



## PRIME MINISTER

TRANSCRIPT OF THE THE PRIME MINISTER THE HON P J KEATING MP  
AND THE TREASURER THE HON J S DAWKINS MP

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PM: We thought we would give you a run-down on the meeting we have just concluded with the Premiers. The first point I want to make is, there's an agreed communique and it's now in the course of being published so we'll have that available for you soon but it was written in the course of the afternoon as we went through subjects so there was no pro-forma communique drafted before hand so that's why it's a bit slow in coming but it will more than adequately reflect what was discussed at the meeting.

The first thing I would like to say about the meeting was that it was a very co-operative one and the outcomes were, I think, exceedingly good. We in terms of the broader discussions, we agreed to establish a Council of Australian Governments to meet at least once a year on non-financial issues. So where we have the Financial Premiers Conference to discuss financial assistance grants, Commonwealth payments to States, this is about all the other national agenda issues in the micro economy, education, all the other subjects, the Commonwealth will be the Chair, the venue will be a rotating venue around the States where the respective Premier will be the host, and the Commonwealth and the States will jointly provide a Secretariat.

The first meeting of this body will decide the protocol relationship between the Council and the Ministerial Council, that is the Councils of Ministers of each particular discipline of the Commonwealth and the States. So where we now have education ministers and transport ministers meeting with their counterpart ministers in what's called Ministerial Councils, the protocol between those Councils and the Council of Australian Governments will be decided at the first meeting.

So it's quite an historic event and, I think, a good outcome from a succession of meetings discussing various issues and it will be a useful forum for debating matters of national moment beyond the financial discussion. That's not to say that this body itself can't have a general financial discussion - it can, but by and large the Annual Financial Grants Arrangements and Loan Council will still be the subject of the financial meeting.

On the broader topic of federal finances, we've spent considerable time this morning discussing that subject and we have agreed to a joint treasury study - joint meaning Commonwealth and State Treasuries - to look at the underlying financial trends in state budgets, that's on the receipts and the outlays side, and likely budget balances in the future, the impact from the recession and the recovery, and to get some idea of how State budgets will look ahead of the financial meeting coming up in June.

The States will be deciding this week whether they require of the Commonwealth a one-year financial arrangement in 1992-93 or whether they would prefer to seek an on-going relationship, financial arrangement, over say a three year period. It may suit their purposes to make a one-off arrangement with the Commonwealth at the financial meeting in June, it may similarly suit their purposes to make an arrangement with the Commonwealth over three years because the Treasurer and I indicated today that we are prepared to discuss with the States certainty of funding and questions of adequacy including the prospect of growth in Financial Assistant Grants and it is with that background they have now, themselves, withdrawn to consider their positions as to whether they say to the Commonwealth we want to now consider a one year arrangement or a three year arrangement.

The States presented a paper to us of financial trends and some claims which have been published by some of you. I think it's fair to say that when we pointed out that a reference to historical shares, that is to take Commonwealth payments to the States back to the proportion of Commonwealth payments which obtained in the early 1980s would involve an addition of about \$5 billion in the coming year rising to \$9 billion by 1995-96 which we rejected out of hand and said it was not possible and reminded them of our own budgetary position and the fact that we spent the 1980s pulling the public sector down for national adjustment and national savings purposes and there was no point now to try to reverse that to make it easier for State officials to put their budgets together.

While we said we will examine longer term trends in State financing we are not accepting of the notion that we return to some share of payments back in the 1980s.

Certainly we're not the implications of sort of \$5-9 billion, those sorts of numbers. That was I think accepted.

There were number of other things decided. Mutual recognition of standards were agreed and the States agreed that the Commonwealth should fully participate in the setting of those standards. This was an item which had been on previous Special Premiers Conference agendas and has been decided today.

On Technical and Further Education there was an agreement to resume discussions with a view to advancing the outcome by the June Financial Premiers Conference meeting. That is, States at this stage are not entirely certain of what the dollars and cents of such an arrangement will mean because some States have a bigger effort in TAFE, some have a smaller effort and again, if there's a change to Financial Assistance Grants, the Grants Commission formula re-allocates funds on a different basis of distribution than that which we pay now to TAFE or to that which they spend. So we agree that we continue discussing this, but we also said that as John, as Minister for Education, had discussed with the States some time ago, that if we are about re-sorting, functions with the States doing things which they think they can do best and us doing other things, that in the symmetry of them handling the compulsory education area, the Commonwealth may handle Technical and Further Education, vocational education. But consistent with that would be that the Commonwealth removed some of the conditions under Specific Purpose Claimants which we now attach to payments for education. In other words, what's called in the jargon the 'tags on the FAGs' - that's the Financial Assistance Grants, the tags we put on them - the requirements of policy which we put on the Financial Assistance Grants - if they were to be removed and we paid this over to them as Financial Assistance Grants free of any requirement by us in terms of their expenditure, meaning that the compulsory area of education was handled exclusively by them, though with conversations with us but not legislation, conversations about general policy that we're contending and they are considering that a Commonwealth take over of TAFE funding provides that symmetry. Now again, we've agreed to continue discussing these issues and we'll resume discussions on that at official level soon.

There was an emphasis upon the importance of youth and youth training and TAFE being an important part of that whole equation. Training young people, those people who have left school beyond compulsory education who are not getting tertiary places, and having an important place for them.

But on the main change, on the Commonwealth assuming financial responsibility for TAFE, Victoria was supportive of that, NSW is examining and considering it in the context of the change I mentioned in relation to Financial Assistance Grants for compulsory education and other States are similarly considering their position, though there is a propensity on the part of the smaller States to wish to have a joint funding model.

Moving now to electricity generation, which was another 'One Nation' topic we had on the agenda, we did secure agreement in principle to the separation of power generation from transmission. This is the key point in this issue - that the providers of power are not the transmitters of power with a view to establishing an East-Coast electricity grid, a network which would be represented by a structure yet to be agreed, upon which the Grid Management Council will give us advice by the end of the year. In other words, that the transmission assets of the East-Coast States would be part of an East-Coast grid, a body, a corporation, the design and structure of which we are yet to be advised upon. But the principle of separation is agreed.

On roads we've agreed to untie \$350 million of Financial Assistance Grants of a Specific Purpose Payment for Roads which were formerly paid for, well the specific purpose of road funding. We have yet to agree on how that untying is distributed because, if it is distributed by way of Financial Assistance Grants, the weighting of the distribution is different to the weighting of the road monies which were formerly paid under an SPP - a Specific Purpose Payment. You understand, under the equalisation formulas, money is basically, on the horizontal equalisation, shifted off to the smaller States, but given the fact that the old Specific Purpose Payments for roads were concentrated where the roads were required, more of the money went to NSW and Victoria under the Specific Purpose Payments than would go under Financial Assistance Grants. So naturally, whenever these positions arise there is always an argy-bargy about which distribution formula. We are going to have another one of those between now and the next Premiers Conference.

The other important point was, I think, we had to seek to agree on the delineation of road funding responsibilities - which is the Commonwealth Government's and which is the States - so that we can define. Now that the Commonwealth is going to move \$350 million out of identifiable roads spending and give that to the States we want to be clear that we don't have constituency interest coming back to us to say, you are now not spending enough on roads. We say, well hang on, we were spending it, we've just untied it. It's not shown, so it will be important for us to

get that delineation of what's a Commonwealth function and a what's a State function clear.

On Aboriginal affairs we endorsed the report of the AAAC and agreed to, I will just check with John this, to examine the operation of Section 18 of the Act - the funding powers of ATSIC. The States have had some difficulty relating to ATSIC as the primary negotiating point for the expenditure of Commonwealth funds and so therefore Section 18 of that Act and its financing function is going to be examined. But the States have acknowledged that ATSIC is the body they have to deal with where formerly they were seeking simply a deal with the Commonwealth.

On rail, several Premiers expressed satisfaction with the way things were going in the 'One Nation' rail program and we are moving to try and negotiate an enterprise agreement for the National Rail Freight Corporation but while that's happening, we're in the process of getting contracts together for the provision of passing loops, extensions, bridge heightening and all the other things and Premiers told us that they were satisfied with progress on that score.

I think that's about it in terms of resume, the communique will go more expressly to the points but I think we can conclude by saying that it was a good meeting and there was an atmosphere of co-operation and we've now formalised, if you like, this discussion by the Council of Australian Governments so in the future there won't be just simply a Financial Premiers Conference but there will be as well another forum for national agenda discussions.

I think I will leave it at that and just invite the Treasurer and see if he wants to add anything to my remarks in any way.

J: On 1 May the Minister for Finance said that the revenue collections were moving towards the February budget deficit target of \$6.8 billion. What has happened in the last ten days to so dramatically change that outlook?

T: Well let's go back a bit further. I mean there was some suggestion back in January/February that the revenue estimates wouldn't hold up. We undertook some specific enquiries as far as that was concerned and we were reassured at that time that the revenue estimates were likely to be sustained during the rest of the financial year. It wasn't really until the December quarter National Accounts figures came out in the middle of March that we began to realise that there may have been an error in estimation, or the estimations may not hold up because of the lower growth in earnings because the higher level of unemployment that then was anticipated at the time, the fact that you had lower interest rates. All these things only became a question after that and that coupled with the actual experience of collections in, I think, April and May really revealed the scope or the nature of the deficiency because it was confined largely to this area of provisional tax paying individuals, which is of course based on their 1991 income and what had happened was that there was an over-estimation of that income at

T: I think the point is that the deficit, you said that we were back to where we started. I mean when we started we had a budget deficit of some 4 per cent of GDP. Even with this position it is about 2 1/2 per cent of GDP. So, whilst the numbers, the absolute numbers might look large when compared back to 1983/84 we are talking about a budget sector which has grown from about \$40 billion to nearly \$100 billion, so it is a much different equation than we were dealing with back in 1983/84.

the time of the budget. But that wasn't actually revealed in terms of payments until those provisional tax payers started actually paying in April and May. So it was really of recent origin. I was first alerted to the fact there may be a problem only a matter of a couple of weeks ago and I indicated that at the time. I sent the Tax Commissioner back to confirm his figures in the context of the May review because we don't give running commentaries of the revenue side of the budget. We have a normal process in the context of the May review. I brought forward the May review, asked for the revenue figures to be tightened up as much as possible for the May review and decided that that should be released in the context of this Premiers' Conference so that they had an understanding, not only of our budgetary position this year but also our prospects for next year as well.

J: You were scathing at the time about those private estimates which now turn out to have been pretty spot on, at least in the total. Are you concerned that the collection of official data or the making of official estimates is not perhaps what it should be?

T: Well this area which has been the subject of the greatest volatility has an experience at being volatile. I mean on this occasion it is down by a figure of \$1.8 billion; a year ago it was down by \$300 million; the year before by \$1.1 million; the year before by \$1.5 million; the year before by \$300 million; but the year before that it was an underestimate by nearly a billion dollars. So there is a high degree of volatility in this provisional taxpayer area. Of course, it has been covered up on other occasions because revenues have increased under other categories. As far as the Access estimate or prediction in January, I think, of a \$9 billion deficit, they may have got it right but for all the wrong reasons. The components of their estimates were wrong, they under-estimated the size of this deficiency and they wildly over-estimated the size of what they predicted was going to be a massive deficiency in the PAYE area. So they got it right by accident.

J: What's the difference Mr Dawkins of getting it wrong for all the right reasons?

T: Well what do you mean by that?

- J: Well you said that Access got it right for all the wrong reasons.
- T: Look there is a world of difference between a budget deficit blowing out because expenditure is out of control - that is not the case. Expenditure has hardly contributed to this question at all other than the planned expenditure that we made in the One Nation context. This has been a deficiency for all the right reasons. For the reasons in the way in which the Prime Minister has described it. We have had lower inflation, lower earnings growth, lower income from investments because of lower interest rates and a range of those kinds of things. So this is not something which could have been accurately predicted at the time. The other point is that the Tax Office's estimates of company tax are made on the basis of a private survey that they make, I think, in June of a particular year, helping them to estimate for the next year and it just turns out that survey happened on this occasion to overstate the company tax collections.
- J: Mr Dawkins these figures were last updated in February, not so long ago, surely they should be more accurate?
- T: At that stage they were all on track and it wasn't until the later evidence came in, and I am telling you I actually asked the question before that, I asked that these matters be confirmed and they were at the time. It was only when the National Accounts figures came in in March and when we had the record of the actual collections being made in April and May that the magnitude of this problem became clear.
- J: Prime Minister, can you still deliver the One Nation tax cuts?
- PM: Yes. They are solid as they were when they were published. And again, we will have the Budget back into surplus in 1995-96.
- J: But doesn't that imply that you are going to have some spending cuts, Mr Keating?
- PM: We've, the Treasurer and I, have been involved with putting together of more budgets just about, certainly more economic statements, than any other pair of individuals in the history of the Federation, 17 of them in fact, and we always have been able to meet our objectives, and we will again.
- J: Does it throw any of the One Nation measures out of kilter?
- PM: No, it just means that the financing task is bigger, and it means the starting point next year is larger. But again, there is a lot of volatility in these revenue estimates, and you can see this in the election by provisional taxpayers to obviously self-assess themselves. That will change.

- J: But isn't the point about these figures today that while they might be only just emerging, you are arguing that their source is from low inflation, what you argue is that there is a structural change in the economy. If that's the case, shouldn't we be assuming that there's not going to be any huge surge again in revenue if low inflation is locked in?
- PM: The revenue will come from growth/activity profits etc. Business is now in a position where it is moving to a mode of higher productivity. The high level of unemployment is evidence of that. So as soon as there is a pick up in volumes, the profits will go straight on the bottom line. They will all be picked up under tax collections a year later.
- T: Of course with higher levels of employment as well.
- PM: With higher levels of employment and activity. But the initial effects of low inflation are going to be, obviously, some burden to the budget.
- J: Your tax cuts are based on bracket creep, but if inflation is lower how are you going to fund your tax cuts?
- PM: Well the brackets will be creeping less, won't they?
- J: Yes that's right - and you'll have less money to pay back.
- PM: And therefore, well we'll see. We've got forecasts in there. At the moment we've been undershooting those forecasts with inflation, which is a good thing.
- T: Of course the other point to bear in mind is that with lower inflation you've got the prospect of maybe growing a little faster.
- PM: That is, the confidence effects.
- T: Mr Keating, do you reserve the right if those forecasts turn out to have to be revised to revise the tax cuts?
- PM: All governments automatically have a right of discretion, but we've made our position clear on this.
- J: Is that position absolute?
- PM: Yes, absolute. Because we have in the past delivered very large tax cuts over quite long time frames and they've all been delivered. At every point, the ACTU has always said the Government has always delivered on its commitments. Never have we made arrangements which we backed away from.



- J: Mr Keating, in the past you've said it gets harder every year to keep cutting and there's less and less to cut. How tough an assignment will it be to actually, in the past you've been able to cut expenditure, how tough a task will it be now?
- PM: That assumes one has to cut expenditure.
- J: Well, didn't you say earlier that you would be looking at that - to reign in the deficit and to deliver the promised tax cuts?
- PM: We'll look at the production of a budget which has got lots of things to it. We've now got a relatively small public sector in OECD terms, notwithstanding the rise in unemployment benefits and the outlays coming from the natural stabiliser in the budget. But invariably when we put the budget together we've always had a housekeeping task on outlays, and we probably will again.
- T: And the best way to deal with outlays is to not let them grow too fast. So what it really means is that our colleagues might have a dent or two placed in their new policy proposals.
- J: Do you think a \$10.5 billion deficit is an acceptable level for next year?
- T: Well that's the starting point deficit. This is the kind of beginning of the budget process. We all have our discussions about what we think the appropriate parameters are for the budget and obviously we'll bear in mind the starting point deficit in that context.
- J: What impact is the Government's bond raising program, now that this deficit figure has appeared, likely to have on interest rates?
- T: Not much I wouldn't have thought, if the response from the market is anything to go by. The Treasury put out a statement today talking about, I think, another \$1.3 billion borrowings in June, and I think we'll wait and see what the reaction to that is but I think the market will take it in its stride.
- J: All this indicates, despite the spirit of cooperation today, the States next month clearly cannot expect anything much in the way growth in real funds, surely.
- T: Well interestingly they didn't put in a bid for any lavish claims. They recognise that, certainly after I revealed the state of our Budget, they acknowledged the fact that this was not going to be the year in which

they could get a major correction in what they consider to be their budgetary circumstances.

J: Someone said it was a role reversal.

PM: Normally they come with a tale of woe, this time they came to find that there was a change in the Commonwealth Budget, a deterioration of the Commonwealth Budget balance, which may have taken some by surprise.

J: Who said that?

PM: Well I can't remember exactly which one.

J: It was certainly very fortuitous timing, wasn't it Prime Minister?

PM: There was nothing organised, it was a natural time to..

T: We actually brought it foreword.

PM: Good point.

T: We thought it would have been particularly odd for us to send the Premiers away from Canberra and then a week later make this revelation. And that's why I brought foreword the announcement of this position. Because they had been making the point frequently and loudly that their budgets were knocked around by the recession and ours was not. That's what they said. And it was important for them to be advised that in fact our budget is much more knocked around because our budget is more dependent on income taxes and with fewer people in the workforce, that affects the revenue, and it also affects the outlays as you have to pay those people unemployment benefits. Because ours is the budget that provides the kind of stabilisers to the economy under these circumstances.

PM: The States revenue this year is still growing. I think on average it is about 1.5 per cent. Commonwealth revenue is declining by about 3.8 per cent.

T: Now more.

PM: Now more.

J: Are you as confident about the growth and investment forecasts in One Nation as you were two months ago, particularly for 1992-3?

PM: I think there is a mood change coming from the consolidation of those low inflation numbers and the interest rate reduction, which the Treasurer announced

last week, had 1 per cent taking cash rates at 6.5 per cent is starting to take a substantial effect upon the outlook for growth activity, investment. We're starting, I think, to see people really accepting the fact that inflationary expectations are down, inflation is down in a trend way and we are going to have lower interest rates for the foreseeable future. That's an important part of the investment equation and it is coming good for Australia.

- J: Did the question of the Superannuation Guarantee Levy come up with the Premiers?
- PM: Only in passing.
- J: Prime Minister, in the deficit figure today, do your growth forecasts in One Nation have to be exceeded for you to meet your timetable of a return to surplus without spending cuts?
- PM: We're talking about 1995-96, we're not talking about tomorrow morning. We're looking at, obviously, the economy now moving into a recovery phase on the upswing and we've, in the past, set ourselves sort of medium term outcomes for public policy, for fiscal policy, and I don't really think that, notwithstanding that \$1.9 nearly \$2 billion shift, that is an insurmountable problem for us.
- J: Mr Dawkins, can you explain how the Tax Office got its estimations on the impact of the tax file numbers so wrong? Is it the case that there is fewer dishonest people out there, or are they just more clever than the ATO?
- T: I'm not absolutely sure about that. They made some predictions particularly about interest income and the effect of having the tax file number as a means of having a more accurate record of interest income. I think it was more partially a fact that people probably anticipated this and made their own arrangements ahead of the TFN. It was also a fact that interest rate payments were lower than anticipated. But I can get you a more detailed response to that if you want one.
- J: Mr Keating, do you still think the States are basically irresponsible financial managers?
- PM: The States have pulled back on their spending somewhat, but between the period 1985-6 and 1991-92, that is in the period when fiscal consolidation became a national imperative, Commonwealth outlays rose by 5.9 per cent and State purpose outlays rose by 12.9 per cent. So if one takes outlays growth as a measurement of restraint, the Commonwealth's 5.9 per cent real over that period

1985 to 1991-2 is an indication of fairly stringent levels of restraint. The States did have bigger spending programs. These in part were camouflaged by the big pick up in receipts coming off the boom, particularly in property and stamp duties, that's declined a bit. But the underlying level of their outlays and expenditure programs are obviously not as tight as the Commonwealth's.

J: Mr Keating, in terms of their confidence as financial managers, though, given some of the things that have happened in Victoria and in South Australia, I mean they're really fundamental problems that need to be addressed. What sort of things can the Commonwealth do?

PM: Well they've certainly got problems with management of financial institutions and PTEs, and I think they're are obviously now painfully aware of those.

J: But is there some sort of stamp that the Commonwealth can put on ... ?

PM: I don't think so. In the end if you want own the State Bank the buck stops at the shareholder's door. You can have all the independent boards you like and you can have everything else, but in the end you've got to take an interest in it.

J: Was the position of hospitals discussed?

PM: Only briefly.

J: What about the implementation of the Aboriginal Deaths in Custody Royal Commission?

PM: Well again they will be responding to that and relating their response through ATSIC.

T: That was the significance of the endorsement of the AAAC Agreement that that's the thing that underpins these mechanisms for the future. So we made progress on that.

J: So what's the effect of that?

T: It now means we've got a mechanism, a Commonwealth-State mechanism for dealing with the response to the Commission's report.

J: While the Premiers were meeting with you, their officials were telling the Senate Committee on Super that they basically rejected what the Federal Government's been saying about the effect of the SGL on wages outcomes, on jobs, and on national savings. This

SGL looks like it's in a fair bit of trouble with the Senate. Are you prepared to modify it dramatically or change the date of its implementation?

T: No. I don't think it is in trouble. I've been having discussions with the Democrats, they haven't given me the impression that they're about to reject it. What would you expect the States to say. I mean, the States see this as a bit of an inconvenience because it's going to cost them money. But the alternative is that they would be up for higher wages costs. The fact of the matter is that the States have been major beneficiaries of wage restraint. Wage restraint has been achieved at a great cost to the Federal budget through tax cuts, wage-tax trade offs, and the like. And this was a point that the Prime Minister made to them today. So you don't expect them to be throwing their hats in the air about this arrangement, but it is basically an arrangement whereby people who don't have superannuation, or who have very little of it, will get access to it to improve their prospects in retirement.

J: They're making the basic point which is that the SGL means that for a lot of people there will be what is effectively a wage increase on July 1, in terms of the cost to employers, which would not otherwise flow through with the economy in the state it's in.

PM: Yes, but the superannuation 3 to 5 to 6 per cent outcomes are the product of wage restraint from 1985-1991/92. And the years when we've had falling real levels of wages, the States have been given an enormous bonus for years in succession. Look at their wage costs - wage costs are 60 per cent of their outlays and what's average weekly earnings this year? 3.5 per cent. I mean, they've been the major beneficiaries of the Accord processes. They can't take all of the benefits and then say sorry, but the bit at the end of the section, the superannuation, we're not going to be paying that. You know.

J: Do you envisage that this new Council is actually going to be able to make decisions and reach agreements, or is it just purely as you've put in your Statement for discussion?

PM: No, if you look at today - today is really a precursor for this, a forerunner for this. It was a decision we've made today on a whole range of important things such as mutual recognition of standards, what we're deciding to do about electricity. It is a very large principle - getting the States to agree, notwithstanding the presence of electricity commissions, for the principle of separation of power generation and transmission assets is a very large one

to get at a meeting like this. I've always said to you I've thought these Premiers' Conference meetings were very efficient. And they have been by and large. Whether they be in the financial guise or in the non-financial guise. And I think this Council could do a great deal.

J: Mr Keating, in terms of the way you see these Federal/State relations going, is there a particular theme you can point to as to where the reform is going, I mean through that Council?

PM: All of the areas where national policy, since the time of Federation there has been a more national outcome. Be it in terms of the economy, macro-economic policy, education, roads, the Commonwealth Government has been involved and there has been a national movement of policy. Having a place to discuss those things other than simply Ministerial Councils where it is the preserve of the respective Minister and not the broader discussion between States and the Commonwealth, has been a limited factor. I think to now be in a position to discuss these issues in the longer haul, that is to find this sort of delineation between State and Commonwealth responsibilities and to talk about them in the broad, so that Premiers in all States at the one time are all part of the same conversation and know which way the system is moving, is I think important. The cooperation in the last few years has been quite profound and a lot has been achieved. A great deal. And I think this Council does hold great promise. Thank you.

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