



PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING, MP
COLLINGWOOD FOOTBALL CLUB - POST BUDGET LUNCH
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QUESTION AND ANSWER SESSION

Q: (Inaudible)... I'd like to know if you'd be interested in having an Accord with business, you've had an Accord with the unions but what about an Accord with business?

PM: Well, the emphasis of the Accord was, the Accord started from the 1983 economic summit which was a cooperative undertaking between the government and business and the trade unions to sit down and sort out where our national income went and what we did with it. And, as a consequence of this, we've seen a great behavioural change in the workforce which has, over time, expressly, beneficially affected business. And the consequence of that is now that the profit share, that is the proportion of national income going to profits, is today as high as it was in 1988 and in 1988 it was beyond any historical experience in Australia. It was the highest profit share in our history.

And, we've got, as a consequence of wage restraint, we've got endemically low inflation at around two per cent. So, low inflation gives us the capacity to have low interest rates, a higher profit share gives us the capacity to have investment and the government has built on these things by introducing a 33 per cent corporate tax rate from a high of 49 per cent, which it was not so many years ago. We've removed the double tax on dividends, we've got a big tax break in there for research and development, a 150 per cent write off. So, there's a package of things and central to that is the Accord. So, while the government's been able to sit down with the trade unions because we're now a more decentralised labour market - where the centralised system of today is but a remnant of what it was - and where most wage fixation is done on an enterprise basis and that will continue to become more the case in the next couple of years, the Accord

becomes more a state of mind than an actual instrument for setting wages or prices or profits. But, the commitment from the trade unions is that we'll have wages growth in Australia so as we have an inflation rate competitive with our trading partners. So, the Accord is now 11 years old and the sea change in the Australian labour market has been so profound that we can sit with one of the lowest inflation rates in the world. So, while business doesn't sit at that table - or didn't sit when the Accord was entered into last in 1993 for the three years - in fact, business is always there because the very essence of the change is to promote higher profits, to have a more flexible system of enterprises in this country, a better system of enterprise bargaining and, of course, in the end, greater competitiveness. So, business is, let's say, the silent partner in the Accord but the clear beneficiary.

Q: I thank you for that explanation, it's excellent. However, in any game, I put to you, we need two teams. We've got the government, we've got the unions, but we need another player and that's business. So, you can't win the competition unless you've got the ...(inaudible)..... in the game. So how about letting business get into the league?

PM: Well, what a government must do or try to do is create the conditions for growth. This is where business gets its crack at the title, its piece of the action. And as the Budget forecasts ...(inaudible).... we're going to be growing in the coming year at about four and a half per cent. We grew at four per cent for the year to December and we're saying the economy will grow, in the coming financial year from 1 July at four and a half per cent. Now, the average rate of growth of the OECD economies, that's the Western world economies, this year is one per cent. So, we're growing now, much more rapidly than that and now we've got a more flexible economy than we had in the 1980s where we averaged four and a half per cent from 1983-90. We might be able to do that with more ease now or even do better. So, this is where business gets its chance at the national cake and where it's involved and becomes central to the whole thing, through the progression of growth.

And, growth is maintained by the public sector hopping out of the way as demand for savings, for investment comes through in the investment phase of the recovery. And, this is what the Budget has sought to do, to pull out the fiscal stimulus or the underpinning or the cushioning which has, if you like, provided the shock absorber for the community and the economy over the last three or so difficult years. So, as now we are starting to grow we don't need the Commonwealth cushion in there. So, we're now gradually withdrawing it but we don't want to withdraw it too quickly unless the game collapses again, well slows down, slows to a rate other than that which we could otherwise attain.

So, we've got, we think, the right balances. That is, we provided the cushioning for the recession, the Budget balance changed by \$20 odd billion, that meant there was \$20 billion more being spent than would otherwise be spent. But, now the economy is picking up we can withdraw it and business can come in and take up the slack.

Q: Mr Keating my name is Tim Grant, I manage Beaurepaire, the large Australian tyre company. We're a large provider of goods and services to government at federal and state levels but I wonder why federally, the government doesn't take a stronger stance regarding the purchase of Australian made for government.

PM: Well, there is a policy which we've developed for government purchasing and generally it devolves around suppliers who have a record of supply with the Commonwealth. But, I don't think that government purchasing - government purchasing can be important particularly in developing industries which might not otherwise have the kick along that they have had without government purchasing. Computer software comes to mind instantly as a locally grown business in this country that would not be as strong as it is today without the Commonwealth being a major purchaser of that sort of product. But, the sea change in Australia in the last few years, of course, is the fact that it's a much more open economy.

And now it is more open it means, generally, our manufacturers have measured up to the competition and we're now doing things much more smartly and much more competitively. I mean, the, perhaps, most obvious place we can look is the motor industry. Look at the quality of Australian cars today and the price, compared to 10 years ago. And there's only one reason why it's there and that's because the tariff wall has come down. Now were that not to be the case we'd be still making expensive cars of much less quality because there is no need to get to where the world insists that you should. As a consequence of getting there, we've had major investments by general motors, Ford is now considering where it goes with the Falcon replacement, Toyota has made the decision to put a five million dollar state of the art car plant in Melbourne and to feed its product into the international system, Mitsubishi have just made a decision to build a Mitsubishi Magna in South Australia for world distribution and is now considering where it goes with the Magna sedan. This was unthinkable ten years ago, that these decisions should have been made.

That's the reason why preference has been diminished in the Australian economy over the last ten years and in the doing of it a whole lot of clever industries and companies have sprung up. So, while there's a role for government purchasing as part of that preference in kicking a fledgling industry along, if we're basically down to products which are long beyond their infancy and certainly we've all

got to agree pneumatic tyres are in that category, then making a case for government purchasing is basically a bid for business and good on you. But, I've got a bigger set of considerations to think about.

Q:(inaudible)... something which was not qualified in the Budget is the government's attitude to superannuation and in particular the contributions for small and ...(inaudible)... Could you give us some indication here as to what the government's view is on this issue in the future, because there is a lot of concern in that area as to what that attitude is in the future?

PM: Well, let me, as an opener, say, "Where did the policy come from?" And the answer was superannuation tax concessions before 1985 were available to people really only in the public sector and in the, if you like, the softer places in the private economy. They were not generally available. And, what we've succeeded in doing, as part of the Accord - which the first questioner referred to - is we've got the Australian workforce to take five per cent of their income as savings. And that will soon be six, then seven, then eight, then nine and then beyond that we'll have to decide how it gets to what we think the mature contribution is, which is around ten or 12.

Now, it's a very great change to get a whole nation's workforce to take a significant percentage of their income as savings and not as cash. Because it builds national savings... (inaudible)...it is very difficult to get a behavioural change in the way or the propensity of a country to save. And some countries are big savers, like Japan, that's why it always has a big current account surplus. The United States is a comparatively low saver so it has trouble with its trade accounts. We're a middle ranking saver but for the capital formation needs of Australia for its private investment we were not saving enough. And the public sector was using too much of the savings. So, in the 1980s we had the public sector dissave. We had the public sector move into a period of saving by pulling the Budget deficits into surplus and we're doing the same now.

But, we needed a complement to private savings. Now, lower inflation will probably make private savings more palatable whereas the tax treatment of savings with higher inflation made saving less palatable. So that big behavioural change in inflation will make a difference to savings just by itself. But, other than that we've got superannuation, as a device which does two things: it provides something nearer to a working income in retirement through self provision and it adds to the stock of national savings. That's why the policy is there and we're now a long way through it. Now, it is universal but it's private and it's privately managed. There's not one big government fund, it's managed by the private savings institutions of this country and it's provided privately.

Now, because it's universal there's always going to be people who are casuals who slip in and out of the system. If they're not there for the long run employment and where the collation and tabulation of their savings and their superannuation benefits becomes more difficult. We've been examining that and, as you know, the banks have now made a bid for these savings(inaudible)... of the superannuation industry is trying to hang on to that which they believe is theirs and this is something we are yet to determine. But, we think there is some difficulty with people moving in and out of these things and therefore some, more ready portability is something which would be desirable on all accounts - on the part of the employee and the employer and the country. So, we haven't resolved precisely where that is going other than that the employers are obliged to fund those contributions under those Accord arrangements given the fact that all of those employees would otherwise be taking those contributions in higher wages. But, it is something which I think, when we sort it out and get it working well, will just add to the strength of superannuation as a vehicle in this country.

Q: ... (inaudible) ...

PM: Well, on the first, I think, you are confusing the point about the \$1 billion budget deficit and 1 per cent of GDP. The Government in 'One Nation' never talked about a \$1 billion budget deficit ever. We talked about getting the Budget to a deficit of 1 per cent of GDP in 1995-96. But, then after the February 1992 'One Nation' statement we had a further unforeseen deterioration in revenue and the Treasurer reported to us, I think, something like a \$6 billion shift in revenue down. So, we put back by one year the 1 per cent of GDP target which is now at 1996-97 and not 1995-96.

Now, what the Budget said on Tuesday night is that we will now be within that 1 per cent target by 1996-97 and what we have in the Budget estimates now, is .9 of a per cent of GDP. So, if we don't do any better than where we are now, we believe we will be under 1 per cent of GDP by 1996-97.

Now, the only other country in the world that will reduce its budget deficit that rapidly is Germany. All the other countries, let me just quote you from the Budget paper, the only other countries which are likely - Germany, have got a target of 1 per cent by 1997; the US, 2.3 per cent by 1998; France, 2.5 per cent by 1997; Italy, 5.8 per cent by 1996; UK, 1.5 per cent by 1997-98 and Canada, 3 per cent by 1996-97. Australia in contrast will be at 1 per cent or under 1 per cent in 1996-97.

Remember I was talking earlier about the cushion. If the Commonwealth simply says, as some financial commentators, I might say ... non-discredited by the way, non-discredited, people have been

consistently wrong for nearly a decade and saying well, look, let's get the budget down to balance quicker. So, the Commonwealth says well, ok, let's rip the cushion out ... goes, a lot of the private sector investment we're seeing today. So, we are going to have a very rapid consolidation of the Commonwealth account, but it's got to be at a pace which keeps the thing going.

You see, a lot of these people say the 'One Nation' thing, you know, remember that and the implication is there's something wrong with it and some of that implication you'll question. The fact is it did exactly what it said it would do. It got Australia going again and we're growing somewhere at the moment between 4 and 4.5 per cent faster than any other substantial western world economy. And that is happening because fiscal policy in the 'One Nation' package in particular and the current fiscal policy has been right. Now, in the last election we had John Hewson telling us we were going to have a double dip recession and a depression and things are going to get worse and he had the gun sight ads blowing the unemployed away. We've had 235,000 jobs in the last year and we're now, as I said, growing at over 4 per cent and we'll have the budget down to around 1 per cent of GDP by then. And, including paying the tax cuts which you referred to. These were brought forward and by some, I can't remember exactly, I think five or six months, a \$3 billion round of tax cuts and we'll deliver on those tax cuts as we've delivered on every other round of tax cuts since the Accord. The first tax cuts were negotiated under the Accord of 1984 and what we've said for the second round of the tax cuts, we've put things back - we've brought the first lot forward, we put the second lot back - and said that we'll pay them when fiscal conditions are appropriate - probably in 1998.

So, in terms of the Government's macroeconomic management of the economy, we have got back to growth, quite high growth, and with low inflation. I know of many other countries that would like to be in this position.

Can I just say about Melbourne, you asked me about Melbourne. One of the things which the Committee for Melbourne has pressed on me for years is letting Melbourne develop itself its airport and we announced, my colleague Laurie Brereton announced here in Melbourne about 3 weeks ago, that in the White Paper, the regional development section of it, that we would start to prepare for sale the Federal Airports Corporation and sell off the assets. One of which will include Tullamarine airport. I think, that gives Melbourne a real chance to wind the capital it wants to wind into the airport and to see the thing grow and prosper. Qantas is going to be floated. Qantas will be, in this financial year, a private sector business. It will have 25 per cent ownership of British Airways, it will be part of the British Airways world system. And Ansett is now an international carrier for the first time in its history as a consequence of the 'One Nation'

statement. In the 'One Nation' statement we took away the bunkum of having one airline flying outside of Australia and a couple flying in. We now have the similarities between domestic and international carriage of passengers. Now, Ansett is going to be flying to Japan and Bangkok and Singapore and other parts of the Asia-Pacific.

Therefore, if Ansett and Qantas are both commercial companies and Melbourne has an unrestrained capacity to develop its airport and services, then, I think, it's then up to the city, to the State to say to those companies there is value in having more frequencies out of here and it's not something then the Federal Government is responsible for. Not that we are now.

So, I think, that giving Melbourne the status in its airport and seeing a couple of strong financial secure private sector airlines in this country should mean that a city with the promise and tradition of Melbourne and the state of Victoria should have no trouble later in attracting the kind of frequencies that can display Victoria to the world and not only that, as the kind of commercial intercourse which it needs to participate fully in the Australian economy.

Q: Mr Prime Minister, as an Australian, I am staggered by your suggestion that you paid for Jeff Kennett's trams ... But as usual, we paid for those trams and Jeff Kennett's contribution ought to be recognised ... (inaudible) ...

PM: I was only cracking a joke about Jeff being co-operative. The thing is the Commonwealth has many choices about where it wants to fund programs and one of the choices was into Victoria. Some of the smaller states that have less than the revenue base than the State of Victoria would say, that if there's any priorities for Commonwealth expenditure in transport or anywhere else it ought to be not in the major two States of Victoria and New South Wales. That has not been this Government's view. We have, therefore, sought to talk to Victorians about their State. I mean, this is where the conversation with the Committee for Melbourne has gone on for years now about the city, about the airport, and one of the things which I said in the speech is that they're also looking now to see what we can do to build the Domain tunnel.

Now, let me tell you this. No other Commonwealth government would build a Domain tunnel. You wouldn't have had a Coalition build a Domain tunnel in the State and that's why I was making a reference, if only ... to the co-operation which, I think, the Commonwealth does have with the States and which, I think, is imperative in seeing cities realise their full potential. Because, if it refers to the State mean ... administering something like the Domain tunnel and managing the airport or doing things in the housing sector or ... the Commonwealth can play a role. Which, we believe, the Commonwealth should do.

Where the traditional rule has been the Commonwealth is not into regional development, it's not into urban mainstream arterial roads, it's not into budget transport infrastructure, these are things which the States have traditionally had. We haven't taken that view.

What I'm saying is: I don't want Jeffrey to put his name on the makers label of all of them, but to leave a bit of space for the rest of us.

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