreements and the industry restructuring that is said to have occurred?

Second, why do we still have wages and inflation growing way out of kilter with our trading partners after six years of the Accord? Is it seriously being claimed that we would now be worse off in terms of productivity and inflation if there had been no Accord since 1982/83?

PM: The answer to the last question is yes, very significantly worse off and I'll come to explain why in a minute. But let me go to the series of questions involved in good old Des' predictable question - the sort of question that you'd expect from the way Des has been writing over the years.

Now, the first question that you put as to why there's been, as you put it, virtually no growth in productivity since '84/'85 of course there has been growth in productivity, but the basic reason why you haven't had a higher measure of productivity increase is for the fact that we have had a rate of employment growth, on average, more than twice as fast as the rest of the world and four times faster than that rate of employment growth that operated under our predecessors. So when you've had this record and above average increase in employment then, as you know, the simple equation of measure of productivity, the relationship between numbers employed and output, where you have a record rate of employment growth more than twice as fast as the rest of the world, obviously that is going to have an effect upon your productivity figures. It's just a matter of simple arithmetic logic.

Now you then ask the question, remarkably, what has happened to the productivity agreement and industry restructuring that is said to have occurred. Now of course, the major instrument of industry restructuring is accumulating in the most recent period and no-one, including the employers, who have been involved in this process said at any point that

they expected those changes to have an immediate reflection in productivity improvement. But what they have said, and what they have said on the basis of the experience that they have derived from comparing overseas performance with what they expect to do here, is that over a period of time into the future, those changes will be reflected in significant improvements in productivity.

For instance, I just put a very simple question to you. If you look at the metal trades, do you think or don't you think that as you are now in the process of moving to a situation where instead of having some three hundred classifications in the metal trades award you're going to move to have about eight. That is going to involve a massive change in the training processes and the interchangeability of people on the job.

Do you or do you not think that that change is going to have a significant impact on productivity? Of course the answer to that question is in the affirmative. Those changes are in the process of being implemented now and when they are firmly in place and they're extending more and more through the economy, they will, without any question, have a significant impact on the productivity performance of the Australian economy.

Then you go on to ask the next question, why do we still have wages and inflation growing way out of kilter with our trading partners after six years of the Accord. Well of course, again, it's based on a false premise. It is, we have a situation where we are not performing as well as some, obviously of our trading partners, we are doing very much better than others. For instance, how would you like to swap the position in the United Kingdom with ours? The United Kingdom has the sort of position which philosophically you would applaud which reflects the absence of an Accord. Does it ever, no Accord there. What's your expectation about wages movement there, about 10 or 11 percent in wages growth and inflation which is going up towards the same level. That's what you have in the United Kingdom in the absence of the Accord.

In this country, which goes into your next question, you're saying is it seriously claimed that we would now be worse off in terms of productivity, inflation if there'd been no Accord since 1982/83, the answer is a resounding yes. Of course we'd be infinitely worse off. How do you think that we've been able to create one and a half million new jobs? How do you think that we've had a reduction in real wages? Do you think you would have had a reduction in real wages if you hadn't had the Accord, if you'd had free bargaining?

You don't have to be theoretical about this Des, just go back and you should remember, you were in the centre of it in the Treasury at the time - associated with those who were pursuing those absurd policies under Stone, your civil service head and under Howard, your political head, you were right there in the thick of it. What happened, my fellow worker? I'll tell you what happened. Under your policies, which were the abandonment of the Accord or the central wage fixation, after Malcolm went off to the wedding and said go for your life, no centralised wage system, go for your life, have the free labour market. What happened? What happened to wages? Seventeen percent increase in wages and double digit inflation and massive unemployment. That's what you had when you had the absence of the Accord, when you had the absence of centralised wage fixing.

So you don't only need to exercise your brain and come to an intellectual conclusion. Just take yourself back eight years in Australian history and you've got your own answer to your own question. You had the absence of the Accord, you had the absence of centralised wage fixing and, my friend, you had a wages explosion which wrecked this economy. You were involved in the whole process and you did, as Paul has said, something which requires a very unique genius. No-one had ever been able to do it before. You put Australia into negative growth. That's what you did without the Accord. With the Accord we've got a situation, we had four times the rate of employment growth under us with the Accord, against the absence of the Accord, four times as fast as what you did then, twice as fast as the rest of the world. So I'll take the Accord and you can have your 1981/82 fiasco.

Mr Peter Mitchell

QUESTION: Mr Prime Minister, this is not a Budget question but I know it's something very dear to your heart. With your love of cricket and the support you've given the Australian cricket team during those lean years, you must be delighted with the result of the Ashes over the last week. Would you like to comment sir?

PM: I'm thoroughly thrilled, as I think you all are and let me just say, quite seriously, I had the pleasure when I was over there recently on business, we were able to get just a few hours off to go to Lords, let me say this, they're not only magnificent cricketers, but they are tremendous ambassadors for this country on and off the field. I don't think we've had a better team in that respect and they deserve all the success that they are getting. They are an enormous credit to this country.

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