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PRIME MINISTER

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QUESTION: Would the Prime Minister enlighten me as to the decision making process which led to the decision to send our Australian naval ships to the Gulf?

PM: Let me first of all ... and I'm sure none of you think this. There are some ... members of this community who suggest that what happened was that I was sitting there in the Lodge playing with Whiskey the cat waiting for George Bush to ring. I'd given no thought to this matter at all. I mean George rang and George said send some ships. I said yes George, thank you. Well that's not how it happened. That's not how it happened. He rang me on a Friday which was the end of a process not the beginning. There had been raised in Washington earlier that week at the diplomatic level and then at the forces level the question as to whether Australia may be prepared to send some force. So there had been a great deal of discussion going on. I was in the fortunate position of being informed about all that discussion, being privvy to the intelligence about what was going on. I'd also had the good fortune to have met with my Cabinet on the Monday when they had unanimously agreed to the sanctions that we had agreed to put on immediately and that involved the stopping of the imports of oil from Iraq and exports from Australia. A unanimous decision by the Cabinet on that Monday the 6th of August that we would endorse and support any United Nations Security Council resolution. So I had a clear sense of the mind of Cabinet on that Monday the 6th of August. So there was my knowledge of the Cabinet. I was involved in being informed about developments in the area and also the discussions that were going on in Washington at the levels to which I referred. And so I had come to the conclusion very quickly in considering all these things that while this was one of the most serious decisions that I had to come to that essentially the principles were clear. I took the opportunity of discussing the matter with the members of my Security Committee which has the responsibility of dealing with issues of this kind. I had their unanimous support. So by the time President Bush rang me on Friday I had a clear view a) of the facts, b) of the principles involved, c) of the mind

of my Cabinet. Armed in that way I was able to indicate to President Bush what my view and the view of my Government would be. So without going any further they were the processes. The second question was what mechanism does the Prime Minister believe will lead to the referendum on abolition of States' rights being successful? I don't know where that question comes from because I've got no proposal and I'm not aware of anyone else who's got a referendum to abolish State rights. So all I can say is if anyone conjured up the idea and tried to put it I'd like to be having a bet on the outcome. I haven't got any such proposal. What I have got, which is very important is a, what I hope will be a path breaking proposal to bring the Premiers together with me on the last two days of October in Brisbane. Whoever would have thought a couple of years ago that you would have been having a constitutional convention of Premiers in Brisbane to talk about the relationships between the Commonwealth and States. But such is the rapidity of change in the world in which we live. That conference, and I pay full tribute to the Premiers, including you know that rare species now, a Liberal premier, Nick Greiner, I give him absolutely full marks for his positive response. At that conference what we will be doing will be to discuss how we can responsibly as political leaders in this country go about in a more effective way the discharge of our functions. There's too much overlap and duplication now. What we are going to seek to do is to work out ways in which, if it's better for the States and local government to do something, then we would get out. If it's better that we do it, they would get out. It is not a cost saving exercise although obviously cost, there would be savings. But that's a residual. The purpose is to try and get more efficient, effective government and delivery of services to the citizens of this country. That's the way in which to go about reform in this country. I don't know where this idea of a referendum to abolish State rights comes from. It hasn't come from me.

QUESTION: The question I'm afraid comes back to a subject that's had a lot of exposure and it's the one of foreign debt. I say that you made no reference in referring to your forward policies on reduction or even stabilisation of foreign debt other than your comment on increasing exports and lower imports. I pose two questions that you could perhaps comment on. First is your view of the trend of foreign debt and the second one, where are the increased exports coming from?

PM: Let me say this and I know in opening a reply in this way there may be some guffaws and hee-haws. But nevertheless what I say by way of opening is, I think, indisputably true, that the origins of our problem in this regard were what we inherited. Now let me say that that is not seen as simply a statement of convenience by myself. I refer you to what was said on page 2, dot 56, 2.56 of the authoritative budget statements which are

prepared not by the Government but by the Treasury. They make, I believe, an extremely telling point in their conclusion on this section. They say finally the marked deterioration in Australia's external accounts which has its roots in the deterioration in the public sector's financial position between the mid 1970s and early 1980s has left the Australian economy with a long task of adjustment. Now that as I say is the assessment of the Treasury as to the origins of the problem. We had a country which was in very very serious decline when we came to office. Australia was unable to stand up to international competition. It had for too long suffered under a overvalued currency and it had drawn itself behind protectionist barriers, and as you know a massive public sector deficit which at the Commonwealth level was over \$9 billion when we came in and that's not counting the States. That massive public sector deficit more than accounted for the imbalance between domestic savings and investment. Now what we have been doing is to try and tackle the fundamental problems which mean restructuring the Australian economy to make it more competitive. Let me say that you would be aware I'm sure of the basic success that has been achieved there now. We've had, as you know, a massive surge in investment in this country. It came to its peak over 1988 and 1989. And this has involved the beginnings of a fundamental restructuring of the Australian economy which is what is necessary to deal with the fundamentals of our debt problem. Now obviously that investment as it occurred added to our debt problem. Obviously it added to our debt problem. But the basic thing is it's improved Australia's productive capacity and as such it's reduced and enhanced our ability to repay and to reduce foreign borrowings in the future. Now obviously in this respect if you're looking about trends, what this Government has done has been of fundamental importance in reducing the call by the public sector on the savings of this country. You ought to understand the magnitude of that achievement. It's been unparalleled. What we've done is succeeded in turning around a public sector borrowing requirement of over seven per cent of GDP in 1983-84. That's what it was - 7.1%, the public sector borrowing requirement - to the situation where again now we have a zero public sector borrowing requirement. Now obviously that represents with a GDP now of \$400 billion, that turnaround of 7.1% represents a reduction of \$28 billion in the call by the public sector on the savings of this country. So if you're talking about trends and what's happening in fundamentals in regard to our debt, that's the great contribution which this Government has made with the co-operation of the community. It simply means that by the massive surpluses that we've created, and it's been a bloody hard job to create them, it's taken thousands and thousands of hours over these last seven years sitting in that damned Expenditure Review Committee examining line by line, department by department, making massive savings. But that's meant that we have ensured now that the public sector is now making no net call on national

savings. In the result we're now seeing the situation where we can say to you in this Budget that the current account deficit is being reduced by a full one per cent of the GDP. Obviously also as a result of these successive surpluses, and I remind you of what I said in the speech, that since comparable records have been kept, there have only been four occasions in which the Commonwealth has been in surplus and that's our last four years. As a result of that it's enabled a massive program of debt repayment as far as the Commonwealth is concerned, including as you'd appreciate, very substantial repayments of foreign currency denominated debt. That's what we've done. I ask you in those circumstances to look at the composition of Australia's overseas liabilities. This is the latest figures as at the 31st of March. The private sector, the private sector owed 64% of our debt. State governments owed 16%. Statutory authorities owed 25%. And the Commonwealth Government is a net foreign currency creditor making a four per cent contribution, a negative four per cent contribution to debt. So those are the figures. If you want to look at the trend we have a situation now where the debt is, that's our net debt I'm talking about, at the 31st of March was \$124.3 billion. That was 34.2% of GDP. That is a situation now which is the same as it was in September of 1986. In other words we haven't had a deterioration since then. Now my friends I don't give that answer, and rather long answer with any sense of complacency I can assure you. Because, as I said in my speech, we have the problems of inflation and of our external position but I do believe that we are showing now that we're moving into a position where we're getting that move to the balance we wanted. We've got to have a reduction in domestic demand. Gross national expenditure will be zero this year in terms of increase and the whole increase in our gross domestic product will come from net exports. And that's what this country's got to do. We've got to continue to do it for some time. So we shouldn't be complacent but we should recognise also, another factor which you will have heard myself and Paul Keating refer to and that is that in this period that we've in office we've seen our Australian investment overseas grow to the order of \$60 billion. Now if we hadn't done that, and that is going to be for the long term benefit of Australia, as it plugs in to the best developments overseas, if we hadn't had that our net debt position would have been at the order of \$50 billion which is a very different figure. So when you take all those things into account I think we have reason not for complacency but for a fairly considerable degree of confidence in the capacity of Australia to meet these problems, particularly as long as you continue to have a government which is going to do what no other government has done and that's keep on whacking out pretty significant surpluses for you.

QUESTION: Prime Minister, the Government has done a great deal to discourage spending. Is there anything you

intend doing to encourage personal savings among Australians?

PM: Well of course the most significant thing that we've done there and something that should've been done a long time ago is to encourage people in the field of superannuation. You don't want me to go into detail to all the changes that we've made. But when I mention superannuation look at the smile that comes over the face of my friend, Stewie Fowler, here. Look at it. I mean he beams as soon as I mention the word and so he should. Because what we've done is to, by specific decisions in the fiscal area, encouraged people to make provision for their own future and that's the single most important thing that any government could do. You know the sorts of figures that have now been talked about as to what that will mean in the generation of additional savings by the end of the ... We were talking in terms of hundreds of billions of dollars that are going to be accumulated as a result of these decisions. But we haven't confined ourselves to those sorts of decisions, as important as they are. We've also tried to persuade the trade union movement and employers that it makes a great deal of sense to channel a path of their claim upon the growing wealth of the community, not only in terms of payments for money wage increases but to do it by way of payments of superannuation. Now that has had the combined affect of being a significant part of increasing the savings of the community but also of itself reducing the demand that otherwise would've been made for wage increases which would've been inflationary and of itself been counter productive to savings. So there you have the basic contribution that this Government has made and which has never looked like being made by any other government before us - very specific provisions in the field of taxation to encourage people to save and a redirection of the large measure of the thinking of the trade union movement to ensure that they think in terms of making their claims not just in a way which can add to inflation but which is more likely to have the long term benefit flowing from an addition to savings. Now those are the things that we've done, nothing ever looks like it's been done before and it's going to make a very significant difference through this last decade of this century and into the beginning of the next in marshalling the savings of the community.

QUESTION: ..Mr Prime Minister, we can certainly empathise with your problems and frustrations, sitting for hours and hours on the Expenditure Review Committee of your Government. You should try sitting on the expenditure review committee of our company. The question is please summarise the reasons why you believe it is not in Australia's long term interests to introduce a broadly based consumption tax.

PM: Well I'll certainly be very pleased to answer that question. But may you first of all permit me a gentle

rejoinder to your lament about the problems you have in your company by saying this; that before you, at your company meeting, engage in your whatever period it is, a quarter of an hour or hour of lament, please go on your knees and thank my Government for what we've done for you because under this Government we have massively changed the distribution of national income from wages to profits. When we came to office company profits were down at an abysmally low about 11%. They peaked up at 19% and they are now averaging, as you know, a figure far beyond anything you experienced before we came to office. Not surprising because the other side of that coin is of course that under the period of my Government non farm real unit labour costs have been reduced by 10.1%. So two sides of the one coin. What we've done is to persuade the trade union movement to exercise massive restraint, shift the share of national income from wages to profits which by and large the business community has then reflected into increased investment. So before you go into your lament period give us thanks for all that. Now is regard to the consumption tax, let me say that we have already ruled out a consumption tax and we see absolutely no reason to change our position. Let me make it quite clear as Paul did in the House today. We were contemplating and seriously contemplating back in 1985 but the whole tax structure has changed since then. The business community in its "wisdom" in 1985 used its best endeavours - and here again Stewart's sort of shuddering a bit because he knows some of the background to it - but the business community in its infinite wisdom at the tax summit in 1985 put its thumbs down on a consumption tax and -

INTERJECTOR: Fools.

PM: They may have been fools but nevertheless the business community's representatives said no to a consumption tax at the tax summit in 1985. So if you've got any concern about there not being one where it would've been appropriate to bring it in, you talk to the representatives of the business community who gave it its thumbs down in 1985. So having been in a position where the trade union didn't want it, the representatives of the welfare community didn't want it, the trade unions didn't want it, we then went about a fundamental restructuring of the tax system and we now have a quite different position in 1990 from that in which it was sensible_to_contemplate_the_consumption tax in 1985. Now there were obviously very many difficulties in ensuring that low income earners and those on fixed incomes would be adequately protected. Indeed the best estimates that are available from our official sources are that if you were to bring in the consumption tax rate of 15% that Mr Reith - he's the Shadow Treasurer - that he's been talking about - he's a special I can tell you, he's a special. You talk about 15% consumption tax and you brought that in, it would be at a cost to revenue after you're given full compensation of some \$3B or \$4B at

least. That would be the cost, the nett cost. In addition to that, of course, look at what would happen to inflation. You would have a very significant boost of probably something like 10 percentage points to inflation. Now my friend, the Leader of the Opposition, with the language that could only come from a rather naive academic, said that would raise the price level but it wouldn't increase inflation. Well this is a nonsense because of course the very fact of that very significant increase at that point of time would be fed into the wages level. We couldn't have a situation in 1985 in our discussions where the trade union movement would buy the proposition of discounting to that affect and a Liberal Government would never be able to get that agreement. So you'd have a massive increase in the price level which would then be fed into the inflation position of the country. You couldn't begin to contemplate the introduction of a consumption tax from the point of view of a Liberal Government where you didn't have a wages policy. They have no wages policy and therefore a consumption tax would be a guarantee for a continuing boost to the inflation level in this country. So all those reasons are not something, I can assure you my friends, that are flippantly delivered. We seriously thought about it at a time when it was appropriate to consider it. The community, including the business community and significantly the business community, gave it the kybosh. So we have brought about a situation now where we have one of the most efficient and fairest tax systems in the world. As the Treasurer said in his Budget speech -

INTERJECTOR: inaudible

PM: Well you get the ooh's and the aah's from the thoughtless. The fact is, as was said in the Budget speech, that according to the recently delivered OECD figures Australia has the third lowest taxation of all OECD countries. The only two countries which have a lower taxation regime are the United States and Turkey. It's not a bad performance and for all the reasons I've given it would be deleterious for the welfare of Australia now to introduce a consumption tax.

QUESTION: The ACTU has just finished its executive meeting in Melbourne which endorsed an across the board approach of direct negotiations with employers to achieve the aims of accord mark 6. In a press conference a short time ago the ACTU President, Mr Martin Ferguson, said it was possible that the ACTU would not go through the Industrial Relations Commission at all. He described it as irrelevant. Do you support this type of direct negotiation?

PM: Well I read what you say as reporting what Martin Ferguson has said. I would want to see and hear from Martin Ferguson precisely what he said because you will have noticed those of you who watched the television last

night that Martin Ferguson went out of his way to restate the commitment of the ACTU to the agreement that had been reached with the Government. Those were his very precise, specific, unarguable words that he used last night in his comments on the Budget. He said that they intended to adhere to their position and that's one which is enmeshed into and foundational to the Budget where we have predicated a 7% movement in earnings during 1991. So I would be very surprised therefore if either Martin Ferguson or the ACTU has in the next 24 hours changed that position. Now as to what they may be saying in some sort of negotiating phrase before the September meeting of the Industrial Relations Commission - which has now been scheduled, I don't know. But my belief is that the ACTU - and this is the important thing as far as the community is concerned - will adhere to the commitment it's made to the Government of an aggregate wages outcome of 7% in this financial year. Now if they have some different view about whether that will be done in part by negotiation and part by the Commission, I'm not aware. But the important thing, the foundationally important thing as far as I'm concerned is that they retain a commitment to that aggregate wages outcome because it's that which is relevant to proper macro economic management.

QUESTION: Mr Hawke, you have spoken a lot tonight about the discussions in regard to the telecommunications industry or that are forthcoming. Our question is will the outcome of the forthcoming debate about the form of the telecommunications industry play an important part in determining who is your successor as Prime Minister?

PM: Well I'm very thrilled to see, and I hope you understand the important implication of your question - and it is this that we will win the next federal election. I thank you for the confidence that you repose in me because we will, I believe, win the next election as we deserve to. Now that is the point at which the question of my successor will arise and I don't want to contemplate on that, you know what my thoughts about it are. The question of a successor will not arise before the next election so what our friend here, Michael Davis from Merrill Lynch International Australia Limited, is telling you - so it's a good tip, you ought to get your money on - ALP is going to win next federal election. That's the headline that should come out of tonight. Now as to what will happen in that very important debate, I can't say with precision. I addressed it in my speech but I do believe that the Party will understand that there has to be change. In the process of that debate, Michael, and in the processes leading up to the conference there will be a pretty vigorous exchange of views and some of the people who in some later years will be appropriately considered for the leadership of the Party, will play a part in that debate. Obviously the man most likely to succeed me after the next election is Paul Keating, he'll be involved in the debate. Another

young man with ability who could be properly considered down the line, Kim Beazley, he'll have a pretty important part to play and -

INTERJECTOR: inaudible

PM: Well that's enough. You see we have a problem in the Labor Party and so do the Libs, but it's a different problem. Our problem is the great spread of talent. The Labor Party is going to be in the very fortunate position of having to choose, after my humble performance, they will have to choose and they will have Paul there to choose then they'll have a great range of talent from which to choose after that. The Libs have got a different problem, a paucity of talent.

QUESTION: Prime Minister, I realise you said in your speech earlier that the \$8.1B surplus was, in your words, already used and I noticed that in answer to questions during the question time that you've been pretty confident about a 7% aggregate outcome on wages. But I wonder whether you think there might be some opportunity for using that surplus to perhaps extend tax cuts as part of an accord mark 7 ... if the situation in the Gulf worsens and oil prices make their way into the CPI and make life difficult between yourselves and the unions.

PM: Well let me be very precise in answering this question because I know that if I'm not careful in what I say that headlines will be there of Hawke promising tax cuts or something like that. I preface my reply, Gerry, by saying this; if there's one thing that's characterised political and economic commentary over the last 7-1/2 years it's the continuing pronouncement of the imminent demise of the accord. No body or institution has been so continuously sentenced to an imminent death as has the accord. That began in February of 1983 when it was said that the accord was simply a stunt to help Hawke win the election, that he went to the Trades Hall Council in Melbourne there in the campaign, cooked up the accord and once he won it would be dead. And from February '83 they've continued to announce its imminent demise. The fact is, as you know, Gerry, very well from your background that the accord has been a remarkably flexible instrument and that has been because of two things. Firstly, we have in this country a remarkably responsible trade union leadership. Vide these things; one I've already mentioned, a 10.1% reduction in non farm real unit labour costs, which has led point two, to the creation of 1.6 million new jobs, the overwhelming proportion of them in the private sector and point three which has led to a more than 50% reduction in industrial disputes. There is the proof. It's not an opinion, ladies and gentlemen, there is the proof, the irrefutable proof of the responsibility of the trade union movement. That has been matched and has only been possible because we've had a corresponding responsibility on the part of the Government. What the essence of the accord - and

there's been books and volumes written about it - but it's extremely simple, the concept of the accord. It is this; that there is a mutual right of those who employ and those who are employed to improve their real position. Employers have a legitimate right to seek to improve their profits with a view to be able to expand their business and those representing working men and women have a legitimate right to maintain and through time to improve their real standards of living. What follows from that is that the accord says well let's see what are the most economically responsible ways of meeting those dual legitimate objectives. There is a belief on the part of the trade union movement and of the Government that it makes more sense for the Government, as far as it can, to pick up a share of meeting that desire for an improved standard of living through the social wage so that there will be a lesser impact upon employers in meeting that aspiration of the workers through increases in money wages. Now that's the guts, the very basic principle of the accord. And so it has worked that the Government, by significant increases in the social wage - which my friends, without being exhaustive had been reflected in massive increases in real terms in education. A situation where now after 7-1/2 years of my Government two out of three of our kids stay on in the education system instead of one in three when I came to power, massive increases in social welfare to those most in need at the lower income families. By those increases in the social wage the trade unions have been prepared to take a lesser increase in money wages. That has involved, as I said earlier, this very substantial transference in national income shares from wages to profits. The trade unions have been prepared to accept that because they've had the increase in the social wage. So that's been the dominant feature which has allowed us to create 1.6 million new jobs which means that now Government is able to manage a lowering of demand without falling over into recession because that restraint has given a resiliency in the labour market that under every previous Government had been lacking. Now you will see the relevance of that background to your question because we've demonstrated between us, the trade union movement and the Government, a capacity to adjust to changing circumstances. Circumstances which on the one hand have seen a massive decline in the terms of trade with all the associated problems of macro economic management that go with that and then the problems that come paradoxically with a massive improvement in the terms of trade. But in our negotiations with the trade union movement we've dealt with these things. There's been a number of instruments and methods that we have used to be adaptable and flexible. Without being exhaustive then they have meant some preparedness at times on the part of the trade union movement to delay the timing of wage increases. Other times there has been the preparedness to substitute tax cuts, which was the direct part of your question. There has been a preparedness to accept tax cuts. So my point in answer

to your question is this, Gerry. On the basis of our record over 7-1/2 years - looking at both the principle of the accord and the practice of the accord - you are entitled to expect that the trade union movement and the Government will be able on the basis of that principle and that practice to deal with any problem that may arise. I believe that I'm entitled to the confidence of the community on the basis of that record.

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