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# PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P.J. KEATING MP SPEECH AT LUNCH HOSTED BY THE AUSTRALIAN INSTITUTE OF MANAGEMENT, PERTH, MONDAY, 15 MAY 1995**

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I very much welcome the opportunity to talk to you as most of you are members of the Institute and to talk about the economy and the growth prospects we find ourselves with and the Budget. Because, this is an important Budget, they are all important but, I think, this is particularly important given the fact that we have succeeded in engendering quite a lot of growth back into the Australian economy and the aim of the game is now to keep it going at a sustainable rate, with low inflation and so that we can reach our target which we have set for ourselves of five per cent unemployment by the year 2000.

That means a lot of investment and a lot of investment means a call on savings. Part of our problem has been, for many years now, that because in the 1970s the increase in wages and costs, the broken profits of the period and the big call by the public sector right through the 1970s dislocated Australian private investment. We ended up for a decade, with a very low level of investment and so that hole in the capital stock meant that we have never ever got beyond the period since where we can grow at more than about four and a half per cent without the demand spilling into imports. We can get the economy up and running and it is really quite fast for a western style economy such as Australia to grow at four and half to five per cent. But after that, we get a spill into imports, and that is because there is not enough plant and equipment, not enough strength in the capital stock for us to be able to grow at five and six per cent and yet satisfy the production here in Australia.

So, the aim of the game from here on is to add to that capital stock. Now, we have got a big boom in investment in the late 1980s, in the second half of the 1980s, but not all of it went into plant and equipment. Quite a lot of it went into central business district towers, office towers and other things which have been sub-economic and it is only now that they are starting to fill up and starting to produce a rate of return. In other words, we carried a big call on our savings for not a commensurate increase in our productive capacity.

Now, this time it is different. You will notice that plant and equipment investment in the last year was running at around 26 per cent. In the last Budget we put the forecast in at 14 per cent. All the pundits said 'oh, too optimistic, Budget built on all this optimism'. It turned out the rate of growth in plant and equipment was about twice what we estimated and the economy grew by even more than the Treasury had estimated. So, we are now seeing a very large investment phase, but this time it is going to be adding materially to our productive capacity where as the late 1980s cycle didn't so do.

The aim of the game now is to keep it all going and to keep that additional capacity coming into our capital stock so as to bring unemployment down to five per cent. This is a particularly important economic and social objective because Australia has, I think, one of the opportunities, let me say it has been one of the few countries in the world, where we have a quite fully employed society and where we are more cohesive as a society, where our values are as intact as they can be, that is our egalitarian values, and that we move along as a society together. That the policies of inclusion matter and that we regard it as a matter of national importance and national policy that we have as many people getting a right to a job as possible. These were the tenets we put together in One Nation in 1992, but indeed they have been the policies we have followed since 1983. That is, there has always been a premium on growth and on employment.

This is not true of many countries. In western Europe, employment is the number that falls out the bottom of the system, it is a residual. And, the growth is also a number that happens to fall out the bottom of the system. Government's don't target growth. If you look at the West Australian economy it is growing even more rapidly than the national economy and that is because the whole of national economic policy is focussed towards growth and the states that have had the tariff monkey lifted from their back, that is Western Australia and Queensland are growing even faster than the national economy.

I was in Lower Saxony, Germany, about a month ago, this was where we had the CeBIT fair and Australia was the guest country at the largest technology, electronics fair in the world, and the Premier of Lower Saxony, Premier Schroeder, met me and he was saying, we were having a talk about his economy. He said 'look, we have got tremendous community spirit in Lower Saxony. Everybody puts their shoulder to the wheel, it is a community effort.' He said 'we are facing big problems because the main industry of the State is Volkswagon at Wolfsburg and because of the continuing productivity of the motor industry we are getting more output for fewer people. So, we have all decided to work a four day week, the whole of the State is working a four day week.' I said to him 'but, why don't they pick up other jobs, I know you employment growth isn't what ours is, but isn't there enough?' He said 'well, we have only got, basically, three quarters of one per cent employment growth'. Now, in the last year in Australia we have had 4.2 per cent employment growth. We have had four to five times as much and that is why we have actually got a chance now. We have seen unemployment come down from 10.5 per cent to just over 8 per cent last week and we are forecasting 8 this year, but we want to get to five per cent by the year 2000.

That will mean that this country is stronger, socially it will be much stronger and, of course, there will be much greater levels of wealth. But you all know in this room, that employment comes from investment and investment comes from a set of variable which include profits, return on capital, the level of the inflation rate, the competitiveness of the exchange rate, it comes from all these things and it comes from national savings. The central point of last Tuesday's night Budget was to improve and augment national savings.

When I first started speaking to you I talked about that 1970s problem of a dislocation of private investment. What happened in the 1970s is the public sector spending at the Commonwealth level went out from 23 per cent to about 27 per cent under the Whitlam government and they went from 27 per cent to 30 per cent under Malcolm Fraser and John Howard. When I became Treasurer in 1983 Commonwealth Government spending was 30.5 per cent of GDP and the year I resigned the Treasury it was at 23.5 per cent. It was down 7 percentage points of GDP which in today's dollars is about $30-35 billion a year.

But, that big call in the 1970s meant that it, essentially, suffocated the capacity of Australian business to borrow and to invest. Now, you know, that one of our principal problems now is that we are running a current account deficit, on average, of around 4.5 per cent of GDP. At the moment it is running around 5.5 per cent, but it averages around 4.5 per cent in the 1980s and early 1990s. In the 1960s and 1970s it averaged around 2.5 per cent, but then we had no debt. We had no debt because every year we had private capital investment equal to about 2.5 per cent of GDP. In a country this big there is always something going on whether it is ports, wharfs, railways, mines or whatever it might be, manufacturing industry, and there is always a level of private equity investment. That generally equalled our current account deficit so, we could go on running a current account of about 2.5 per cent of GDP, but not build up any debt. What has built the debt up for Australia is that extra two percentage points of GDP which is $10 billion a year in today's dollars. GDP is about $500 billion, 2 per cent of it, is as I said earlier, around $10 billion.

The problem and the challenge for us is to put in a savings change to meet that two per cent and this is what we did last Tuesday night and in the doing of it, making higher rates of investment in the future sustainable, higher rates of growth sustainable and higher rates of employment sustainable. You remember Ralph Willis saying that we went from a deficit of 2.8 per cent of GDP to a Budget surplus of $700 million. The shift overall is around, if we look in the next year or two out, the shift is around about four per cent of GDP. In other words, we are in surplus this year, next year we are in even larger surplus, the year after that we are running a surplus of $7 billion. So basically, we have got a change there of about four percentage points of GDP and I will just do this little bit of arithmetic with you because there are a lot of numbers in this, but it is quite easy to follow. The savings problem is two per cent points in size. So, we have got to get a two percentage points fix into the system. We have got, essentially from the Budget, a four percentage point change and then the other great change in the Budget was to build on the reforms we had introduced in earlier years to award or national superannuation. This, I think, we can genuinely say is the most comprehensive savings change or plan the country has ever had.

You know that the Government, in 1985-86 under the Accord Mark V, we introduced there three percentage points of savings by the workforce, of income put away as savings in superannuation or as we called it 'award superannuation'. That was moving up towards five per cent when we introduced the superannuation guarantee charge or the SGC as it is known. That takes contributions by employers on behalf of employees under the wage arrangements, up to nine per cent of wages and salaries by the year 2002. But, I think, most of you in this room would know, to get a mature contribution to superannuation, something that adds a very substantial long term benefit to retirement incomes, you need to be around about 15 per cent of a wage and salary.

In the Budget we did two things. We said that we will be supporting the inclusion and awards of three per cent of employee contributions and we will pay the second round of the One Nation tax cuts into the same superannuation accounts. So, in other words, as a result of last Tuesday night's budgetary change, there will be a further six percentage points of wages on top of the nine which exists under the Superannuation Guarantee Charge. Put the two together and you have got fifteen. So, by the year 2002 everyone in the country will be putting 15 per cent of their wages and salaries away. This is going to produce an enormous shift in savings. When John Dawkins and I were sworn in as Ministers in 1983 we had $40 billion in superannuation funds. This year we have got $186 billion and by the year 2020 the Treasury estimates we will have $2000 billion. We will have $2 trillion in superannuation funds by 2020.

Our national debt at the moment is $160 billion. Already we have a greater level of savings in superannuation at $186 billion, greater now than our national debt, but that will grow. This will do a number of things about retirement incomes. Let's take someone on average weekly earnings now on $33,000, at the end of their working lives, they will build in today's dollars a lump sum of $470,000 and they will have an ongoing annuity in retirement of $30,000 a year. So, they are on $33,000 a year now, in 1995-96 dollars, they will have $470,000 as a lump which payed out as an annuity ends up at $30,000 a year. Someone on twice average weekly earnings, around $60,000, will end up with a lump of $670,000 and an ongoing annuity payment of $52,000 a year.

So, this is a great change to retirement incomes and to savings. When my generation, the baby boom generation, is 65 there will be half as many retired aged people as there is today and 10 years after that or 15 years after that there will be twice as many retired age people as there is today. The problem will then be; how does the cohort at work carry this huge group of people, this aged group in retirement at that point without an erosion of the basic pension or a massive change to taxation levels? Well, there is only one way - start now to put a scheme together. We started in 1985-86 and what you are seeing on Tuesday night, in a sense, is the culmination of those changes with another six percentage points added. This is not simply a great change in social policy, but it is also a great change in savings.

Let me go back to the calculation, the two percent again. Remember I said the current account is two percentage points of GDP, larger than we can afford it to be. We have put a four percentage point change in on the Budget, but that savings pool from superannuation is going to be worth four percentage points of GDP by 2020. So, by 2020 we have got an eight percentage point change in - four in the Budget, four on superannuation - but the problem is more immediate than 2020. So, let's say, look at it in the year 2000, which is what we in this room are immediately interested in. Where is the current account going to go in the year 2000, five years from now. In five years from now those superannuation changes will be worth two percentage points of GDP, the Budget will be worth four. But by then, some of that four is cyclical, some of it is structural. If the cycle changes at any time and the cyclical part starts to turn down, let's say 'let's put a discount into that and call it two to three per cent'. Two to three per cent on the Budget and two on superannuation. That comes to four to five per cent and that is what we did last Tuesday night. We put a four to five per cent of GDP savings change in for a two percentage point current account problem.

That is why the Budget is so central to the maintenance of this recovery because the recovery can only be built on investment and we can't have the investment without the savings otherwise it will spill over into overseas savings, into overseas borrowings, into overseas debt.

So, the Budget in that sense, was a great change and one that is designed to, you remember in the latter part of last year we had three quick interest rate adjustments and that slowed the economy off from the growth rate of then 6.5 per cent which was unsustainable back to something around four per cent which is what we have now. In other words, we don't need this Budget to restrain domestic demand. What we need this Budget for is for a medium term change in savings because we have got the slowing from the monetary adjustments. As a consequence, last year we sold $21,000 million worth of commonwealth bonds. The bond selling program was $21 billion. As a result of the Budget changes, the bond selling program this year will be $6 billion. So, there is a $15 billion reduction this year over last year in the bond selling program. You know you don't have to be an econometrician or a financial market person to know that if you take $15,000 million of demand off the Australian savings pool, there is going to be a lot less paper around than there was therefore if there is less of it, the price of it rises and if the price goes up with the bond the yield comes down. The yield, of course, is the interest rate.

So, as a consequence of the Budget, the bond market fell by one percentage point. From just over 10 to just over nine for 10 year bonds in the last week or so and that is the cue, I think, that some of the other people - the banks and others - have taken in the financial markets. In other words, by getting the Budget back into surplus quickly and decisively, we have taken an inordinate pressure off the financial markets which is reflecting itself in that shift in bond yields. In other words, what the Government is after is sustainability. We have had three years of growth since the recession. The Treasury in Statement Two is forecasting sustainable growth for three years, for three years out. In other words, if we take three years from now we are talking about 1998, if we look from 1983 to 1998 we will have had growth right through the period bar for 18 months which was in 1991-92, in the recession. It is going to be a very long period of growth, but after the recession, of course, low inflationary sustainable growth and not pushed along by a bubble of bank lending and indiscriminate lending of the kind we saw in the later 1980s, now a far more abstemious financial sector with low inflation, secure profits, a much more flexible labour market with enterprise bargaining; in short a much more sustainable level of growth into the future.

That is what the Budget was about, but it was not just about that change in the balance, but as I said, that huge change in savings coming of superannuation. Now, I have got John Howard running around the country talking about chicken little, the sky is falling in, we have had five minutes of sunshine, la de da de da. But, the truth of the matter is we have already had three and a half years of growth and the Treasury is saying we will have sustainable growth around these levels through the forecast period and the forecast period is 1995 to 1998. So, after the recession, we have had three and a half years of growth and we are heading for six. We had 90,000 job growth last month. We have had the largest fall in unemployment in the last year since we have been keeping the records. The Government's principle commitment in the election was to reduce unemployment. We said we would aim for a target of 500,000 in three years. Well, in two and a quarter years, we are already at 650,000. We got to the half a million mark in two thirds of the time that we thought and not only that, we are now reaching into the long term unemployed because 100,000 of them have gone back into the labour market or where in any such period in the 1980s maybe only 10,000 would have gone back into the labour market - because what happens, when the labour market picks up the school leavers the new entrants to the workforce go into jobs, those who are longer term unemployed generally get left behind. But, Working Nation, that statement I introduced on behalf of the Government last year, the case management and labour market programs is now getting into the long term unemployed, getting them trained and giving them a job subsidy and getting them back permanently into the labour market.

This is going to mean, where in the 1980s with all that growth we got unemployment down to about 6.5 per cent, but we couldn't get any lower no matter how hard we pushed with employment, we couldn't get any lower because we couldn't train the people. Working Nation is actually going into that body of long term unemployed people and training them and getting them back out so that means that the five per cent unemployment target becomes a real possibility for us.

In western world terms, there are very few countries with that prospect facing them. That is, to be able to say we would be able to keep up higher rates in investment and higher rates in employment. Because if we need to fill that capital stock I first mentioned we would need even greater levels of investment than we have today. It is not just today's investment levels, but something greater than today's. That is going to call on savings and that is why we needed the Budget change and the superannuation change together because if we are to relieve that pressure on the current account, we are not just simply relieving it in a static scenario. We are relieving it, but as we relieve it we will then build up greater demands for investment because the confidence effects will be greater, the needs for employment will be just as great and so as we get more successful - success breeds success - and so we will have even more investment. We have got to be able to pay for that in savings too. So, we needed a big change, a really big change in Tuesday's night Budget and that is what we gave you - a large change on the Budget balance and a large change in superannuation.

All of this, I think, means that as we move down towards the year 2000 we are going to be able to see a further great change to the nature of Australia. This is the first time in our history where we have been located at the foot of the fastest growing markets in the world. Normally, for us, traditionally for us, those markets have been in Europe or North America. They are now here at our doorstep in the Asia-Pacific and to have that great opportunity we have got to be stripped down, competitive and be in a position to go and get after it. But you can't get after it without investment and you can't get after it without investment if you are relying on the rest of the world for savings.

Can I just say there is a lot of gloomy stuff around about savings and you can see how the Government is taking it seriously, but we are taking it constructively. We are not out there with slogans and with incantations. We are in there with some serious policy. But, I think, you need to remember we have got $160 billion of off-shore debt, but in the period since the Government removed exchange controls in 1983; you see before 1983 you couldn't invest off-shore, the Reserve Bank wouldn't give you the tick under the managed system to invest off shore. But in the period since 1983 to now, we have now got $135 billion of off shore assets. So, we have got $160 billion of net debt, but we have got $135 billion of off shore assets. So, you look at all these big companies like BHP and Boral and Brambles and the TNTs of this world, they have all invested in North America, in Europe, in the Asia-Pacific, and as a consequence we have now got a very large stock of investments off-shore.

So, all these things have taken in the minds of the financial markets when the assess Australia. They don't just look at our current account debt, they look at our assets off shore, but they more importantly, look and see what we are doing in the longer run about savings. They say 'is this a serious country? Yes, it has broken the back of inflation, but it got itself into a whole in the 1970s. Has it got itself out of it? Has it done the things to add to savings and keep its competitiveness up.' Now, I think, after Tuesday night the answer to that is a resounding yes. But, it wasn't just Tuesday night. It was also the 1993 Budget which John (Dawkins) presided over as Treasurer and took a lot of stick for in getting fiscal policy back into shape at that time and it was the Budget's in the 1980s where we pulled, as I said, outlays down from 30.5 per cent of GDP to 23.5 per cent.

Tuesday night was a big change in Australian public policy for the maintenance of a long-run, low inflationary, high investment recovery. So, when Richard Court tells you it is happening because the buses are running on time or it is happening because he has got some project starting, all that helps but it is principally happening because of the national government's policies. It is principally happening because of the change in competitiveness coming off the exchange rate, wages and productivity and we are just signing up another Accord with the ACTU which will maintain moderate wages growth into the future and protect that inflation rate. It is worth remembering that Australia, today, is 40 per cent more competitive than 1983. Not 4 per cent or 14 per cent, 40 per cent. That is why Western Australia is growing so strongly. It is coming off the big wage adjustments of the 1980s which turn that big nominal depreciation of the exchange rate into a real depreciation. I like the States - we are doing quite a lot with the States now at COAG, you can see it with the Hilmer changes - I like the States to do well. Victoria is starting to go ok and there has been some sensible things done in fiscal policy there.

But a Lloyd Webber show and Grand Prix is not going to remake the Victorian economy any more than making the buses run on time or ticking off real estate developments is going to change things here. What is going to change things is the big pulse of national public policy. The only thing that ever changes anything and when you look at the Government, people say 'well, you have been in office 12 years, don't you think it is time for a change?' I say 'what other government would be putting a savings change of this quality and this dimension in, having this conversation with the workforce to get people to put 15 per cent of their income away as savings, what other government has done that? What other government has been able to break the back of inflation and keep it there by the introduction of an enterprise bargaining system in the labour market?' I have mentioned John a couple of times, the last thing I did was on Friday was open another university at Sunbury in Victoria. In 1983 only three children in ten completed secondary school. This year it is eight in ten and we have added, as that eight in ten, that massive through put has spilled out then into tertiary education, we have added about 65 per cent of places to universities in a big revolutionary change in the 1980s which John (Dawkins) presided over.

As a consequence, we have established about 18 universities of the size of the principal state universities to the system and we are now building, in One Nation, the TAFE system through the Australian National Training Authority so that vocational education sits up beside tertiary education to provide the horse power for the product innovation Australia is going to need to participate in this world economy and to participate to the full.

I have got John Howard chasing around yak, yak, yak, yak on radio stations around the country. I have got Costello like a crow on a fence carking at every, picking the eyes out of every bit of good news that comes along and Howard saying 'well, you know, test my credibility with the Prime Minster's.' I say 'but hang on, what are you talking about? What have you ever done?' Does anyone know of one thing that John Howard did as Treasurer that mattered, seriously to this economy except other than increasing the levels of outlays to GDP? I mean, he is now trying to remake himself by denying all the policies he was associated with in the 1980s when he was Opposition leader. I said 'well, hang on, I have been around during this period with a Cabinet that has internationalised the Australian economy, which has changed its competitiveness by 40 per cent, which has revolutionised the product markets, which as knocked the tariff wall over, which has totally changed the face of Australian education, which is now changing the culture of Australian management. We have had 50 per cent, we have nearly doubled exports. Exports were at 13 per cent of GDP, they are now at 22 per cent. That is what we have been doing and we have had 26 per cent employment growth since 1983.' When you talk about credibility, you are talking about someone who has got another set of things on the other side of the ledger to compare himself with. But there is this side of the ledger and then there is that side of the ledger. There is nothing else other than a few empty incantations. Howard has only had three policies.

One is throwing tax benefits up to top end families. The other is kicking the life out of low wage earners below about $24,000 a year. I mean, what a great objective to have in public life. Say 'well, I want to get after those characters on $23,000 a year and shake the living hell out of them.' And, the third thing is to put in a GST. They are his three policies. They have never been any different. The same three. He had a chance on Budget night to get up, we are within a year of an election, he had the Budget reply to get up and say 'hang on, there is the Government, it has put down this big change in savings, big change in the Budget balance, they have introduced Working Nation, Creative Nation et cetera, this is what I think should the be shape and nature of Australia.' Nothing, just a bucket of abuse, a bucket of rhetoric and in the end nothing else.

So, I don't believe the Australian people looking at this recovery and its quality, not just the recovery, but the low inflation high productivity nature that it has, and the linkages this government has made in Asia with APEC or our role in the GATT, are going to walk away and say 'well, here we are with what has been the fastest growing western world economy with low inflation, we will turn our back on that for John Howard, Tim Fischer, Peter Costello and Alexander Downer - that sparkling front bench of theirs - that sparkling little front bench of theirs. And now, of course, we have got Dr Nelson who has been in the Labor party for 17 years, that is his claim to fame. The Liberal party these days is like a business club. You join at the door. They say 'oh, you want a safe seat in Parliament, ohh come in, come in. You want to be a member of parliament in one of our best constituencies, just step this way.': opportunism and brigandry, the stock and trade of a party without any guts and without any substance.

The message I want to give to you is this that this is a very large savings change coming from a government which has fundamentally altered the nature of Australia to an externally orientated competitive trading economy, but where when we let our guard down in the 1970s and let our capital stock drop and at the same time with double digit inflation, punctured a whole in the propensity of Australians to save, we have tried to repair the problem by the public sector coming back strongly into surplus and making up for those paucity in private savings by a set of savings arrangements through superannuation which will guarantee us a lift in savings when we really need it.

That is why, I think, the Budget was well received and why I hope you think that it is a good document and one that will sustain the recovery into the future. Thank you.

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## QUESTION AND ANSWER SESSION

Q: Prime Minister, in light of the recent Karpin Report (Enterprising Nation), can you comment on how you rate Australian managers now?

PM: The old tariff barriers, the tariff walls produced a lot of easy profits and when we had a less discerning securities market and stock exchange, boards of directors could get away with over valued assets or under valued assets and, essentially, modest profit performances. There was not a lot of pressure for distribution of dividends, but most of the manufacturing sector was protected by the tariff walls, its profits came from the tariff walls. This produced a lot of sloth in the structure of management in Australia and this has changed, of course, in the last 15 years or so with the tariff barriers coming down, with development for the first time, really, of a sector of internationally traded services which we have, and until we removed exchange controls, ever had and that development has meant that we have developed whole new sectors in the financial services, in education services, tourism, et cetera which did not exist and they are internationally traded services, so you have to be internationally competitive to be in it. The mining industry had international competitive pressures on it because it had to sell into an international market place against other countries, but most of the manufacturing, of course, was protected by tariffs.

Like everything else, competition is a great thing and competition works and much of what the government has done over 15 years, over 12 years is to introduce competition by way of imports with lower tariffs, by way of competition generally in Australia, by now getting the State and Commonwealth sector utilities out there and competing, introducing competition into things like airlines and telecommunications and what have you and by and large the opportunities to success particularly in the turnaround of our competitiveness and also the pressure which has come from the recession has produced a lot of productivity changes and a great sea change, I think, in management.

I think David Karpin was talking about not simply an improvement in management, the capacity to manage, but also in genuine entrepreneurship. Entrepreneurship got a bad name in the 1980s when we had the world awash with money and people borrowing it, buying up assets for, largely, non-productive purposes. That is not what we have always thought that an entrepreneur was about. We thought an entrepreneur was about building industries and building businesses and seeing opportunities in market niches and exploiting them. I think we are developing a class of managers and entrepreneurs now as we are going about. I think, any commentary I want to make is we haven't got enough of them and we need more such people and, I think, the fact that the country is now so open and so near particularly South-east Asia that we are seeing South-east Asian entrepreneurs coming to Australia and our entrepreneurs going there and this flux that this is setting up is producing a more entrepreneurial spirit in Australia because I certainly believe we need it. You will always need the people to make the business decisions to make the world go round and we have tried to give business an environment in which to do that. High profits, a competitive exchange rate, a competitive country in all, a competitive tax system, all of these things are important as back drops to that sort of essential entrepreneurial activity.

So, I think, David Karpin's point is yes, it has improved a lot, but of course, we all know it had to, but we have still got quite a way to go and I think I endorse that too.

Q: Prime Minister, last week I saw Cheryl Kernot's comment that of the $2.5 billion worth of asset sales that were projected for this year only $55 million had in fact been achieved. Is that in fact correct and how confident are you that the $5.5 billion projected for next year will in fact also be achieved?

PM: I am fairly confident because we have floated some of these larger assets off in the past. We sold a quarter of the Commonwealth Bank in 1991, I think it was, then we sold subsequently another quarter of it and that is by far and away the biggest of the sales and now, of course, it is a company listed on the stock exchange and it is priced every day and part of the arrangements that we are now making with the Commonwealth Bank Board is that the Board's considering purchasing some of the shares back so that it makes the digesting of the sale even easier to the market. So, I think, that is something that is well within our grasp. Qantas was to be in this year, we have been improving Qantas's underlying profitability and picking the right moment to sell it. It is not just a matter of saying 'well, we had it in for last year'. It is a matter of whether we sell an asset, but we pick the right moment in the market to actually sell it and, I think, we are better off selling it this year than last and that was a judgement we made about the middle of last year and at the same time its underlying profitability is improving. So, I don't think there is a problem there. They are the main ones, and of course, next year we will have some of the airports.

So, we have had, I think, a reasonably successful period with asset sales. If we don't sell them often it is because we take a decision to delay them for market reasons not because we can't sell them or in same way we have misjudged the quantities or amounts. By and large, they are fairly conservative estimates. But, can I just say that next year, the Budget is in surplus without the asset sales anyway. The quality of this change here is such that free of asset sales, the Budget will be in surplus anyway. But, as a person from Moody's made the point on the radio last week, it doesn't matter whether the asset sales are in or not. He said all we look for is the bottom line. And, the reason they look to the surplus and not try to disaggregate it is for the reason I said earlier, $21 billion worth of bonds we sold last year, this year we will be selling $6 billion. It doesn't matter what the source of it is, we are going to be selling $6 billion not $21 billion and therefore the pressure off interest rates only is so much more obvious. I think, that is what the financial markets will be looking for. The main thing for us is that we have got the Budget comfortably back into surplus and we reckon next year we will be running a surplus of about $4.1 billion and the following year we will be running a surplus of around $7 billion.

Q: Mr Keating, let's suppose Treasury gets it wrong in respect of forecast on growth and the numbers aren't quite so big as they are forecasted and let's say the weapon of superannuation doesn't yield the difference of two per cent that is needed for the savings, how does your Government plan to address next year, subject to you being in power, of course, the balancing of the Budget once the national assets have been sold off?

PM: I thought I answered that in the previous question. That is, next year without the assets we will still be in surplus, but we are in surplus on rates of growth which are far less than the ones we have had at the moment. You see, in the year to September, when the September quarter national accounts came out for the year to September, the economy was growing at 6.5 per cent. We had 8.5 per cent for gross national expenditure and 6.5 per cent for GDP. Because spending was greater than product, it was spilling into imports and we know that we know that we can't sustain a rate of growth around 6 1/2 per cent of GDP. Well in this year we are forecasting 3 3/4 per cent. That is a long way from 6 1/2 per cent, you see. So we have already got a very heavy change in there. We have portended, forecasted, quite a heavy reduction in activity as a consequence of those monetary adjustments late last year. So, by and large, these are, at their best, only forecasts and forecasts can be wrong. But, by and large, these ones now in a growth phase, there is less risk to them in a growth phase and as well as that they are quite conservative. So I don't really see that we run any great risk of those numbers not being achieved.

At any rate, the superannuation changes are already in place. I mean on 1 July this year, the metre ticks over to 6 per cent. So the large companies will be paying 6 per cent in, another 1 per cent in on super and the smaller companies then turn over at 5 per cent. From the year 1 July 1997-98, we start the 1 percentage point change on employee contributions from superannuation and in 1998/99 we'll be putting in the first 1 per cent from the tax cuts away. So you know there is going to be a fairly big kick along to savings in all of this, even if to the decimal point the Treasury estimates were not to be achieved because what has happened to us in this last year is we have hugely succeeded them.

I mean in last year's Budget debate they were saying oh, oh, oh, the Government's got this very upbeat assessment of 14 per cent for investment. Well as I said to you earlier, we did 26 per cent this year and we have come out of the year greater than our growth forecasts. So, by and large, I think we have taken the conservative side of the estimates.

Q: Mr Keating a lot is said of us, or Australia, being part of Asia Pacific and competing with Asia Pacific. But it seems to me that the company tax rate is going from 33 to 36 per cent, while the company tax rates in our competing countries in South East Asia are actually decreasing. Could I have your comments on that please?

PM: Well, I mean, I think Singapore is around 33 per cent, where we were last year until we put this change through. I mean that is the sort of general level of rates in this part of the world. But most of these countries are not running an OECD style economy, you know, with a general quality of services we have in a continent this large.

You see one thing worth bearing in mind here is that we are now the second lowest taxed country in the western world. We are a decimal point higher than the United States, who are the lowest, and we are also the second lowest spending country of the 27 member states of the OECD. We are the second lowest by a decimal point, again, above the United States. So we are delivering a lot of high quality services in health, education, roads, transport for a fairly small public sector.

But a number of things have changed in the revenue equation for us. It was for good policy reasons that we wore away the tariff wall. But that loss of customs duty is this year costing us $5-6 billion and next year will cost a full $6 billion and it will have an ongoing cost of $6-7 billion a year, every year, because we are just not getting the duty because the barrier doesn't exist anymore.

The company tax change from 39 per cent to 33 per cent, the two investment allowances and the accelerated depreciation package which I had in that statement Investing in the Nation - which we published in February 1993 - is now costing the Budget $3 billion a year. So if we are losing $6 billion a year on tariffs and $3 billion on companies, that is $9 billion, and Bass Strait is now running down quite dramatically, quite sharply, at those very large, formerly efficient, performing reservoirs in the Gippsland Basin are now into a secondary recovery. So we are losing about a billion a year, over the last five years, out of that. So you can say with just those changes alone, we are losing $10 billion a year or 2 per cent of GDP. Now it has got to come from somewhere.

So what we decided to do was to put the company tax rate to 36 per cent, which is still well and truly competitive within the OECD. In fact, it is on the bottom of the OECD, sort of, band of rates and still reasonably competitive with the countries we trade with in Asia.

The other thing that I think is worth bearing in mind, is that Australia is one of the few countries in the world which provides for dividend imputation. We actually let private companies distribute and we give them an imputed credit for the company tax paid. This is also now delivering a benefit to shareholders of the order of $3-4 billion.

So, at the last election those great lions of business in the Liberal Party wanted to stick the company rate up from 39 per cent to 42 per cent. We have reduced it from 39 per cent to 33 per cent. So in the last year they would have had a 42 per cent company rate, we had a 33 per cent company rate and we are moving it to 36 per cent. So, in other words, we are getting from companies $300 million this year and $1500 million next year.

In the climate of very high profits, the profit share in GDP, the proportion of national income going to profits this year, has no historic precedence. So if the companies can't pay another 3 percentage points on the company rate, who can? I mean the people on wages under $30,000. I mean who is it? And so that is why we have thought it was the right thing to do.

Q: (inaudible).

PM: Well APEC has a certain congruity to it. It is the countries who have trading and strategic interests together and it is in the Pacific rim, it is Asia Pacific Economic Cooperation. It covers the two largest economies - the United States and Japan who have, of course, a huge trade problem between them. It covers the largest emerging economy, China, and it covers some of the fairly developed economies, like Korea and, of course, the South East Asian, or ASEAN, economies.

Now from Australia's point of view, we trade with Japan. They are our largest trading partner. Korea is our second largest trading partner. We have a fairly big trade with the United States. We have strategic relationships with the United States. The United States has strategic relations with China, with Korea. So there is a congruity about APEC. And I think the risk always with APEC is that it gets extended on a sort of good-neighbourly basis, so well why not let the old Soviet far east in. You know, the Russian far east, or India, or Peru. Well I think we run the risk then that it is neither one thing nor another. It is not an Asia Pacific body and these are countries that don't have the preponderance of their trade with the Asia Pacific. So I think it would be wise for APEC to be fairly cautious about its membership into the future for that reason.

Can I just say on the point about this other proposal, the East Asia Caucus proposal. I mean I think our view has been that ASEAN is an obvious sub-group of APEC and we are now having discussions with the leaders of ASEAN about Australia, at some point, having a role with AFTA, the ASEAN Free Trade Area, and in that way you would have NAFTA being a sub-group of APEC, that is the North American Free Trade Agreement. You would have Australia/New Zealand CER being a sub-group of APEC. You may have, potentially, Australia-AFTA being a sub-group of APEC and then you would have the other bloc economies, China, Korea, Japan.

So we think that sort of structure, basically, covers off the trade and strategic interests in the area and I think, by and large, that has been the view of most of the member states of APEC.

Q: (inaudible).

PM: The question was for those who couldn't hear, it was about tax treaties with Asian neighbours to avoid convoluted tax arrangements. Well, you know, Australia ... we did have a foreign tax credit system. But in such a system everyone has to account the rates of tax .... let's say they are an international company. They have got companies in Europe, companies in North America, businesses in Asia. You have got to take the tax rates that apply in all these, aggregate it, bring it back, we give you a credit for it and then you pay up to the corporate rate or not.

When we reduced the company rate to 39 per cent, it was so close to the average of the OECD countries - some at 38 per cent, some at 36 per cent - we thought we would remove this huge burden on business of keeping this constant accounting going for 1 or 2 percentage points of difference. So we developed what we call a white list of countries. If you invest in the countries which are on the white list, you can bring your dividends home, no foreign tax credit system, simple repatriation. If you are not on the white list, you are on the other list, and the other list of countries which includes tax havens.

But in some countries which have very concessional corporate tax rates and they have them for development reasons, we have a concept called tax sparing and in our double tax agreements, we recognise tax sparing. For instance we recognise tax sparing with Malaysia, we recognise it with Indonesia.

In other words, if somebody wants to invest in those countries and take the benefits of their concessional rates for a particular period of time, then we will give them a tax sparing credit. But if they want to invest in Hong Kong and it is just a name on the wall of an accountant's door, we have an active and passive income test.

So if you're Pioneer Concrete and you have been in Hong Kong making concrete for 36 years, you pass the active income test. But if you're pushing income through Hong Kong and you are just a plate on a Hong Kong accountant's door, well then you don't pass the active income test and therefore we tax you on an accruals basis when you come home. Now what can be fairer than that?

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