



PRIME MINISTER

TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING MP,
FINANCIAL REVIEW LUNCHEON, QUESTIONS AND ANSWERS, SYDNEY,
12 MARCH 1992

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Q: ... role of Australia in the Asia-Pacific?

A: I think our future is in the Asia-Pacific state. Already 70 odd per cent of our export goes to the APEC area and about 67-68 per cent from memory, of our imports come from there. We are all really largely integrated with the region, but, of course, more will happen. It's the fastest growing part of the world and we are now well set up to participate in that growth. Whereas because of our reliance upon border protection, tariffs, quotas, and the fact that we had a largely uncompetitive financial system back in the '50s and '60s, the trades in goods and services passed Australia by. Now we have removed exchange controls, broken the tariff wall down and now where national savings will be funding productive things. Our exports this year, for the first time in our history, our manufacturing exports are larger than our rural exports. We're now set up with a low inflation rate and with flexibility now coming into the labour market on an enterprise basis, we're really set up to participate in this growth which formerly we were not. So, we've got to the point ... for our exports again in the Asia-Pacific area, the great bulk of our imports come from there, obviously we are now better positioned to take our part of that trade and to share in that growth than we ever were.

That's why I think it is important that we continue to improve our competitiveness, and we break down all these areas of inefficiency. These are the first order issues. The first order issue are continuing the change in the micro-economy that we formerly were doing and successfully in the macro-economy, that is ports, wharves, railways, airlines, power generation, training, enterprise bargaining - these are the things, not whether we tax our Kelloggs or our income. It is an tenth order issue. The first order issues are

those, and if we concentrate on the first order issue that One Nation concentrates on improving the capacity of containers through our ports and onto our rail system, on our roads, training our kids and underwriting a tax break to capital, to investment. These are the things which will set us up more adequately to participate in that growth which is where our future must be.

But again we have got to be confident about our future, confident about Australia and look as though we are confident. I think that is terribly important to the chemistry of the region, that at least they think we know who we are and what we are and what we're after.

Q: Mr Keating, my question is about inflation. One Nation predicts inflation at 3.75 per. Will this blow out due to enterprise bargaining in wages and higher growth rates than predicted?

A: No, because it is no accident now that for 9 successive years we brought wages, the average weekly earnings forecast, which was put together by the Government with the ACTU under the Accord, we brought it in under target. We brought it in because of that understanding. I said in my speech that the ACTU as a constituency was at least as interested in lower inflation as any constituency in the country. The truth is it has been much more interested in low inflation than any constituency in the country. Because interest is between it being prepared to ... cut demands back where most other sectors haven't. And it is because it understands how pernicious inflation is to the low paid, to the retired, to people trying to buy a house and carry large price increases in properties, but most importantly retarding investment and with it employment. It's been about knocking inflation down and the fact that on the large booms as we've seen in the post-war years, 1988-89, when employers were offering wage increases of 12-15 per cent. But the year AWE number came out at 6 1/4 shows just how entirely committed in the face of that enormous demand for labour the ACTU has been.

Now we are not focussing on average weekly earnings. Because we have got inflation down, the thing to do now is keep it down and we are now focussing on major trading partner average inflation and imputing in that a wage number which is consistent with that, that is to which the ACTU is committed. But if you take the view that we can't open the labour market up, that we've got to remain with the Arbitration Commission for all adjustments in relation to the economy, then I think what you'll end up with is a colony of losers - out on The economy just won't be as competitive as it ought to be, it won't be as clever in managing itself and remember this, we are not the New Zealand Labor Party, there is no blunder and stumble here into

deregulation. We've actually broken the craft system up. The craft system of industrial organisation meant that if someone on the metals construction award on a Sydney building site paid an increase, that went through the whole of the metal industry in Australia. That's now been broken into much more discrete elements, and by going at it on an enterprise basis if a union wanted to claim and use its industrial muscle to claim an increase which destroys the business, it takes responsibility for it. Where formerly this was happening with the Arbitration Commission, who had no great relationship with either the business or the union.

Now a union can sit down with the company and get it managed better. And you've got the metals industry for its unions groups talking about advanced manufacturing technology.' They now go and say what's your long-term corporate plan, what's your long-term investment plan, and how can we help the business grow. That's the sort of mindset of maturity, not the confrontation. The New Zealand trade union movement never spoke to the Labor Government in all the years it was in office, and the Government didn't speak to it, there was no accord. They had a sort of cold turkey system that Dr Hewson will give you, you go and have a punch up over wages and the national interest invariably loses out. That's why when David Lange or Roger Douglas come here to listen politely but take no notice of them at all. I mean good intentions, but good intentions were never enough.

Q: Why are you waiting to give tax cuts for two years. Are you holding a carrot for the election?

A: To not do it would definitely see the tax burden ... That is, even with low inflation, the effect of low inflation on the tax ... which will see the real tax burden And this Government has been pursuing a policy of handing back fiscal drag from the system and more. So the reason we are not doing it this year is because we think fiscal policy can't afford it and at this point the build up is simply not there to return but over the next couple of years there will be a build up in the revenue, particularly as growth picks up and as more time goes by, with inflation even at low levels, to have an impact on the tax scales.

And by that stage, as the, if you like the hump of the deficit starts to decline as the economy comes back, as revenues pick up and unemployment benefits and the other things start to diminish and the deficit starts to come back towards surplus, that's the point then that we can make these tax cuts. All of Labor's tax cuts, every single one - there's been many of them since 1983 - have all been honoured, every one of them has been honoured. It won't be a repeat of the John Howard, John Hewson and Malcom Fraser show in 1977,

remember that campaign they had, ring up and find out how much your tax cuts were. Well 3 months later they took it back, they legislated them away. There won't be any of that. And they'll be there as they've always been. I think they will create a very good climate in the labour market. People will think they are getting a fair go out of the tax system by creating employment and it will provide a certain per cent rate of tax for people between \$20,000 and \$40,000. People on medium incomes where the incentive is to work and do more at 30 per cent rather than 38 in the dollar. But I hasten to add 30 per cent, the same as Dr Hewson's but without a consumption tax, without 15 per cent.

That's the point and I don't know how you are going with your businesses at the moment but what's going to happen to you is that in the nostalgia area as you give your Sundays away filling in, as you'll be a tax collection point on the GST, you'll give your Sundays to remitting money to the tax office, you will be nostalgic ... you will be nostalgic for a Labor Government if it were to ever come to pass ...

Q: Will an international increase in interest rates affect One Nation forecasts?

A: We've based it on what we think is a, in part, the trading environment over the forecast period. And the trading environment we are tied up to mostly is the Asia-Pacific environment which I think is growing at 3.5 per cent in forecast to 92-3 and 4.5 the following year. I don't see that sort of change, I don't see now the prospect of that changing with some shift in interest rates. It needs to be borne in mind that we've still got a tighter monetary regime applied now than ever applied from the 82-3 recession. In 1982-3 interest rates came down by about 12 per cent and ... same in this recession. By then we had inflation running at 10 and now we've got inflation statistically running at 1.5 or a trend to 3. So there is a 7 percentage points difference with inflation and yet the fall in rates has been the same, ie therefore this regime has been as it remains, much tighter than 1982-83.

Q: ... current account deficit/foreign debt?

A: It says in the text that ... systems stabilisation, the Treasury says that. This has been consistent with a slight drift up in the ratio of net external debt to GDP. And the ratio of debt to equity financing have a return towards levels which existed prior to the excessive leveraging of the late 1980s. Net external debt to GDP ratio could stabilise or decline slowly. In other words we shouldn't take as the comparable period, the high leveraging phase of the '80s, but something more sensible when that balance between debt and equity is more of a guide to how the economy will

be in the '90s. So any 2-3 percentage points the current account forecasts, will forecast by ... other people looking at the performance of the '80s. Now that has changed markedly, I can't remember the numbers exactly but I think we went from about 90 per cent debt in 89-90 to 90 per cent equity in 1990-91. One has to assume, I think, more sensible behaviour in financing levels ... assume that this is consistent with the stabilisation of debt and GDP or a slow decline.

Q: In regard to the Monarchy and your comments about Australia, if Australia becomes a republic what form will it take, will Bill Hayden be president for example?

A: Well just remember what I said. The remark which was objected to by our conservative friends, forelock tugging mates, was that I said in the presence of the Queen, I was congratulating her on her 40 years as the Monarch and to make the point that in the 40 so much had changed. In 40 years, I said to her, Britain had joined the European Community and Australia's largely devoted itself to the Asia-Pacific, we were necessarily more independent of Britain than Europe, but that she was part of that change. She was part of that independence by taking the royal style and title of Queen of Australia in 1973 - a thoroughly unexceptional remark. But our friends in the Opposition had to jump all over it. Dr Hewson said I didn't have enough respect for the Queen of Britain ... outrage, he'd like to slip right back to the torpor of the 1950s. As I said he would be our first candidate for an exhibit in the constitutional museum down there at the old Parliament House. Like I said in Parliament, we are going to put him in there with the Morphy Richards toaster and the qualcast mower and all the other bits and pieces that we all remember affectionately and well.

That's what I was saying. I was just saying that Australia isn't necessarily more independent and needs to be clear about itself, needs to be confident about itself. It's very bad for these people who wish to lead us in the '90s, but who harp back and want to be part of the '50s. What I'm saying is they are not the people to lead us. The people to lead us are people confident about Australia, confident Australians, people that know that we are good enough to make our way in the world and know that we are entitled to and have indeed an identity of their own. If one of our national leaders in the 1990s thinks that we shouldn't have an identity of our own but we should in some way not even be referring to changes in constitutional arrangements with Great Britain, then I say well thank you but we don't need you.

That was one of my remarks, I was not talking about a republic or what sort of republic we ought to have or

what constitutional arrangements should be. That's something for the public debate to comprehend as time goes by.

Q: When can we expect announcements on the simplification of superannuation and the clarification of pension rules?

A: Well when the Government has adequately considered the area. It's a complex area and when you take any system like superannuation, which is again, part of the torpor of the '50s and '60s, it was a gift from Mr Howard and Mr Hewson when we had only a very small proportion of workforce accessing the superannuation concession. And when we've opened it up more generally the workforce and then more sensibly taxed superannuation earnings, to do that and not disrupt the expectations of Australians who are near retirement, at retirement, some proximity of retirement, has meant that necessarily we've had grand ... provisions what have you, to protect them. This is a matter of inconvenience I know to the industry, but there is more than industry inconvenienced in all this. There is reasonable expectation by those who believe they've grown up in the system which gave them certain entitlements. And it's not easy therefore to change superannuation, arrangements for tax computation without having due regard for those things.

We've tried to do that. We've tried to make the system more simple but at the same time make it fair. There is probably areas where simplification can occur but they have to be proposals which we can adopt confidently and that will take examination and ... we've done more than any government in history.

Q: Can you explain what assistance there is to small and medium business in the One Nation Statement and what does it do for women?

A: I'll deal with the second part of the question first. The thing that I've had most in mind for women in this country since I've been a Minister was jobs, participation, choice, opportunity and of those 1.5 million jobs we created between 1983 and 1992, 60 per cent of those went to women. In terms of my own direct responsibility beyond employment, a number of significant things which the Government did for women in the '80s and that is opening up child care opportunities for women to go to work if they choose, which didn't exist formerly. The child support agency where women are supported by their husbands or former husbands, as the case may be, in support of their children, in supplementary payments for low paid women, in medicare which is an obvious support for women because women mostly have the burden of worrying about children and regardless of their circumstances are covered for health protection. I mean it is just one

thing after the other, equal opportunity legislation, affirmative action legislation and we're continuing that tradition and of course access to superannuation. Before we came along there was no preserved benefits and women who entered the workforce, left the workforce to have children and came back and had no preservation of benefits. They were effectively chopped out of superannuation.

These are quite milestone reforms. I notice the Opposition talking about pay rates for women, Dr Hewson said he will oppose national wage cases. A lot of women are in the low paid sector of the economy - process workers, shop assistants who rely upon national wage adjustments for maintenance of their incomes which they say they are opposed to. So, as usual, it will be Labor who provides, again, for Australian women.

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In relation to small business, we've got a number of changes in there which I think are important. The first thing is growth. That's the most important thing - small business lives off the growth in the economy. And we've got growth through the year forecast at 4 3/4 per cent. The second thing is, there has been claims by the small business community about the mobility of capital between businesses. We've now decreased sharply, dramatically, the concession for good will, the taxation of good will under the capital gains tax, exempting up to 50 per cent of the value of good will up to the value of a business of \$2 million, which should help, at least some people rolling from one business to another. We've also changed the rate at which smaller business meets the superannuation guarantee levy. We've also changed the timing of the taxation payments for small business. So, there is a fair bit there for small business.

Q: Let me say that I am not advocating any environmental vandalism or scorching the earth, but what absolutely escapes me this time is that we desperately need to create jobs, we desperately need to create foreign revenue, but we persist with the policy which allows some projects which have got potential to create lots of jobs and earn lots of money for this country to just sit on the back shelves. And it looks to me as if you are just pandering to a small political minority group as we persist with the uranium policy, which makes this country a laughing stock, where we are allowed to mine this mine but not allowed to take uranium from that mine. I don't understand why we do that, why we don't use all of our resources and why we don't stand up to this vocal minority and get on with it.

PM: I don't think that a vocal minority is holding major projects back. The only uranium mine which has ever been an issue in Australia is Pan-Continental in the East Alligator River's flood plain. And, for exactly the same reason that the former Coalition Government did not agree to this development is the same reason why this Government concerned with the prospects of mining uranium, building a retaining dam in the middle of a flood plain. And it's a real live issue, in terms of the environment. But that is not a new issue, it's not something that has risen in the last few years, it's something which has been there in the last 15 to 20 years. Now, Roxby Downs is larger than three or four conventional mines put together. So there's no prohibition to the actual export of uranium, it's only about the development problems of particular mining sites. And the only one that I know that is a problem is basically Jabaluka and Pan-Continental. And that's because of the flood plain problems, it's

right in the middle of the flood plain. If you had seen the escarpment and the flood plain, you know what the problem was. The latest, largest project to be, if you like begun, in terms of quantification and preserves is the monster out in Western Australia in the Pilbara. And while there were some objections to that this last week, it is now proceeding. And one of the reasons we put this 10 per cent development allowance in is to say to people who are running companies, that are not certain about their timing or whether they should enter the market and are sitting on the side lines waiting and looking at particular commodities and market opportunities, and then sort of blaming the Government, to say look - there is a 10 per cent investment allowance in there, so if you procrastinate now you have got to really want to procrastinate, because if you do you will lose the 10 per cent. In other words, it is a carrot sitting out there, and if they don't take it they will lose it. It is time limited. So if you are here now, getting up and saying we are being held back, you know either they really are, because if they're not they are simply going to do their company a disservice by losing a very important component in their cash flows in their early years. So that's why it's there. It's basically there to support the ones who have got bigger projects together which are ... which go through all these various states and what have you, and get environmental assessments and the rest. It's to support them and to at the same time encourage them. Now, in the One Nation Statement we have announced a one environmental process, intergovernmental agreement, environmental assessment which will now take place between the Commonwealth and the States in one process, which is a very great change. And also, the coordination and acceleration of projects which will now be conducted under the agis of the Prime Minister's Department, supported by my Parliamentary colleague, Laurie Brereton, to try to hurry and bring the projects through these approval processes. So don't believe that minorities are holding up major projects. The one major project that has been a problem for years is basically the pulp mill in Tasmania. Now, the pulp mill in Tasmania was not held up because of wood or forest resource issues. It was held up because the company said they could meet the organo-chloride emission targets of the Government, but they wouldn't be required to meet them. And that's why it didn't proceed three or four years ago. And part of that was because of Naranda, the Canadian company, who wouldn't be required to do things in Australia who might then be required to be done in Canada. So, just a little bit of guile helps here, sorting out what is true, what is fact and what is fiction. There's no doubt there is environmental differences in this country -

a legitimate one, but again I believe they can be balanced off in a sensible balance for development in Australia, and that there shouldn't be a preoccupation or a view that major projects can't start in this country. I just don't think that that's true.

Q: Actually, Mr Hunter is being a little coy since he has two questions and I'll save him the trouble by asking it. Is the Prime Minister ... of Australia being trounced in cricket, yachting and boxing. Does this reflect on the new leadership as the previous incumbent has had no such problem?

PM: I'll let that go to the keeper. We might have spurred the English team on, I'll take some responsibility there.

Q: Prime Minister, you've already referred to the aviation policy in the One Nation Statement. Can I take it a little further and ask your predictions for the likely outcome of the 1992 round of the CER, and secondly if you could give us guidance on your thoughts for the longer term direction for both countries under a CER-type agreement.

PM: Well I think it is important that Australia and New Zealand are more integrated as economies, and particularly in things like aviation where there's a group of people who are closer to Sydney than indeed to Perth is, and where it makes sense to run an airline system in Australasia. And a lot of the CER arrangements be concessioned by Australia to New Zealand, letting a country with a smaller market access to a larger market. And that mostly costs us. I've never minded the cost because I think it matters politically and strategically in the long run to keep New Zealand as a country which is economically strong and able to have access to larger markets. But I think it is important to get the airline agreement into place and we've got some, now absurd, blanket claims like Air New Zealand who want 50 per cent of the on-carriage rights out of Australia to Air New Zealand, which is of course absolute nonsense, absolute nonsense. I don't mind helping the New Zealand aviation industry, but if they think help means scraping more of our plate onto theirs in absurd arrangements, then they are cracking jokes. So, we'll be in a good negotiation, a meaningful, sensible one, but we're not about to be pillaged in the interests of bon homie and the fellowship of man in the South Pacific.

Q: Prime Minister, just on one aspect of your One Nation Statement, do you think that the electricity grid will overcome State rivalries that currently exist, and are you hopeful that there will be more competition in the industry?

PM: Are you from the industry?

Q: Yes.

PM: Well, one of the problems is, one of the great comparative advantages Australia has is that it can produce cheap electrical energy. We have a colosseum all the way down the East Coast of Australia and therefore it is one of our comparative strengths. It is nevertheless true that we are not able to fund cheaper power in the important industries who rely on it because of the control of the State Electricity Commission in particular states. The sensible thing is to set up an interstate grid company which is owned by the Commonwealth of the States which will be the distributor of power and the electricity commission will be the generators of power and that they will then tender a price to supply power to the grid, or that if a company wishes to use power, in the use of that power, they can get a tender from Miraring or Loyang or somewhere else and then that power station funds the grid and we can get competitive power prices to businesses around the country. That's the point of the grid corporation and which I think will be a very healthy thing for business and competitiveness and for consumers in the Eastern Coast of Australia, Queensland, New South Wales, Victoria and South Australia. Now the opportunities which I think will manifest there and it is important to bring them home and that is another important change. But can I just say, these are all the changes which Australia really does need. I mean, putting a national grid corporation together, or building a railway highway from Brisbane to Perth, or tying the ports to that railway highway, or extending the road highway system, are all things that can only be done really by Governments. And they can't be done by taking money away from Budget in these respects, which is what the Opposition wishes to do. It is not going to happen by simply taxing your Weet-Bix or your clothes or your shoes. I mean it will not matter if you tax your clothes, your shoes or your Weet-Bix, it will have no impact on the curves and gradient of the Sydney-Melbourne railway lines, or the ridge heights, or whether one has to follow a ... route from the Port of Melbourne or the East Swanson dock to the railway yards. Whether a truck can only take one container not two because it cannot go onto the railway line, because it isn't r..... I mean these are all physical practical things that need to be done to make the country efficient where it matters most. Moving goods and around and being able to trade. Dr Hewson calls that irresponsible. He calls that spending irresponsible, he knows that no private company is ever going to invest in the railway system in terms

of the permanent wave, he knows that. He knows that without Government action we will not get a better electricity distribution system. He knows without Government spending we will not invest in our children in technical and further education, and we can't have now as Labor has, 7 out of 10 children completing secondary school, but not enough uptake in the TAFE system, to take them up and train them. But we can't have a clever country without a trained workforce in this area. He knows all these things, and yet we are given only the ideology of the GST as the solution to Australia's problems. In other words, we are supposed to say, well look, we've now reformed the macro-economy largely, we are now producing competitively, we've now got our inflation rate down, now is the time to crack all these other areas, ports, wharfs, rail, road, training. All of these things. But we will not do that, what we will do is we will go and tax expenditure but not income and that will solve the whole problems. That will solve the whole thing. But of course it is nonsense. It is a tenth order matter, and regardless of what everybody thinks about taxing expenditure, nobody is going to accept that someone on \$20,000 who spends all of their income, that is in material whether you tax their income or expenditure because it is one of the same, they spend the lot and mostly more, they do save, whereas something on \$150 or \$200,00 who is spending half their income and saving the rest, not only is not taxed fully on that income, but as well as that, receives a very big tax break. Nobody is going to wear that, nobody is going to wear that. And so not only is it going to be, is it a focus on things which are not material to improving Australia's competitiveness, but it will actually be divisive. And as we add 4 percentage or 5 percentage points to the price system, and inflation rate doubles, more than doubles and goes back towards double digits again, Dr Hewson will require the workforce undercompensated to take a real reduction in income by a discount to wages which will preserve the low inflation rate, which of course they won't, they will just go and recover it in the market. And there will be a lot of buzz in the news ... then about inflation. A lot of buzz about inflation rising. And what will he do then to repair it, lift the interest and slow the economy down, so you will end up with structural high level and structural unemployment, lower levels of economic activity and that is supposed to be a solution. The fact is you can't run Australia without an agreed basis of income determination. Whether you call it Accord, or compensation with the Government and the unions, or a partnership with business, a partnership with the unions, you can't run this country without some agreed basis of income determination. And to throw a sort of hand grenade at the system with the

doubling of the inflation rate through GST when we have the unions now prepared to make our enterprise efficient, committed to low inflation, wanting to train our children and prepared to come to into, agree with enterprise agreements on things like railways, ports, power generation and the rest, and say oh no, we don't need that, we can have the luxury of not worrying about those things which have bedeviled us for half a century and will go for Dr Hewson's GST. And then when the system is inflamed, with higher inflation and lower growth, and the whole micro-economic change stalls, people might then say, well that was a mistake. It is a mistake because, it is a mistake for this reason, Dr Hewson had exactly the same opportunity as I had when I became Prime Minister, and that was to sit back and say well, what needs to happen to Australia next, what is the logical thing to be doing now? He sat back and said, not what should happen for Australia, or what is logical, he said, how can I be different? What can I do that marks me out to be different? And he said, I got it, it's a consumption tax. So then he has put this consumption tax and wrapped around it other policies on the basis that its camouflaged and hidden and disguised for all to say, oh that's clever Dr Hewson, that is terrific, terrific little result. He is going to double the inflation rate, blow the wage system out of the water, derail micro-economic reform, just what we need, just what we need. But he had such a dream ride for 3 or 4 months, that he actually believes that the policy brought down actually has some quality to it. I hope that I have punctured that dream.

ENDS