



PRIME MINISTER

TRANSCRIPT OF INTERVIEW WITH PAUL LYNEHAM, 7.30 REPORT
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LYNEHAM: Prime Minister, thanks for joining us.

PM: Pleasure.

LYNEHAM: The prevailing wisdom is that voters are very cynical at the moment. Do you agree with that?

PM: No, I think the correct statement though Paul is that probably more people are going to cast a vote for the non-major parties than before. And as I've said, I think one of the major explanations of that is of the increased interest in environmental issues that has obviously arisen not only in Australia but around the world in the last three years.

LYNEHAM: The National Media Liaison Unit - at least two of its members, I've spoken with them over the phone at your campaign headquarters in Sydney. Are they on leave without pay or are they paid public servants at this stage?

PM: They would still be on their normal pay arrangements as far as I understand. I don't know the circumstances. If you'd like I'll check and give you the answer but I would think they'd still be on their normal pay arrangements.

LYNEHAM: Is it proper to have the taxpayer paying for people to help the ALP win power?

PM: I would simply say this, that if you look at the situation that existed before we came into power, there was a much more blatant use of people on the payroll by our predecessors and you are aware of what happened then. But as I say, I don't know, I assume they are still on the same arrangements.

LYNEHAM: If you quote your predecessors, does that mean your moral standards are set by the other side?

PM: It certainly does not. It seems to me that there is an acceptance that in government you have people who are, if you like, involved in not only making sure that the people know what the government is doing, but also monitoring what's happening. I think that's been a

feature of Australian politics. I don't think that I got terribly upset about what happened before. I don't think people should be now.

LYNEHAM: When will negotiations begin with the United States on the Australian takeover of North West Cape?

PM: Quite quickly Paul. We have been in touch with the United States and we just got the reply back from them at the end of last week, from Dick Cheney, and they, as you understand, have welcomed the idea. I'm glad they have because I think it's very very significant. And they will expect, as we do, for the negotiations to start quite soon.

LYNEHAM: Did Dick Cheney have any objections to you making this public during an election campaign?

PM: No, why should he?

LYNEHAM: Well, I mean, it does look to many as though Washington is letting you drape yourself in the Stars and Stripes, just as Menzies used to drape himself in the Union Jack.

PM: Well, the cynicism is not only in the electorate, it's amongst the commentators. There is no foundation for that. Let me give you the reasons why it was important to do it now, and as soon as possible. Firstly, this is forward-looking. It is quite clear when you look at our defence strategic approach for the future that the use of our new submarines, which we are now constructing in Adelaide, it's going to be a very very important part of that future. The command and the control capacity for those submarines is fundamentally important. So we'd want to have a situation where we have control of that. Secondly, the 25 year agreement that has gone back from 1963, that ended in 1988 and new negotiations were about to start for the next stage. It obviously was much sensible that we put our proposal on the table before that started. Thirdly, there's been some degree of concern at Exmouth amongst the local population there as to what their future might be. It was appropriate that that concern should be allayed. For those three reasons it was appropriate that as soon as we got a response from the United States to our proposal that we should advance it. And particularly that I should announce it here in Western Australia.

LYNEHAM: And entirely fortuitous that it's during an election campaign?

PM: It would've been announced any rate. The important point that I'm making is that it should be done as soon as possible and if the election had been held in May, as was a possibility, it would've been announced now. It wouldn't have been held till then.

LYNEHAM: Do you still stand by Paul Keating's claim that current taxes on super fund earnings will not diminish any potential end benefit by one cent?

PM: Yes I do. Most importantly what you've got now is a contrast in the public arena between the political statements of some people who are trying to support the Opposition and the only factual source, which is the Australian Tax Office, which points out that of the 13,000 returns of funds that have been negotiated, when you look at it there's no net loss. And indeed I think only some about 400 out of 13,000 had any net capital gain in it, but which could be more than offset by the imputation credits.

LYNEHAM: Let's look at that 13,000 Prime Minister. Are you aware that they're less than 10% of the total of 160,000 returns on superannuation that will be processed by the end of this month?

PM: All I'm saying is that in respect of those that have been processed, there is the figure.

LYNEHAM: These are less than 10% of the total returns that will come in by the end of this month. You would be a mug, if you owe money, to put your return in early. The normal pattern, if you've got to pay money to the taxman, you wait until the very last minute. Why is it the case that these 13,000 represent any real sample at all?

PM: They represent the only sample that's available and on the basis of -

LYNEHAM: And in an abnormal year Prime Minister.

PM: Not an abnormal year Mr Lyneham at all. I'm simply saying to you that what can be done other than to use the returns that have been processed. Secondly, to take account of what the major funds are saying. They've made it quite clear, two major ones, AMP and the National Mutual, have made it quite clear how they operate. Thirdly, you've got to ask yourself the question, what is the future, what is the future of a fund manager who does not in fact take advantage of the provisions that have been deliberately introduced to make sure that they shan't pay any net tax?

LYNEHAM: Prime Minister, if it's only going to affect one percent into the future, and not those four million Australians in super funds, how is it the Treasurer can tell us there's already five billion out there waiting to be collected in the system, that it's the fastest growing tax in the Commonwealth. Where's all this coming from?

PM: It's coming from the operation ... tax. It's got nothing to do with the superannuation system.

LYNEHAM: Let's say I'm a small business person or a farmer. I've worked hard, worked long in my business, I want to move up, I want to get a bigger business in the next town. I then sell my business where I live. I then get copped with a bill for capital gains tax, just at the time when I need that capital to go and develop my next business to create more wealth, employ more people. Why can't I roll that over if I'm going from one business to a similar one - after all, the Beddall Committee recommended this - why can't I roll it over and grow and help the country grow?

PM: Well, ok. Well, let's just have a look at the facts of the situation. Firstly, which is not clear in the way you put your question, so let me make it clear, is that you don't get taxed on the nominal improvement in the value of your business. It's only on the real value. So that is an element which is not taxed. Secondly, let's look at the situation that's operated since the tax has come in. We've had very very significant economic growth in the country. I mean, it hasn't stopped growth. Let's look at what's happened -

LYNEHAM: Look at what's happened to small business Prime Minister.

PM: Ok, let's -

LYNEHAM: High interest rates.

PM: Ok Paul, don't get too excited. We can go on. Let's look at what's happened to business generally, including small business. The fact is that we have had, in the period since the capital gains tax has come in, the highest level of investment by business, which covers small business and large business, the highest level of investment as a proportion of gross domestic product. In the last year it was 13.5%.

LYNEHAM: Ten thousand small businesses have gone bust since Christmas according to the Council of Small Business Organisations.

PM: If the implication of your question is that it is the obligation of a government so to conduct macro-economic and micro-economic policy that no business goes bust, then I'm quite happy to argue that proposition. Let's look at the facts over the whole of this period. The facts over the whole of this period are these, and never overlook them. 1.6 million new jobs with 93%, 93% Paul of those new jobs going into the private sector and overwhelmingly into the small business sector. You've never had growth of the small business sector like you've had in the seven years of the Hawke Labor Government.

LYNEHAM: Why are so many of them in trouble?

PM: Well I'll tell you the answer. The answer is very simple. That in 1989 we'd had such a high level of growth - the previous year, as you know, the statistic, very simple - an eight percent increase in consumption, a four percent increase in production and that gap coming from imports. We had to slow it down. We had to slow it down with high interest rates. If we hadn't, if we hadn't slowed the rate of growth down, any loss of small businesses that you've had would be as nothing compared to what would've happened in the total collapse of the economy.

LYNEHAM: At the last election you told us we shouldn't change horses in midstream because you needed another term to finish the job. The net national debt then was \$83 billion. Now we're told you need another term to finish the job. The net national debt now is \$118 billion. How much more of this sort of job can Australia stand?

PM: It's very clear it can stand a lot more of what we are doing and nothing of the alternative. Just let's look at what's in place to deal with this issue on our side and look at how that will be destroyed by the policies of the Opposition. Firstly, we have in place the facts - more Australians than ever before at work, better educated and trained, and with a better level of technology and equipment than ever before. And that has flowed from our wages policy. Against that, against that a wages policy of our opponents which will mean a wages explosion and the destruction of the economy.

LYNEHAM: Did you see the Industrial ... survey today Prime Minister?

PM: Yes I did indeed.

LYNEHAM: Very gloomy.

PM: Not very gloomy at all. What's happened is that in fact - I mean you want it both ways. Your question is just about debt, so what's been driving the debt upwards, the current account deficit? It has been that we've been importing too much. Most of it's capital investment. So when I take action, as I have with tight monetary policy, to slow it down, I get attacked for that.

LYNEHAM: Prime Minister, the bottom line is that demand has to stay below production if we're going to stabilise the debt. I mean you said this yourself fairly recently

PM: (inaudible)

LYNEHAM: Exactly what does that mean?

PM: It means this. That what you've got to continue to do in Australia is what we're doing. And that is to have a massive restructuring of the Australian economy. To get what we've done, a 54% increase in manufactured exports in the last four years -

LYNEHAM: But it means you've got to keep the reins on for a fair while with tight monetary policy, doesn't it?

PM: No, it means that in fact the combination of tight fiscal policy - remember this. That in the last three years, in the last three years \$17 billion of budget surplus, which has paid off the whole of our Commonwealth Government debt. Now you've got to keep on having a surplus. Not blow it out by the \$6 billion hole on the outlays side that the conservatives were talking about, let alone the billions of dollars that they'd give back by way of the abolition of the capital gains tax.

LYNEHAM: Both sides are now saying vote for us and you'll get lower interest rates. Andrew Peacock said significant and sustained. Isn't it a fact that neither of you can really do very much, that if they do fall it won't be very far?

PM: On the contrary. Good question, sharp answer. The banking industry itself has said in regard to the existing policies of this Government that interest rates will come down. That's the statement of the banking sector which sets interest rates. Against that the inevitable fact Paul that interest rates must rise under the impact of the coalition policies for two reasons. Wages explosion. Secondly, in regard to the surplus of government, we have now, as I say, a \$17 billion surplus in the last three years. They'll blow it because they've got a \$6 billion hole and they're also going to ruin their budget surplus situation by giving billions of dollars back to the one percent. So as a result of both a wages explosion and the destruction of the Commonwealth Government budget surplus interest rates would have to rise.

LYNEHAM: And they will come down under you?

PM: Well, as I say, don't just rely on my statement which is based upon -

LYNEHAM: Well what is your statement?

PM: My statement -

LYNEHAM: Massive, as Mr Peacock used to say?

PM: No.

LYNEHAM: Significant and sustained?

PM: If you've got a problem with Mr Peacock about his incapacity to adhere to words, you have your argument with him. I rather enjoy your arguments with him. As far as I'm concerned, what I've said during this campaign is that the banking sector itself has said that interest rates will come down.

LYNEHAM: And they'll be sustained falls?

PM: I believe so.

LYNEHAM: Of course you said yesterday that you couldn't be held to anything that you didn't control, that would be an honest mistake rather than a fib.

PM: What I said was obviously what I must say. I can control these things. I have demonstrated that I can control wages outcome in this country. For seven years Paul, in regard to the wages outcome, we have either been on target or we've somewhat overestimated -

LYNEHAM: But not the inflation that erodes those wages?

PM: We've gone through this - and very simply let me repeat on this program what I've said before - that like every other economist in this country, in the public and the private sector, we underestimated the level of demand.

LYNEHAM: We don't vote for every other economist Mr Hawke, we vote for you and Paul Keating.

PM: Adn I'll tell you what, and if you vote for me what you'll get, what you'll get is a continuation of record employment growth, of a rate of growth of the economy twice as fast under us as under our predecessors. ... average rate of 4.4% economic growth, a rate of 3.5% of employment growth against their 0.7, five times the rate of employment growth, and you'll vote for a government which has demonstrated that it can deliver a wages outcome, a sustainable wages outcome and not a wages explosion, and you'll vote for a government which has done what has never been done before. In all those years, 30 of the 33 years before I became Prime Minister, the Libs and the Nationals in control. They never got a budget surplus once. In three years, after rectifying their mistakes, a \$17 billion surplus which I've used to pay off the Commonwealth Government debt overseas.

LYNEHAM: Prime Minister, thanks for your time.

PM: Thank you very much indeed Paul.

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