



PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING MP
INTERVIEW WITH JOHN LAWS, RADIO 2UE, 13 DECEMBER 1995**

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JL: Prime Minister, good morning.

PM: How are you John?

JL: I am pretty good. What about you?

PM: I am as fit as a fiddle.

JL: Good on you. Before I turn you over to the listeners for a couple of questions, let's take a couple from my end to begin with. The last time you were here at the end of July, it was just after Wayne Goss had just crept over the line to win the Queensland election. The result of that regarded as the fault of the unpopularity of you and the Government in mid July. Is that why Wayne Goss refers to you as, I quote the Queensland Premier directly, "a Southern politician"?

PM: Well that depends where you live, I think, in Queensland. I mean from Far North Queensland down they think everyone is a Southern politician.

JL: Do you see it as being an insult?

PM: Oh, no, I don't think so. It is just one of those things. Look I think Wayne is going to do real well there. He has taken the job on with great gusto. I mean I think the election campaign ... obviously it didn't turn out for him, the last election, as he expected. But he is the Premier, he has got on with the job, he is doing a good job and I think Queensland has really got the wind behind its sails. Whenever you go there, in any part of it, you always feel it has got the growth, it has got the population growth, it has got a temperate climate, it has got the tourism, it has got the linkages to Asia, it is really off and running. And the best thing, I think, that can happen to Queensland is that the Government gets on with the job.

JL: Yes, it has got that terrific new train that you drove the other day, too?

PM: Well that is right. You see that is the fastest growing growth corridor in Australia from Brisbane to the Gold Coast, which reflects again the movement of people into Queensland and, of course, it was only cars, cars and roads. And under the Better Cities program of the Commonwealth, we have made a very big contribution to building a new railway from Robina, the Gold Coast, connecting up to Brisbane - which is going to change the lives of hundreds of thousands of people when it gets going. It is a few weeks from being opened I think.

JL: The latest national accounts confirmed a record of 17 quarters of economic growth in Australia. In light of that, are you sorry you didn't take the December option for the election?

PM: Oh no, I have been saying all year, John - you will have noticed - that I think the public expect us to get full I mean they are only three year Parliaments, they are not five years as in Britain, or four years as in the United States. They are three years here and cutting them short you are into a couple of years. And I think the public are cynical about that sort of stuff -

Governments sort of trying to grab a time of their choosing and we have kept on with the job. Look, just in the last week, we have released the Innovation Statement and a big statement on a change to public housing. In other words, we are using the time and keeping the policy. And, as you quite correctly say, I was very happy about the fact it is 17 quarters of consecutive growth - 4 1/4 years of growth. That is the longest period of growth since 1945.

JL: Okay, let's take a caller. Hello.

C: Hello.

JL: Okay, go ahead talk to the Prime Minister.

C: Yes, good morning Prime Minister. Thank you for speaking to me.

PM: Pleasure.

C: Prime Minister, what commitment are you going to give to small business. Small business is the largest employer of people in Australia and small business, at this point in time, is struggling like mad. What can your Government do for us?

PM: Well the biggest thing we can do for you is to give you a growth economy. As you know, the economy has been growing at between 6 per cent and 4 per cent over the last few years. We are running, at the moment, at about 3 1/2 per cent to 3.7 per cent. And we are seeing a lot of employment growth. We have had, now, 730,000 jobs since the election. Now all that increases purchasing power. It increases the buoyancy in the economy and I think the other point worth noting, is that - despite the fact - it is the longest period of growth since the war. Even in our fifth year of growth - 4 1/4 years behind us, in our fifth year now - the broadest measure of inflation we saw in last week's national accounts came out at just under 3 per cent, 2.8 per cent. So this, for Australia, is a mighty record. A long period of growth, low inflation, strong job growth. They are the biggest things that I think the small business community need.

JL: Now, Prime Minister, can we just go back to the caller because you might have some specifics in mind as to what you feel the Prime Minister should be doing for small business. Have you got any specifics in mind?

C: Yes, well small business, at this point in time, is struggling like mad. We have had no flow on from all the fancy statistics the Prime Minister is giving us. You know we hear statistics, but small business is still struggling. What can the Government do to help small business? I appreciate all the statistics, but they are not helping us directly.

PM: Well they are not just statistics. It is actually growth.

C: Well why aren't they helping us then?

PM: Well it is obviously helping some people more than others. But I mean imagine how you would be unhelped if we had, you know, a recession, or low growth, or we hadn't had that strong employment growth. I mean it is that strong employment growth that keeps retailing strong. I mean you look at the retailing numbers over the last few years, that is a measure of the sort of purchasing power in the economy, or purchasing trends. This affects the small business community. The other thing in that statement the other day - the Innovation Statement that we did specifically for small business - is for those who are in need of capital, we have now given the banks the right to invest equity rather than debt in the companies. A lot of smaller businesses don't have enough retained earnings to grow. So what we have done, in a sea change to banking policy in Australia, we are now saying to the major banks, you can invest in equity if you like. So let's say a business has got some real potential. But the owner just can't find the next \$300,000, or the next \$1/2 million, or even the next \$1 million. The banks can invest in that company and then sell their equity later on down the track when the business is up and running and going strongly.

JL: Can I ask the caller? What do you believe is the problem with your small business? If you have got a problem with your small business, why have you got a problem?

- C: Well we believe people just aren't spending. People are holding back on spending in the retail areas and we just can't understand why. In days that have gone by - 3, 4 and 5 years ago - people would come in buy. Today they are not buying.
- PM: What business are you in?
- C: This Christmas is probably one of the weakest Christmas's we have ever had.
- JL: What sort of business have you got?
- C: We are in jewellery.
- JL: I see.
- PM: Yes. Well, can I just say, it depends also where you are because one of the trends in Australia has been towards, you know, more shopping centres, large retail shopping centres. And, if you are in one of those, you tend to pick up the passing trade and traffic. If you are in, what you may call, a suburban retail situation, you could find if there is another large outlet nearby that that starts to affect business. And, of course, one of the things which I think Bishop Rainer said in Victoria about Victoria, in particular, where we have seen gambling now starting to knock around retail incomes.
- JL: Where are you calling from?
- C: From Sydney.
- JL: Okay. Prime Minister, are you suggesting the same thing may be happening in New South Wales?
- PM: Oh, I think, in New South Wales people up there have been used to it. They have been pulling the pokies for that many years that they have adjusted to them I think. But the only other thing I can see to our caller is that it is basically income growth. We have had real growth in wages this year, you have still got low inflation, you have got the economy growing quite strongly and you can see we had 112,000 job growth in the month - a phenomenal figure - just a week ago.
- JL: So are you really saying to the caller that there is not much more that can be done?
- PM: Well I don't think from the Government's point of view, in that respect, no.
- JL: Do you accept that caller?
- C: No, I don't. I would like maybe if the Prime Minister could give a guarantee, or an assurance, that small business can liaise with him directly?
- PM: Well they do that. Well we meet the small business ...
- C: We could speak to you and directly give you our grievances and I am sure between the small businesses and the Prime Minister's Department, or the Government, we could try and improve things because they are really not good at this point in time.
- JL: Okay, well ...
- C: We are in a major regional shopping centre and business is not good.
- JL: Okay, well the Prime Minister has made the point and I will have to say goodbye to you.
- PM: Can I just say, we have a Minister for Small Business and he has regular meetings with the peak small business councils and, you know, not every small business in Australia is going to be feeling as though they are doing well. But, again, I can only repeat the point - we have never had a longer period of growth, since the war, than this one and we are having it with low inflation and strong job growth.

- JL: Let me just look at a couple of faxes and notes that have come to us on the Internet. This one is in reference to foreign investment and tariffs. "Prime Minister, we know it is to make us more competitive with the teeming millions in Asia. But short of reducing our pay to \$1 dollar an hour, how are we supposed to keep a small business going with all the utopian requirements for workers your Government demands if tariffs are phased out?"
- PM: Well wages is not the problem in Australia. This is still a relatively low labour cost country and that is why you find all these major businesses around the world, locating their headquarters in Australia. They have a choice of picking which of the Asian economies they wish to come to and many have chosen Australia and I don't think wages are a problem here. I mean this is the point I keep making to Mr Howard. He sees us as a sort of low wage cost country, that is in there competing on, basically, unskilled jobs and low grade jobs in manufacturing. The model I see is one of a higher wage country with product innovation, intellectual content, selling elaborately transformed goods and that is why we changed the education system from three young people in ten completing secondary school ten years ago, to nearly eight in ten now. A huge boost to universities etc.
- JL: Okay, well we will come to that in a moment or two. Just let me go back to this note that I got back. I am quoting from Mrs Joy Hutton: "Before the Labor Party decided that tariffs were set up to protect rich squatters, cow cockies and beastly businessmen, we had full employment, a basic wage, private health insurance and a good public health system, equal employee/employer superannuation contributions, full vaccinations and health screening and a thriving small business sector, manufacturing everything we needed. It was admitted after 1972 that dropping the tariffs would throw thousands out of work, so expensive retraining schemes and how to enjoy more leisure courses were introduced. What was the advantage of rushing in and destroying all those great little businesses?"
- PM: Well that is nearly all wrong. That is nearly all wrong. The whole analysis there is wrong. I mean manufacturing production was falling. By 1983, manufacturing was in such a state that there had been a one third reduction in manufacturing jobs in about five years. The economy was growing at less than 2 per cent - now it is growing on average around 3 1/2 per cent to 4 per cent.
- JL: She is talking about early 1970s, when the tariffs were dropped, when Gough Whitlam ...
- PM: No, well they weren't dropped. I mean what happened was tariffs rose again in the 70s under Malcolm Fraser and John Howard. This Government started taking tariffs down in 1987/88 and will be down to an average level of 5 per cent by 1996/97. In the period since the Government reduced tariffs, exports have gone from 13 per cent of all we produced to 22 per cent. That is worth \$45 billion extra a year in exports. Just imagine where we would be, now, without it and manufacturing production has doubled and the fastest growing component of our exports is elaborately transformed goods. Look at cars. Did you know a car now, had we kept the tariffs that your writer suggests, the average car would now be \$10,000 or \$12,000 dearer. And the quality in the last ten years has improved profoundly. I mean you pick up, now, a Commodore, or a Ford, or a Toyota. You look at the quality of the cars compared to a decade ago and look at the price. Why should Australians, Australian families, pay an enormous price for cars of low quality when they can now get them at much cheaper prices and higher quality and the same goes for shirts, for shoes, for clothing, for all those things. That is why our standard of living has come up because we are not putting this huge penalty on people with tariffs. And the rest of the world is bringing their tariffs down too. That is what APEC is about, John. You see Indonesia announced a big package a couple of weeks ago, China the same.
- JL: Can we just have a look at Joy Hutton, very quickly, and Mrs Hutton we will have to finish with you after this. But just look at what she says here. "We had full employment." Did we have full employment?
- PM: No, not then we didn't. We haven't had full employment since the 1960s and we had that because, basically, the world was paying us a fortune for primary exports, agriculture and minerals. That all changed. The game went very sour by the late 70s, early 1980s. When you and I did that interview where I talked about the Banana Republic, John, our terms of trade were at the lowest since the Depression in the 1930s. That is the prices we were paid for those things. I mean the happy days finished about the time Bob Menzies retired and

from 1965 to 1983, the place turned into sort of industrial archaeology. It was, basically, an industrial rust bucket. It is not now, fortunately.

- JL: Okay, well Joy Hutton, I know that you would have liked to have heard a lot more in answer. It is very difficult for the Prime Minister to cover it all. It is very for us too and I am sure you understand, Joy, and thank you for taking the time to send us the fax. Here is one that comes from - I can't tell you where - some kitchen specialist fellow. This is to you, Prime Minister. "Would not be dead for quids. The country may have its problems, but to you and the Prime Minister I am the luckiest man in the world. I have a lovely wife and two healthy boys. I have a successful business, a one man show and a couple of cars, a good roof over my head, that is keeping the dream alive. Best regards and merry Christmas to you and the Prime Minister. Ric in the Riverina.
- PM: Good on you Ric. Yesterday I was in Bendigo and I met a number of people in business and, in fact, I gave an export award to a business which has developed a vaccine business selling into Australia, that is veterinary vaccines for animals for the farm sector, selling into Australia and to Asia. You know, growing strongly, about to double the size of the business, about to build a second factory. I get those sorts of stories all over the place.
- JL: Ok, while we are on that subject, John Howard today is on the headland again. Not the soapbox, but the headland ...
- PM: ... on the headland ...
- JL: Yes, he is expected to talk about the virtues of Australians and the virtues of Australia. Do you detect any anti foreign investment message coming out of this headland speech?
- PM: Well, yesterday he said ' ... I am as representative of the Australian mainstream, my values, my hopes, my aspirations are those of the mainstream Australian community ...' I mean, who is he trying to fool? He was telling us a couple of years ago, he is the most conservative leader the Coalition party's have ever had.
- JL: People do change.
- PM: Oh yes, but he has decided to become a social democrat. I don't know what he'll become next. A Fabian socialist, maybe a concert pianist. Anyway on foreign investment he has been saying for years things like this '... the time has come for Australia to abandon totally all investment restrictions and abolish the Foreign Investment Review Board ...' Put simply, we now need all the equity and the investment we can get. On another occasion he said '... we really can't have it both ways. If we don't bring capital into Australia, not having enough ourselves as a nation, we need to put up with a much lower otherwise standard of living ...'
- JL: And do you detect an about face coming on that?
- PM: I think he is making this case that, particularly in the media, we should be letting Australian's own it and not foreigners. This is all code, I think, basically for letting Kerry Packer own the Sydney Morning Herald and The Age as well as the Nine Network in NSW and in Victoria.
- JL: Your policy is to try to promote diversity in ownership.
- PM: And it has. The cross media rule has kept ... there is a new set of owners in radio, independent from the newspapers. A diverse set of owners in the newspapers and a separate set of owners in television. In the old days, for instance, John Fairfax and Sons owned the Sydney Morning Herald, The Age, the Australian Financial Review, it owned Channel Seven in Sydney and in Brisbane, it owned the Macquarie radio network.
- JL: True.
- PM: Now, of course, the Macquarie network is owned by different radio groups. Channel Seven is owned in part and controlled by Mr Kerry Stokes, a completely new and different owner.
- JL: Yes, but did it matter when the Fairfax family owned all those things, I mean was Australia damaged by that ownership?

PM: Well, it meant that you got the view from Jones Street, Broadway transmitted right through the whole media chain and what was happening was we were getting more concentration. As they were to drop out, basically their assets would have then fallen to Mr Murdoch and Mr Packer only. Can I just say this, John Howard said, this which was interesting John, on foreign ownership of the media he said '... no I don't have any hang-ups about foreign ownership. It seems that the people who oppose foreign ownership vigorously and zealously and almost religiously in the media are, in fact, doing more than anyone else to increase the level of concentration in ownership because it is the powerful overseas players that have got the capacity to provide the alternative to News Limited.'

That is in 1991. In 1995 he has gone over again 180 degrees and now he says he is in favour of Australian ownership in the media and that is only code for one thing, that is, how he can wriggle out of the claim I put upon him that basically he wants to provide Mr Packer and his organisation with control of a major television network and the principle newspapers in the country.

JL: You can understand the point he is making and just back to what you said about the Fairfax organisation. I worked for the Fairfax organisation at the time that they had Channel Seven, the Herald, the Age, the Financial Review, the lot and the Macquarie broadcasting network and there was never any editorial interference there I have to say.

PM: Oh, they don't muck about with you mate. They think you might leave and when you leave the station profits leave with you. So, they gave you a wide berth, but for others though there was always a line. Look, it is just this thing about John Howard, he is out there saying 'I am in the mainstream' where he was making a virtue a few years ago saying he is the most conservative leader the Coalition has ever had. He has now done a back flip on ownership, I mean, it is all this sort of view and can I just say he is trying to say to people that he will give them a republic, I hope he doesn't say anything about it because the fact is he doesn't want one and he has a plan to deny Australians a republic and he has got years of passionate support for the monarchy behind him.

JL: We had better go to a caller, otherwise we will spend the entire time talking about John Howard.

C: I'd like to speak to the Prime Minister.

PM: I'm all ears.

C: Good morning, sir.

PM: How are you going?

C: Good. I've been listening to you of late talking about what you are going to do about welfare housing and giving them some sort of percentage break, what I want to know is what are you going to do for somebody like my wife and myself who are paying the variable rate of 10.5 per cent and battling?

PM: Let me just tell you what we have done for a start. In the late 1980s, I was the Treasurer and I deregulated housing lending. Something my predecessor didn't do. What used to happen in his day is you could get a housing loan for 13.5 per cent, but only to about \$27,000. They then gave you a second mortgage which would be at 2 or 3 percentage points above that. So you would have another \$20,000 at say 15 per cent. And then you get a personal loan at 18 per cent for the last \$10,000 or \$15,000 because banks had to ration money for housing because they couldn't borrow on the market to lend it. They couldn't bid for it in an open system. Now they can bid for the deposits in an open system and they can actually lend them as consolidated mortgages. So, you have a consolidated mortgage or you have the capacity to get a consolidated mortgage and the rate is around 10.5 per cent. The repayments on that mortgage would save you thousands a year compared to what would have been the case before housing was deregulated and you could have one consolidated mortgage.

The other thing is by introducing competition in the banking sector we have got now real competition in the supply of housing funds. Specialist housing lenders coming out and in that

environment you can see both fixed rate and variable rate mortgages coming down in price as banks have to respond to one another to now some of the super funds, to now some of the specialist housing lenders such as the schemes, say, the Macquarie Bank and others are running against the main four and as a result we are seeing people switching mortgage lenders and having a much better menu of people to borrow from at much cheaper rates.

- JL: Ok, could we ask the caller because I think it is important that we understand, what do you expect. Can you tell me what your expectations are?
- C: Well, John, this is what the people that I talk to in the circles that I move in and they have basically got the same rate as what I have got. They are just sick of the Prime Minister telling everybody about what is going on in the welfare system and not helping us because we are battling too and we are paying the tax.
- PM: What is your basic income?
- C: I am earning about \$40,000 a year and I have got the average \$100,000 mortgage.
- PM: Yes, ok, but understand the point that there would have been a time in the 1980s where you wouldn't have got a \$100,000 mortgage. I mean, you wouldn't have had the house. Can I get you to understand this point, there would not have been a mortgage for you.
- C: Houses were cheaper then.
- PM: Cheaper or not ...
- JL: Wages were down too.
- PM: Houses were cheaper, but the difficulty was that you couldn't get a mortgage. If you didn't get some money from relatives or someone else to bridge some of the gaps you just couldn't get the mortgages because the banking system couldn't give them to you. And they couldn't give you a mortgage certainly to that sort of level at these sorts of prices. Can I just say about housing the other day, what we did in housing is for people further down the income scale ...
- JL: But, he is worried about him and he is kind of in the middle. He is middle Australia and there are a lot of people expressing concern for that area.
- PM: Indeed, but again, what keeps that mortgage at around that 10 per cent level or for some people as low as 8.5 per cent, between 8.5 and 10 per cent and the answer is low inflation. And what keeps that low inflation rate in place? The government's policies and the accord with the unions. If we didn't have sensible wage outcomes, if we had a tear-away industrial relations system, you wouldn't be looking now at the broadest measure of inflation turning up 2.8 per cent. It would be back to 5, 6, 7, 8 again and for every percentage point you can just add that on to your interest rate.
- JL: Can I say this to you, I understand the point you are making and I think that people would understand the point you were making too, but it is very difficult for somebody like the fellow we are talking to now, earning his \$40,000 with his \$100,000 mortgage and he believes he has a problem. It is very hard to make them feel good about the problem that they have now by saying it could have been a whole lot worse. It is true, it could have been 10 years ago - more - he might not have been even able to buy a house, but it doesn't help much now does it?
- PM: But, what am I to say to you John? That the person who has lent the money, the retired person, the saver, the person who has put their money in the bank or in a fixed deposit or some fixed instrument from which the banks have borrowed to lend to your caller, are they to get such a derisory rate of interest that they don't receive earnings on their deposits? Because, you see, anything in housing which is in the ranges we are in now is built on a relatively low inflation rate, low inflation and what is called the real rate of interest.
- C: Could I offer something else please?
- PM: Sure.

- C: I am paying the 10.5 per cent. Would it be possible for you to give it a tax break after 8 per cent?
- PM: No, because what happens then is that the country starts then subsidising investment in housing and where ever you see a tax subsidy, you will start to see a flow of investment away from the things that are going to provide the jobs and the income and the security. And that is basically the plant and the equipment and the capital stock of the country. So, once we start saying that we are going to start subsidising house mortgages, you can forget the budget surplus. You can forget growth and investment in manufacturing. Soon you'll start to see employment levels coming down and it wouldn't be your mortgages you'd start worrying about then. You would start worrying about your job.
- C: But, you are subsidising other people in this country in relation to housing in your policy you have just announced.
- PM: Well, we are subsidising people who are on incomes of \$18,000 or \$21,000 or \$22,000 with two or three kids. Yes we are and the reason we are doing that is we believe that those children in those families have a right to a roof over their head. It may not be a private house as you have it, it may be a house in a housing commission area or it may be a rental. What we are saying in our housing reforms the other day, is that the Commonwealth will take over income support or rental support in the private sector and the public sector. At the moment in the public sector, in public housing, this is done by the States.
- JL: Prime Minister, we will have to move on and to my caller I hope you understand we have given you as much time as we can.
- C: Thanks very much, John.
- PM: I was glad to speak to him, but can I just say John again, you have got essentially rates of interest now in housing which are built on that low inflation rate and every percentage point in that underlying inflation rate is another percentage ... For instance, let me cut a long story short. If the inflation rate wasn't three but say six per cent his interest rate wouldn't be 10 per cent it would 13 per cent.
- JL: I think he understands that and I thank you very much for the call. I'm sure that they understand, but it is very difficult and I understand the difficulty from your point of view to make people feel better by saying 'well, you might be doing it tough and he feels he is doing it tough, but it could be a whole lot worse' And when you say that it is true 10 or 15 years ago, but it is very hard to cast your mind back and say 'well, thank God I didn't live then.'
- PM: I know, but again what do you say to the person who has got a nest egg in savings in retirement or is just a reasonable saver, who put their money away, to make those housing rates cheaper essentially the savers have got to subsidise the borrowers. Again, you won't get that sort of ... I mean, borrowers these days will demand the real rate of interest. That is, a rate of interest above the inflation rate, so if you are talking about say a three per cent inflation rate and they are talking about four to five per cent real you are talking about seven to eight per cent and then the banks add their one per cent on and there you have it.
- JL: I understand clearly what you are saying, but I also understand it is difficult, particularly middle Australia feels that they are being a bit neglected, small business feels it is being a bit neglected too. Let me just read this fax from Helensvale in Qld. Mr Keating, I am sure many people other than myself would be interested to hear why you refused to fly the Australian flag on the car provided to you by the people of Australia.
- PM: I just think getting around in a Commodore with a flag on the front is a bit comical, frankly. Saying, "here I am, aren't I important. Please notice me." I am just not into that sort of thing. I am quite happy to join the milling throng of traffic out there without going along like some potentate with a flag on the front fluttering. If it was on a big limo in New York with the US President in it you could understand it I suppose, but running around Sydney and Melbourne, as I do, and Canberra, in a Commodore with a flag fluttering on the front. I mean, I just think that it just gets a little bit comical to be saying "here I am".

- JL: Yeah. Now, Leonora Fenwick of Helensvale from Queensland who sent me the fax - I have to say to you Leonora, that some time ago I asked the Prime Minister the same question in the street. I saw him in the street, and I said to him I didn't know it was you - have you got a flag on the car? And he gave me exactly the same answer - he said, "give us a break - driving around here with a flag on the front. Bad enough having people look at you anyway". So, he gave me the same answer, so he's not pulling your leg. But I'll go to the second paragraph of your fax - also, why - without being asked - have the Australian people funded a Republican information kit, printed in 17 - underlined - languages. Will a similar kit be funded for the case for the Constitutional Monarchy?
- PM: Well, I mean, we have got a Civics Education Program running out there to tell young people in particular about the shape of the Constitution, the way our public institutions work, to give them a background in the history of it - which is I think a very neutral thing. We proposed it with the States, and the States are taking it up. And that, I hope, is going to improve the understanding of the whole institutional structure of Australia by young people getting that at school. What I did recently was to simply release the speech I made in Parliament, putting the framework, and to flesh out some of the arguments and the details of that proposal.
- JL: Yeah, I also think it should be said to Leonora Fenwick - you say here "and why, without being asked, have the Australian people funded a Republican Information Kit?" I don't think we elect Government's to have them ask us what they should do at every turn - I think that some faith has to be placed in the Government, and I don't think that any Government would ask the general public every time it wanted to put it's hand in it's pocket, even though it might frustrate the general public. We better move on - we'll take another call, Prime Minister. Hello?
- C: Hello?
- JL: Okay - the Prime Minister is here.
- C: Yeah. It's Wayne McTeer, I have just got a question to do with...well, particularly in regard to the Prime Minister's emphasis on savings, which of course is a terrific thing.
- JL: Can you keep your voice up a little bit for us?
- C: About the last time that there was a change made to the compulsory superannuation system, there was also a change made to the company tax rate, where he moved....he originally had it at 39%, moved it down to 33% then at that point, he moved it back up to 36% from 33%. And at the same time, of course, he brought the payments forward. Now, the effect of moving it from 33% to 36% was to increase the tax by 3% - which reduces the amount of funds available within a company by 3% out of what was 66% - in other words, 1 in 11, or 9%. So that little move, reduced the money, or the funds that were available, for investment in a business - there's nothing else you can spend it on, because as soon as you spend it on something personal, you get taxed at the personal rate, or as soon as you spend it on a car or something like that, you pay FBT. So, it can only be spent it on legitimate investment things, so that shift reduced the amount of funds available in all the businesses in the country for investment in capital equipment - which he just said is very, very important, and of course we all agree with that - by 9%. Now, what was the logic of that? What is the logic of reducing the amount of savings, reducing the amount of funds available for investment to businesses?
- PM: Well, the answer was that we provided - you might remember in the *One Nation* statement - some 2 or 3 huge concessions to business. One was accelerated depreciation of plant and equipment, where you could write off an asset over 40 years, you can now write it off over 15 years. When you could write off an asset over 20 years, you can now write it off over 7. And where you could write it if over 5 years, you can write it off over 3. This produced a cost to the Budget of around \$1500 million to \$2000 million, and as well as that, we introduced 2 investment allowances so you can write off 120% of certain investments, instead of writing off 100% of their capital costs. That came at about another \$1 billion. So, in other words, the Government had given concessions of around \$3 billion and we had to get the Budget back into surplus for public savings, which we need for the Current Account and other things, and you have got to say "well, where should the weight fall? Should it fall on personal tax-payers, or should it fall to some extent - modestly - on companies that have been given so much?". You see, could I also just remind you - when the Government came to office, the corporate

rate wasn't 36% - it was 46%. And not only that, you paid personal tax on the dividends, where now you have got the relief of personal taxation on the dividends with a dividend imputation system. So that now you pay 36%, and you can keep 64 cents in every dollar in the company. In the 1980s, before I became Minister, you could keep only 22%.

JL: Okay - what were you going to say?

C: You partly got elected on dropping the rate from 39% to 33%. And then you said well, that's going to be off-set by bringing the tax payments forward - the company tax payments forward. Now, almost to the day of when the company tax payments started to go forward, you then put it back up to 36%.

PM: But who should carry the burden of the change? Should it be the public - working people - with an increase in the personal tax rates? Or should it be companies who have been given so much?

C: It just depends if you want to create jobs, if you want money to go....I mean, the bottom line of it is, do you want companies and small companies who have got the capacity to create a lot of jobs to invest in capital equipment? Because that's...as you know from your own piggery, there is nothing else you can do with company money like that, bar invest it?

PM: All right. But let me just take this point to you. Not that many years ago, you could keep only 22 cents out of every dollar of company income - before this Government introduced it's reforms. Now you can keep 64 cents - you can keep three times as much. You pay your 36 cents, and you can keep 64 cents in the company. You are not forced to distribute. In the old days, there was a thing called undistributed profit tax - you were supposed to distribute. So, it went to you, and then you paid 60% personal rates at the margin. It's a huge revolution. Dividend imputation is now costing about \$3.5 billion a year.

C: We're talking about the last two years.

PM: Yeah, but you can't just talk about the last two years. I have got to run an economy and a system, and the Budget - we had to move the Budget balance from deficit back into surplus, and that's for the Current Account and investment. In other words, if we don't have a stronger level of public savings, there won't be the pool of national savings to draw the investments that you are correctly speaking about.

C: Well, why did you - why did you drop it from 39% back to 33%? Before the election it was back to...

PM: No. We dropped that in, I think, 1989, or 88 - from 39% back to 33%. Or it might have been 1993. That is, to try and kick - you might recall, in the last election - in 1993 - we were still coming out of a recession. So what we did, is we reduced the company rate from 39% to 33%. We gave an investment allowance of 10%, and a second investment allowance of 10% - the ones I mentioned earlier. So in other words, all of that was to promote a big pick up in investment - and it did. And that's why the investment is so strong, and why employment is so strong. But again, in the end, the Budget had to go back into balance and back into surplus. In other words, you help when things are slow, by reducing these rates, and putting these concessions in, and when things pick up again, the sector - the business sector - was able to afford a modest increase in the corporate rate.

C: So, the company tax rate is just another economic lever that you can pull and pull every year or two.

PM: No. It's an....

C: I mean, it's been pulled twice since 1992 or 93, whenever the last election was.

JL: 93.

PM: Let me just make the point again.....

- C: How can you plan a thing under that basis, and how do you expect people - I mean, even now, you could have made investments and planned future investments in 93, just after that election, based on a certain rate. And then around about a year or two years later, the company tax rate is reduced again, and you have reduced the funds available by 9%.
- PM: Look, are you trying to argue to me the difference between 33% and 36% in the company rate is...
- C: It was 39% - 9%....
- PM: Let me just get a word in here....
- C: It's 9%....
- PM: I know - I can do my mathematics - I'm not silly...
- C: I realise that.
- PM: Are you trying to argue that the difference between 33% and 36% - 3% - in the company rates is going to make all the difference in whether you invest or not? Because if you think....if you are arguing that, let me assure you that's not what has happened with investment numbers. The reason we have got strong investment numbers there since that change, is because the whole of the economy is doing so well, and partly, that's because the Budget has moved back into surplus, it's because the pressure is taken off interest rates by reducing the bond-selling program. Do you know, this year as a result of the Budget - last year, we sold \$20-odd billion worth of bonds to fund it, this year we are down - I think, from memory - to about \$6 billion? There's a \$15 billion - a \$15,000 million reduction in the sale of the Commonwealth Bonds selling program. Do you know the pressure that takes off interest rates? And taking that pressure off interest rates has helped your business make investments, and given it a future, and if you had to look at that environment versus three percentage points on the corporate rate, I mean, there's just no comparison.
- JL: Okay. We'll have to move on - I appreciate your call, and thank you for it. I hope you have a happy Christmas, and a tremendously successful next year. And Prime Minister, we're about to run out of time. What are your plans over the Christmas period - are you going to have a break?
- PM: I'll have a couple of weeks off, I think, John and you know, try and regain my sanity in full with my family. And I know you're having a break yourself, and good on you.
- JL: Yeah, well, when we get to the end of the year, we feel like we have done a year, and it seems the older you get, you start to feel like you have done a couple of years.
- PM: This has been a satisfying year for me - we have had, as I said, three-quarters of a million job growth since the election, we have got the Budget back into surplus, we have got the Accord underpinning the low inflation rate, we have got a framework for a republic out there, we have threaded together the biggest free-trade area in the world with APEC, I have just done the Innovation Statement for the business sector, and we have now got this huge public change in public housing. So, you know, I think that sort of activity - I don't mind finishing the year, if you like somewhat worn down, getting those big changes into place. Because I think that's what the community reasonably expects Governments to do.
- JL: If you could give Australia a Christmas present, what would it be?
- PM: I think the continuation of strong growth in the next year - which, at present, I think the Government is giving the country - with low inflation and further integrating ourselves, in this next 12 months, into Asia. I mean, I think they are the two things that are going to matter most to the sort of economy....when I'm out of politics, and you're off radio John, they're the things that will stick to us.
- JL: Okay. I hope you have a wonderful Christmas, and I hope you have a a successful New Year - I hope it is a wonderful year again for Australia, because it is a pretty important place to all of us. I sometimes wonder whether people fully understand the complications of running a

country - I know that quite often I don't. But one would hope that you and your Government is doing it's best, as one would hope if John Howard were running the place, he would be doing his best as well. What are the chances of him running it?

PM: Well, he might be doing his best, but the question is - will his best be good enough for Australia in this point in it's history? And, you know, just one change there that I didn't mention in that group was the change in our forest policy, which tries to meet the dual aims of the environment and a sustainable logging industry. Two weeks ago, we put away under those deferred forest agreements, six million hectares of forest. And I think getting all that....you know, appreciating the great inheritance we have here on the Continent, and it's beauty, and it's nature, and at the same time, growing our industries in a way which is harmonious with the nature and, again, finding our place in that region. I mean, that sort of totality of view is the thing I think is the Government's trademark, and frankly, I just don't think the Coalition understands that debate at all. I just don't think that John Howard's view of the world - which is basically to regard Asia as a problem, to not put that sort of premium on the environment, to not have faith in people to run a decent industrial relations system without trying to sort of press people into sort of contracts and grind them down - I think a cooperative, inclusive model is the way for Australia to go, and I think the proof of the pudding is in the eating. We do have this strong growth, we do have the employment, we do have the low inflation, we do have the integration with Asia and we are getting the place...we are putting a great premium under our environment.

JL: Okay. Thank you very much for your time - you have been very generous, as I said at the onset - there wouldn't be too many world leaders who would front up and do it again, but I thank you very much for doing it, and I hope early in the New Year we can talk to each other again, and Happy Christmas.

PM: Good John, and have a good holiday.

JL: Good. Bye.

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