



## PRIME MINISTER

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

JOINT PRESS CONFERENCE, CANBERRA - FRIDAY, 12 JUNE 1992

E & O E PROOF ONLY

PM: I would just like to make a few introductory remarks. I might then invite the Treasurer to do the same. The first thing I would like to say is that, as I said this morning, our deliberations are now broken into two parts. That is one part being non-financial matters, the other being financial matters - with some of the carry over from the non-financial things in the financial meeting, that happened today. But you know that I have always said to you in contradiction the prevailing wisdom that this has always been a most efficient meeting. The fact that we can allocate \$17 billion of funds in the course of an afternoon and resolve a lot of national issues quickly, which are not capable of being resolved in Ministerial Council meetings, even though they have taken months, sometimes years, always made the one day Premiers' Conference meeting a terribly efficient meeting. Now the past popular conception of these was that it was a sort of undignified scrabble for money, where in fact we had made this a very dignified process. The formal offer is now conveyed to the Premiers a couple days before the meeting, but that doesn't detract, it has only added to the efficiency of the day and being able to resolve issues and I think today we have had a good day. The Commonwealth and the States and the public of Australia have had a good day from this meeting and it has been again a most efficient day where very few countries would be able to get as many issues resolved as we have. Firstly, we have resolved on the Financial Assistance Grants disbursements to the States over the course of 1992/93. As you know we have added to the pool by \$150 million, now \$170 million, as we varied the offer in the course of the day so that New South Wales and Victoria received what they would have received per capita, even though the rest of the States received what they did on the basis of the Grants Commission relativities. You understand the relativities. The pool is allocated

on the 1992/93 relativities. But the top-up of \$150 million, on those relativities, would have detracted from New South Wales and Victoria and that distribution arrangement comprehends the boom period and stamp duties of a couple of years ago. So today's Grants Commission formula is not adequately reflecting the contemporary condition of the economy and as some little modification of that, we let Victoria and New South Wales take their share on a per capita basis and basically the Commonwealth added \$20 million in the pool to do it. So we have that agreed and that was going to be the most difficult issue of the day, the distribution of the pool. The second thing was we decided that we would try ~~and to~~ effectively and genuinely do something about the whole fiscal equalisation and distribution question and in the course of the discussions, we raised the issue - as New South Wales and Victoria had raised it, the smaller States resisted because the formulas were working in their favour - and we said that we would have, as you see in our Press Statement, that we needed to look at the sustainability of the horizontal fiscal equalisation in the long term - that is looking at the principles and the methodology, the principles underlying fiscal equalisation and the methodology and the Commonwealth, for our part, made the offer that ~~lest~~ the small States fear any such inquiry and their fear in the past has thwarted any such inquiry, what we would do is we would allow the introduction of a Grants Commission benchmark relativity for 1993/94, upon which they could judge whether any new relativity would cost them money and if it did the Commonwealth would meet the adjustment costs over a three year period. In other words, to encourage the smaller States to agree ~~into~~ an inquiry into this issue, we would carry some of the burden of any subsequent adjustment. The result was a degree of equanimity around this proposal to have this inquiry by ~~Treasurys~~ and heads of ~~Treasurys~~ and to make the information available to the Premiers' Conference/Loan Council before next year, was I think by all measures a breakthrough. The Treasurer and I think we did pretty well and I think the States have a sneaking suspicion they did too. Now the other issue that we move to is the question of TAFE, and as you know there has been a reluctance on the part of the States to do much about TAFE. For our part we wanted to build, we think it is entirely important in this country to build a national Technical and Further Education system of substance and stature. Something that kids will want to go to and would be proud to have a diploma from and where the training profile of these institutions more adequately reflects the labour market. That we don't have at the moment. We do have some quality, in varying degrees, in some of the TAFE areas in some of the States, but we don't have that. Our proposal in One

Nation was for Commonwealth control of the funds, but joint control of the policy. Now Mrs Kirner put a proposal this morning which is essentially that, except that instead of it being administered by DEET, the Department of Employment, Education and Training, it would be administered by an authority, ~~the~~ members of which would be appointed by the Commonwealth. Well let's say for the purpose of the discussion which we then had that, and concluded, this proposal - the proposal of Mrs Kirner - would be at least a starting point proposal for a subsequent discussion by the central agencies of the Commonwealth and the States, with Kim Beazley and his Department to design up a new system around an authority rather than a department. Administering the TAFE system in a national structure, where the Commonwealth would be accountable for the funding and for the appointment of people to operate it and therefore the people operating it to establish its policy, but the day to day administration would largely still be the bureaucracies which exist in the States. Gradually that would shift over to the authority. Now we started with the support of Victoria and then New South Wales, Western Australia then came on board for a consideration of this. I think beyond that South Australia had indicated a willingness to look and they wanted to keep the momentum going, so we are going to start next week and try and roll it on under the chairmanship of the Secretary of the Prime Minister's Department, but under the leadership of Mr Beazley and we will try and push this thing through so we can develop a model. It may not be the model Mrs Kirner proposed today, but a model which reflects the need to develop a national TAFE system, which has got joint Commonwealth and industry participation. So on those issues, as you know, we are concerned about youth unemployment and in about a month from now I intend to hold a meeting on this subject and we would like this thing, as a very important part of it, if we can have it up and ready to go by then, if possible. If we can get agreement. So I regard that as a breakthrough and the fiscal equalisation as a substantial breakthrough in terms of getting agreement to a study which is real, not just a study which has a States' opinion and a Commonwealth opinion or disagreed opinions and put them in a pigeon hole, but that one that is real, that is going to make a difference and we have got the distribution as well. Would you like to say anything John.

T: Oh, except to say that I think the major bone of contention when the States arrived here was not the extent of the Commonwealth offer in respect ~~to~~ 1992/93, but rather the distribution. That was clearly an acrimonious issue during the last couple of days and I think the fact that that has now been resolved amicably I think is a tribute to the sense

of cooperation which existed throughout the meeting. You will see also that the Loan Council agreed to a program of borrowings by the States and by the Commonwealth. Some other more minor matters were dealt with by the Loan Council as well and I think that, generally speaking, it was a result which left everyone pretty well pleased.

J: Prime Minister, today the two biggest States upped their taxes and clearly are hanging these rises around your neck.

PM: No let me just say this. Whatever States do about receipts can not be hung around our neck. We are all responsible for budgets in this country. We have given them in these Financial Assistance Grants more of a go than they would have thought they would have got. That is not just the maintenance of a real terms guarantee on this year's funding, but population growth added in - \$150 million, in fact, \$170 million. More than population growth. Now given the fact that our budgets have deteriorated much more rapidly than theirs because our receipts have fallen away more sharply, in our circumstances it is a concession on our part to be providing a pool of this size in addition to a real terms guarantee.

T: The point is that all of the States got very close, not only was the pool more than same real, except for Victoria, New South Wales and the ACT, and in relation to New South Wales and Victoria they were only just short of same real, when you combine the other payments that they received along with the general purpose payments. So whatever point the States are making about the need for tax increases, it can't be left at our doorstep because of the changes we have made. To some extent New South Wales and Victoria don't think they get enough of the funds that come from the Commonwealth, but that is a separate issue.

PM: Let me just run down these figures. The deflator we are using here is 1.7 - that is general revenue payments and other net payments, that is specific purpose payments - total Commonwealth payments to the States and not through the States is for: New South Wales 6.7, so it is 5 per cent real; Victoria 5.3, which is 4.5 per cent real; Queensland 7.1, which is 5.5 per cent real. I mean they are all 4 and 5 per cent real numbers. Because remember this, there is \$800 million of One Nation infrastructure spending in Commonwealth payments to the States this year. Table 1, if you look at that, 1992/93 the outside line.

T: I was referring to the next table.

- PM: Yes, John is referring to the Financial Assistance Grants, but if you look at the total of the payments or even if you look at the Financial Assistance Grants, they are all rising in real terms, but remember that One Nation is largely spent on State infrastructure spending which would have to be spent by them anyway, at some point - roads, rail, etc. So there is \$800 million going their way as a result of One Nation, plus \$170 million today on top of a real terms guarantee. There is nearly a billion dollars of extra money. I mean they can't lay any problems at our door.
- J: So New South Wales and Victoria have got no excuse for raising these taxes in so far as today's meeting is concerned?
- PM: I don't think there is any doubt that their revenues have declined in the recession, but that either means that they cover it by cuts in Government spending or debt.
- J: Mr Greiner estimates that the inflationary impact of his taxes will be between 0.5 and 0.7 and Mrs Kirner says she hasn't done these sums, but she thinks that sounds about right. What do you think the inflationary impact of the two of the most densely populated States putting up these taxes?
- PM: I have got no idea. I have got absolutely no idea at what they have in mind. But the point is in terms of total Commonwealth payments, they are very strong and in terms of their recurrent payments, I mean, here we are we have got a large budget imbalance and we have just added \$170 million to it basically to ease their budgetary position.

Continued...

J: Did you urge Victoria and New South Wales at today's meeting not to undertake these tax and charges rises?

PM: We said so publicly, I think.

T: You would have seen what I said at the beginning of the public session, and the offer document was provided on the basis that there would be no undue recourse to tax increases which had an adverse inflationary consequence. Now I haven't seen the details of what the two governments want to do, or propose to do, I haven't obviously had an opportunity to check the inflationary impact of them and I don't know the basis on which they've made those calculations, and what impact they would have on the national CPI figure. So we'll have to obviously have a look at that.

J: Did they make it clear to you, Treasurer, as they walked out of the meeting that they were intending on doing this because Mrs Kirner said that in fact she and Mr Greiner conferred previously that they had taken these steps?

T: They hadn't conferred to us, or not with me, and what they said in relation to the chances of them driven to tax increases was said in the public session. So you know as much about that as I do.

J: Haven't you seen what they've put out since?

T: No.

J: Do you think as well as cutting services that cutting public service salaries might be an option for the governments at this time? It as done in the 1930s in the time of depression.

PM: We're not in a depression, though. I mean in a depression, in the United States depression I can't remember the numbers for Australia, but in the United States GDP went down by 40 per cent. In the United States in this recession it's gone down by 3 per cent, and over the course of the period probably by a cumulative 3 to 4 per cent. I mean, these are just not comparable periods, and that's not I don't think a reasonable question, a reasonable solution to problems. The wage share and GDP are still at historically low levels.

J: Mr Dawkins, in your statement you say the states and territories indicated they should not increase state taxes and charges other than a last resort, in the last sentence of the last page. Before this had actually come off the photocopier both New South Wales and Victoria had announced their increases. At the very least this sounds like bad faith.

- T: Well, I think they may well have raised these matters with a little more candour with us during the course of the discussions if they were going to announce them before they had even got home and had an opportunity to properly assess the outcome of the meeting. But obviously we're not responsible for their actions.
- J: Mr Dawkins, they say one thing to you in the meeting and then in half an hour do something else.
- T: No, no, let me make it clear. In the context of your allegation that there was bad faith, what they said to us in relation to tax increases is what they said during the public session. Now Mr Greiner did say during that session that in the context of the current situation they would have to look at tax increases.
- J: But they obviously had a clear plan worked out because they've got very precise figures here in both their releases, and coordinated.
- T: Well, what do you expect us to say? The fact is they didn't discuss it with us.
- J: Well it's a question of faith, isn't it? They sat through the whole day and they had it in the shot and ready to pull the trigger.
- PM: They did say that they thought they would have to increase charges. They didn't say by how much and where.
- J: Didn't you expect them to at least give you a copy of the press release before you came in here?
- PM: It would have been a reasonable courtesy, I think, yes. But again, can I just say, it's all about level. The fact is very rarely have we seen any one year where the states have not increased charges. So we're not going to hold our breath and gasp at that. But it's about level, about how large it is.
- J: Prime Minister, you say that it's been a good outcome, Nick Greiner says he's angry, Joan Kirner says she's disappointed, and the two major states have raised taxes.
- PM: Well we expect you to have at least the standard level of journalist guile to understand when someone is angry or not angry, moderately pleased or quite pleased. And I think a modicum of scribe's guile would lead you to the conclusion that they were quite pleased with the outcome.

- J: You say that it is an achievement today that the states have agreed not to bring on any undue tax increases. This financial year the tax increases for New South Wales and Victoria will be \$370 million, in a full financial year it will be half a billion. Is that due or undue?
- PM: We'll have a look at the numbers. But again, I can't give you off the top of my head effects about inflationary impacts.
- T: If they've decided to raise taxes before they left Canberra they must have had also decided that publicly, at least, they'd be unhappy regardless of what happened today, in order to justify such a decision.
- PM: They certainly left the meeting quite happy. Let's say that. Between the meeting and here I'm not sure what happened. But they left the meeting quite happy, they all thought there was a bon homie of national achievements and everything else.
- J: But forgetting their happiness or unhappiness we still have two statements that are quite at odds - one the offer document and second, the two Premiers' announcements.
- PM: What things are at odds?
- J: On the one hand the offer document is saying that they'd not raise taxes and charges. On the other hand they had done just that and haven't told you.
- T: Leave aside the fact that they haven't told us, which is I think a defect, but they did not promise not to put up taxes, nor did we seek such an undertaking. We said that they should assume, I think the words of the offer document were that they should eschew any undue increases, and the words of my statement say that they should only do it as a last resort. I am a little surprised that they got to the last resort between the Cabinet Room and up here.
- PM: And they probably think that in the low inflationary culture provided by this Government that whatever increases they slipped through would subsumed in the culture somewhere.
- J: Would you agree with that, Prime Minister?
- PM: I don't know that that was what motivated them.
- J: Would you agree that the low inflation we have at the moment will subsume these increases, or might?



- PM: I don't know, one has to see. But we've been doing better on inflation than I think most people would have expected.
- J: Mr Dawkins, is the 1.7 deflator you've used - is that essentially your inflation forecast or 1992-93? If it is then that's quite an impressive figure.
- T: No, it's the March to March figure just passed.
- J: So you can say that roughly it equates to 2 except that ...?
- T: From March to March, it's the CPI figure though, it's not the non-farm deflator or other. The basis of the deflator that's used for the purposes of these grants, the same rule undertaken that was given a couple of years ago, was based on the prospective increase on the CPI March to March.
- PM: We used to use the non-farm GDP deflator but when commodity prices were coming down it was, they though, unduly lower, and therefore they wanted the CPI. So they've now got the CPI and the CPI is the measure we use.
- J: In your overview of the economy, Mr Dawkins, you only refer to Australia doing better than the 3 per cent OECD average. And also I'd like to ask, why is it that you haven't kept up with the precedent set by your predecessor Mr Keating and release the JIEFG forecasts?
- PM: No, no.
- J: It was a precedent.
- PM: Not much of a one.
- T: It was a precedent, but it was a precedent not worth following, I think. And the fact is that we had the federal estimates in the One Nation statement. I mean we don't go about making these renewed forecasts month by month. The JIEFG process, as far as I know, hasn't finished. And even if it has I wouldn't release the figures anyway. We will be releasing those estimates in the context of the Budget because they'll probably move around now and then anyway. And we don't make month by month forecasts on growth in the year ahead. We will provide you with, you seem to be the one who is most anxious about these things, will provide you with

our latest forecasts of growth in the context of the Budget in the normal way.

- PM: That was only a purple pen to sign the books off at the time.
- J: Mr Dawkins, today you were saying that you were concerned about the uneven economic performance between the states and between some of the regions. What implication does that have for your policy? Will you be looking at more specifically targeting assistance to particular areas that seem to be suffering while states such as WA seem to be doing much better?
- T: I made the point this morning that there are these very great regional differences and state by state differences which, exist not only in respect of unemployment figures where you've got in some states jobs still being lost and in other states job growth being quite clearly in evidence. Now what I've said is that I think the objective of policy on the part of both the states and ourselves should be directed towards those areas where the job market is still deteriorating. And I don't intend to say anything more about that now, just to reiterate that point.
- J: Mr Keating, Mr Greiner said that at one point during today's proceedings you described the current system of fiscal equalisation as unsustainable. Is that a proper reflection of your views?
- PM: No, I said it will not be sustainable while at least the two large states believe that the system is patently unfair to them and the principles underlying it, and the methodology which accompanies it is no longer appropriate or a reflection of contemporary conditions. Now there were years that the Fraser Government just didn't accept Grants Commission recommendations, just ignored them. The Grants Commission and its recommendations are relevant only to the extent that a Loan Council Premiers Conference wants to adopt them. If we don't the Loan Council is irrelevant to these processes. Therefore, if you have the two large states in there not continuing to be part of the compact, a wise manager of the system says there is something wrong here, so let's go through and see whether the principles are right and whether the methodology is right. And that's what we sought, but every time we've sought to do that the smaller states - the beneficiaries of the current methodology, always object. So as a way, if you like, of greasing the tracks for a real evaluation of this thing, we said we'd carry some of the adjustment burden in the event that there was a marked shift away from the relativities of 1993-94 from the Grants Commission.

- J: Mr Keating, have you any doubt that a fair and proper review of the methodology would result in an advantage to New South Wales and Victoria?
- PM: To the extent that there is structural change in the economy and that the structure of the states like Queensland is changing and the structure of Victoria is changing. In terms of the relative decline of manufacturing then there may be some change, but to the extent there is we will help in the process of adjustment.
- J: Is there any way of making the methodology more understandable. I mean I'm sure you've looked at the algebra in the Grants Commission updates - they are incomprehensible.
- PM: The thing is I think the most important thing is that whatever they say should be a contemporary reflection of circumstances. Whereas now what we're getting is a retrospective reflection of circumstances. I think that's the problem. Whether you can simplify it ...? Obviously if it is more transparent the better, more understandable, more transparent the better. Whether we can get there I don't know.
- J: Mr Keating, has it taken the gloss your day at all, that you've come in here and been told about half a billion dollars of extra taxes in two states?
- PM: No, in the sense that we thought they were going to lift taxes and charges, we've said to them be restrained, be sensible about it. But I think from our point of view the longer run issue is, can we out of this establish a better basis for fiscal relationships in the Commonwealth of Australia? And the answer to that will probably be an unambiguous yes. And have we made progress today in the establishment, on a long term basis, of a national technical and further education system? And I think we can say yes. I mean we will know soon. These are things which were never attempted in the last forty years.
- J: Prime Minister, Mr Greiner has come out with a statement saying "Mr Keating kicks his own state and then announces changes". What effect do you think this will have, the electoral impact, the rising of tobacco and beer prices?
- PM: I don't know what he said, today or when?
- J: Yes, today.
- PM: I think he's probably written that before the meeting. You see the meeting has gone better than they expected and I think they've got to live with

those remarks, not me. Mr Greiner could not complain that the Treasurer and I have facilitated an inquiry into fiscal equalisation which stands at least to clarify the New South Wales position, where New South Wales has claimed now for some time now that the methodology runs against them. That's an unambiguous benefit for New South Wales. I don't think Mr Greiner could say that when the smallest states were not prepared to see New South Wales and Victoria get the benefit of per capita funding out of the pool today, the Treasurer and I agreed to top up the pool for New South Wales and Victoria. I don't think it's sustainable that anything I've done has been other than doing things which are sensible to keep the federation moving, and also happens to be coincidentally beneficial to New South Wales.

- T: What the Premier of New South Wales said in the open session, and it's the only time he said it, was that we should have doubled our offer from \$150 to \$300 million. Had we doubled our offer he would only have got an additional \$50 million at the most as a result of doubling the offer. So to the extent that he is trying to fit us with the responsibility for his own tax increases, all he ever asked us and I might say he didn't repeat the request, and he made it perfectly clear that he didn't expect to get it. So I mean, heavens above, you've been around here for enough Premiers Conferences to know that what they try and do is have an unhappy outcome so that they can justify tax increases. I mean it wouldn't be the first time Wally (Brown) that this has been tried. And some of them are nice enough to get home first before they announce it, but they've obviously decided a new little trick to announce it here before they leave.
- PM: Can I just say that Premier Greiner said in his opening remarks that these arrangements are the best arrangements we've had for the five years he'd been coming, a lot better than they have historically been. And I don't think he came with any real expectation of walking away with a fair dinkum inquiry into fiscal equalisation or walking away with anything better than the offer document. But he did on both accounts.
- J: Just on the labour market, Mr Keating in your comments you mentioned that the growth in the unemployment was yet to impact on the job market, and your comments, Mr Dawkins, you said that the growth in output was more likely to be transformed in higher productivity rather than higher job growth. That's quite a bleak assessment, does that suggest we are going to have the sorts of unemployment rates of 10.5 per cent for a lot longer than is implied by the present forecasts?

T: No, it's only making the obvious point that there is a trade off between productivity growth and employment growth and as a result of the fact that the economy has been through a restructuring, the fact that there is a fair bit of unutilised capacity out there, is only making the point that we're likely to see in the first instance as the economy picks up, as demand increases, that that demand will be satisfied in the first instance by an increase in output without a commensurate increase in jobs. But as the economy picks up more rapidly and during the course of the next twelve months we will see job growth. I'm not saying there will be no job growth, I'm not saying that we're stuck with these levels of unemployment. I was making an historical comparison between this period in the cycle and say a similar period in the cycle nine years ago, when you saw a much more rapid growth in the economy than we are now anticipating, and also a very much more rapid growth in employment growth.

So I was only saying that it's rather different this time than it was last time.

J: Under that scenario does it mean that it's going to be much harder to drag down the unemployment rate from say 10.6 where it is now to even 10?

T: The other point to bear in mind, that to the extent that the economy becomes increasingly export orientated and this is a point that I've been making increasingly, the labour market is only dependent on what happens within the domestic economy, but it depends on us getting a larger share of the world economy as well. If you've watched, as I'm sure you have because you are a diligent chap, if you've watched what's happened in terms of manufacturing exports you've seen that there's been an inexorable increase in manufacturing exports over the last ten years, an increase which we think will increase and we will do whatever we can to ensure that it does increase. And when I'm saying is that I'm emphasising the importance of policy which directs itself towards those particular areas of the economy and in ways which can improve job growth, that's one of the things which I'm talking about.

PM: And of course as the economy picks up and more confidence comes in people might hire more people. That is, that as the recovery comes through the employment is not lineal but sinusoidal, parabolic.

J: Mr Keating, this morning you mentioned a training wage being introduced, I'm wondering how you see that wage actually working.

PM: That's all for another press conference.

- J: Mr Keating, the issue of APEC, Washington has made it pretty clear that the idea of a summit is premature.
- PM: I don't think that that's right because the terms of the letters from President Bush to me have been most supportive of the proposal. But the US and Australia are basically on the one wave length on this, but the letter which the President sent to me was most supportive of it. Whether anyone's miffed in the State Department, I don't know, but certainly the administration I think they would regard it as a good advance. But they see difficulty in doing it themselves or doing it alone.
- J: So when do you think the first Summit might be?
- PM: That's not for me to say. It's never been a matter of urgency, never. We've never put a time table on it, I've said that often.

ends