



PRIME MINISTER

TRANSCRIPT OF THE PRIME MINISTER THE HON JOHN HOWARD MP AMERICAN - AUSTRALIAN ASSOCIATION LUNCHEON NEW YORK, U.S.A.

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E&OE.....

Thank you very much Michael, Andrew Peacock, Australian Ambassador to the United States and John Merow, President of the American-Australian Association; other distinguished guests, ladies and gentlemen. For the benefit of the American present, Allan Border, was a long serving captain of the Australian cricket team. And there are many people in Australia who argue that that is indeed the most important post to be held in Australian society.

So it is a particular honour for anybody to be associated with an Australian cricket captain. Can I say that on this the last official engagement I have of a almost week long visit to the United States how welcome is the opportunity to address a few words to all of you, particularly about the strengths and purpose of the Australian economy, about the economic relationship between our two great nations and about the economic outlook for the entire world.

I have had the opportunity since being in the United States really to divide my visit into two. The political side of it in Washington where I had extremely good discussions with the President and the Vice President and senior members of their administration which reaffirmed the very close bonds between our two countries. And can I say that George Bush the former President, when he visited Australia early in 1992, did us all a great service in reminding us that we should never take for granted that generation of Americans and Australians who fought together in World War II perpetually passed on to their children and others, the instinctive closeness of the relationship and that it had to be worked on and it had to be nurtured and we had to remind ourselves and particularly younger generations of Australians and Americans of the importance and the enduring significance of that association. I think it is necessary to remind ourselves as Dr Johnson did that we should keep our friendships in good repair and keeping the American-Australian friendship in good repair requires effort on both sides of the Pacific. But I am very happy to say successive American administrations on both sides of politics, and successive Australian administrations on both sides of politics have placed very great emphasis on the importance of nurturing and protecting the relationship.

I have found a United States economy, on this my first visit to your country as Prime Minister, a United States economy which is performing more strongly, more consistently and more optimistically than at any time that I have been in public life in Australia.

Having talked briefly in the case of Paul Volker last night and at great length to Alan Greenspan last week in Washington, two men of immense wisdom and both of whom have made an immense contribution to the wealth and the stability of the United States economy and indeed the economic prospects of the entire industrialised world over the last 20 years, each of them was candid enough to say to me that they didn't completely understand all of the reasons as to why the American economy was performing so well. I always think it is the mark of a truly wise man when he's prepared to admit that not everything is capable of instantaneous and comprehensive explanation. But there is no doubt that the strength and resilience of the United States economy which is giving leadership and hope to the rest of the industrialised world is a source not only of great satisfaction to Americans but also a source of great satisfaction to those friends of America around the world.

You have achieved a level of price stability which is remarkable in recent times. You have achieved investment levels, and most importantly of all in terms of the overall satisfaction of your population you have also achieved remarkable things on the job creation front.

I say these things as the Prime Minister of a country who can also talk very enthusiastically and very optimistically about the economic prospects of Australia. Australia at the present time has got, in my view, most of the economic fundamentals in better condition than they have been for more than a decade. We inherited a Budget deficit, that is my government when it came to office in March of last year of about \$10.5 billion. By the end of our first year in government, that's after our first term in government, that is after 3 years, we will have converted that deficit into a surplus of \$1.6 billion. The projection is that by the year 2000, we will have a surplus of \$AUS10 billion Australian dollars. This year, we will repay debt of about \$AUS5 billion. Our debt to GDP ratio in 1995 was 19.5 percent. By the year 2000, it will be 10 percent. We are projected by the OECD in 1997 and 1998 to have growth rates above the average of the G7. We will have the third lowest debt to GDP ratio of any country in the OECD and as I said to an audience last night, if we wanted to we would actually qualify along with Luxembourg to join the European monetary system. But it is not our intention to lodge an application.

I am also very happy to say that we have achieved most of this through a restraint on expenditures, on cutting back on our outlays. And, once again, on present projections, and on the basis of decisions already taken, not on decisions that are in the never-never, on the basis of decisions already taken, we expect by the turn of the century that our expenditure levels will be down to the levels that they were in the early 1970s.

This morning, I had the opportunity of going on to the trading floor of Salomon Brothers and meeting some of the people who worked on the debt syndicate desk. It's always an interesting experience to revisit what is alleged to have been the floor that was the inspiration for Tom Wolfe's famous novel about the financial community in New York, and to talk to some of the dealers and those handling the trading of Australian securities and Australian investments in Australian companies. And they were ready for me, I have to say. They had the yield spreads up on the screen. I took away bearing the signatures of all of the people on the Salomon Brothers debt syndicate desk a little graph which plotted the differential between the United States and Australian Treasury Bonds. And I have got to tell you and I feel pretty proud about this that when my government came to office in March of 1996, the spread was about 250 basis points against Australia. And this morning it was down to 60.3 basis points.

And I'm pretty chuffed about that because if there is no... I guess tougher, hard-headed, unambiguous, uncluttered, unsentimental measurement, than the spread between the yield on your bonds and the yield on United States Treasury Bonds, you don't get it any tougher than that, do you Fred? If you can narrow that margin, and that's a pretty good measure of what the financial community of the financial centre of the world and the financial centre of the United States thinks about what is happening. And I say these things because it is very important that the leaders of my country have an opportunity to talk directly and in an unfiltered environment to those who take investment decisions that not only affect

the United States but also affect what happens in Australia.

We did determine ourselves on a course of fiscal consolidation when we came to power. We also determined ourselves on a course of action to significantly reform and deregulate our industrial relations system. We have made major changes to the workplace relations area and over time I believe that they are going to produce very major dividends through greater flexibility and therefore generate greater opportunities for job creation. We have also embarked upon a number of very significant changes to improve the climate for the operation for small businesses in our community. I believe, as an observer, as a friendly observer of the United States scene, that one of the keys to job generation in this country has always been the great flexibility of your labour market coupled with the enormous encouragement that you always give to small business.

And we have begun to implement policies taking Australia down those two paths over the last 18 months. I should tell you, for example, that indeed yesterday in Australia, today in the United States, a major change to the capital gains tax law affecting small businesses comes into operation. And under that change it will be possible in Australia as from today, for anybody owning a small business to sell that business to investment the proceeds in any kind of other business, not necessarily of the same kind, and enjoy a complete capital gains tax exemption in relation to up to \$5 million of the proceeds of that sale comprising that reinvestment. Now, that may not come as any great surprise or be seen as any great deal to an American audience. I'm not immediately familiar with all the provisions of your capital gains tax law, but to the Australian small business community, it does represent a very, very significant improvement.

We've also, as was mentioned by John Merow in his introduction, we have also embarked upon a very vigorous programme of privatisation. We said before the election that we would see one-third of the national communications carrier, Telstra, and that privatisation is well on track and many in this room are particularly familiar with the details of it.

I should also mention, that at a State level, vigorous programmes of privatisation have been underway for some time. The Victorian Government, led by Jeff Kennett, has been embarking upon a very successful privatisation of power utilities in Victoria for some years and in recent weeks the Labor Government of New South Wales, led by the Premier Mr Carr, has announced that subject to the approval processes of his own party, there will be a privatisation of the electricity generating capacity in New South Wales, and if that comes off, the total privatisation will be in order of \$22 billion. And that will represent the largest privatisation in Australia's history.

So, in terms of the day to day interest of many in this room, there is a lot to attract you to Australia quite apart from the increasingly benign and increasingly investment climate.

On a broader front, can I say one or two other things about future change and future reform in Australia.

We are, as you know, very committed to workplace relations change and much of what we have wanted to do in that area has already been done and we look towards the benefits of that flowing through to the economy in the months and the years ahead.

Shortly, before I left Australia, the government re-opened a debate on what I regard as one of the great pieces of unfinished economic reform business in Australia, and that is the reform of our taxation system.

Although Australia's aggregate taxation levels compare reasonably favourably with most OECD countries, and indeed they are in aggregate terms significantly lower than the taxation levels of most European countries, although they are slightly higher than the aggregate levels in the United States, we do have a lopsided system in that we rely very heavily on personal income tax as a source of revenue

collection. To illustrate can I tell you that in 1955, albeit a few years ago, you paid in Australia the top rate of marginal tax on your income when your income was 14 times average weekly earnings. That figure is now in 1997 something like one and three-quarters times your average weekly earnings.

So there is a very strong case on that ground alone for a significant reform to our taxation system which reduces the reliance on personal income tax as a source of revenue collection for the government. And we also have an indirect taxation system but at the moment because it is weighted in the wholesale area towards goods and does not apply to services, and indeed in the goods area is limited to particular goods, excluding many, it is a tax that works unfairly against our exporters, tends to penalise our manufacturers and because of its uneven spread is not the most efficient way to raise taxes through the indirect system.

So inevitably we are again looking, I say again, because we had quite a debate on this leading up to the 1993 election and after that election it disappeared from the political agenda for a while, we are again looking at the need for and the desirability of some fundamental taxation reform in our country and my government is very committed to this process. We believe it is one of the things that will make the Australian economy even more attractive, it is one of the things that will help our exporters. We have laid down three criteria for any tax reform. We've said it has got to respond to three questions: will it help generate jobs; will it help our exporters; will it encourage savings and investment and provide more incentive? And if the reform can meet those three criteria then I think it is a reform which will be enthusiastically embraced and enthusiastically advocated by the Australian government and I think supported by the Australian people.

Before I conclude Mr Chairman, could I just say one or two things about the economic partnership of Australia and the United States in the broader world community. Last night in addressing the Foreign Policy Association I spoke of my very strong desire for a continued full-blooded United States involvement in the Asia-Pacific region and just how important it was that the two of us together promote the trade liberalisation credentials and ideals of the APEC association. I had the opportunity just before coming here of making a short announcement to the travelling Australian media and others about a decision taken by Mitsubishi in South Australia to increase its workforce because of greater exports of the Diamante vehicle, which is being marketed here in New York in the United States by another branch of the Mitsubishi company.

And I spoke then of the triangular association between Australia, Japan and the United States in the Asia-Pacific region, and that is a very important expression of how we see our role and how we see the linkages between our country, Japan being the major destination of Australian exporters, Australia being one of the few countries in the world that has a healthy trade surplus with Japan and also the very important linkage with the United States being the largest foreign investor in Australia. And what that little ceremony did was to remind me yet again of our shared destiny in the Asia-Pacific part of the world and what an enormous investment our three countries and indeed all of the member countries of APEC have in the success of the APEC drive and the success of those who want to see a more open, a more liberal trading environment.

In many respects we are living in the most exciting and hopeful economic periods this century. We do appear, as a group of countries, to have achieved a breakthrough in the area of price stability, the like of which most of us thought wouldn't have been possible only a few years ago.

I was told by somebody this morning that a survey of inflationary expectations in the United States suggested that people thought inflation would remain below 3% for the next 10 years and when you think of how bad inflationary expectations were, not only here but all around the world, only a few years ago, that is a remarkably optimistic and a remarkably hopeful thing.

Some people have said to me over the past few days, well this boom can't last. I can understand why people would say that, but I hope that we would also understand that there sometimes moments and

occasions in the histories of countries and the economic cycles of countries where the worst thing you can ever be is too cautious. When the worst thing that you can ever be is to assume that a good thing might come to an end, when in reality, if you continue to take intelligent decisions, if you continue to understand the inter-connectiveness of our world, if you continue to understand the common benefits that can be derived by countries pooling their economic experience and their economic understanding, then indeed whilst good times may not go on forever, they may in fact last for a great deal longer than many people have imagined.

I think we have, over the last few years, as a group of communities, begun to do things right in a more co-operative fashion. I think there has been an outbreak of economic responsibility, fiscal consolidation and fiscal rigour around the world which has contributed to much of the stability and the hopeful economic outlook of your country and also of your own.

Can I say again how enormously grateful I am for the opportunity to address this luncheon, to reaffirm my own personal commitment to the very close relationship between Australia and the United States.

It is a relationship deeply steeped in history, of shared experience of adversity, of a shared commitment to the values of individual liberty, of equality of opportunity and a desire to create a world society in which all countries can live out their own destinies according to their own choices.

I think the American-Australian relationship is in very good shape. I thank the members of your Association for the great contribution it has made and I express again on behalf of my wife and myself our great pleasure again being here in New York and sharing once again in the great hospitality of our American friends.

Thank You.

QUESTION:

In your talks with President Clinton were there any breakthroughs on improving the wheat and dairy system of subsidies through the Export Enhancement Programme which continues under GATT?

PRIME MINISTER:

The situation regarding that is it is never very far from our mind and the one thing that I can say with some pleasure is that over the past few months because, in part, I guess of prices and also perhaps for other reasons, that legislation has not been used and certainly not been used in a way that would damage Australia. When he was in Australia in October of last year, President Clinton gave an assurance - I certainly saw it as an assurance, that the legislation would not be used in a manner that damaged the interest of those countries against whom it was not directed and who were not responsible for the problem against which the legislation was directed.

As you know, or some of you will know, I have a longstanding view that the beginning of the problem on the agricultural subsidy front was Brussels rather than Washington and that that legislation was in large measure an American response to what the Europeans had done. Our concern was that we didn't want to be the grass that was trampled upon when the elephants of the United States and the European Union wrestled on the subject of agricultural subsidies because we do have third country markets that can be affected if that is used.

Fortunately, the situation over the past few months has been better and we hope that continues to be the situation but no Australian Prime Minister would ever come to the United States without saying something in favour of further improvement in the agricultural front, and this Prime Minister will also throw in for good measure a repeal of the Jones act which is working very much against the interest of a burgeoning and quite successful light shipbuilding in Australia.

QUESTION:

Will the current government consider deregulating the Australian health care sector or will the Medicare levy need to be raised?

PRIME MINISTER:

Well, we don't have any plans to raise the Medicare levy. As far as deregulation of the health sector is concerned, we brought about, we made some changes to the health care system and some of those came into operation also today - there's lots happening today - some tax subsidies ; we now provide tax subsidies in Australia for people to take out private health insurance. We are committed on the basis of election policy to the maintenance of the fundamentals of the Medicare system plus the principle of community rating which underpins part of the health insurance system. We did have an examination by the Productivity Commission of the way in which that works and there are some longer term recommendations of that Commission that we still examining. I think that is the most appropriate way that I can answer that question.

QUESTION:

Are there any plans by the Australian government for tax changes that would make philanthropy and charitable contributions deductible in the future or tax deductions for mortgage payments?

PRIME MINISTER:

Well as far as charitable deductions are concerned, they are already deductible - many of them over the nominal amount of \$2 - there was a Productivity Commission recommendation several years ago that recommended that that tax concession be taken away. Let me say that we have no intention of picking up that recommendation. I don't think we, I don't think its likely to be on the agenda of either side of politics in Australia. It's certainly not on our agenda to make mortgage payments for housing tax deductible. You should remember that in Australia, the capital gains tax does not apply to the family home. We already have, therefore, a taxation system that is very beckoning towards people investing in their private homes and we would think it an unnecessary and unhelpful distortion of the system to introduce tax deductibility for mortgage payments. We think it better to use fiscal consolidation to reduce pressure on interest rates. And our housing interest rates are in fact, to borrow the words of my Treasurer, the lowest in Australia since man first walked on the moon.

QUESTION:

Here's a brief one. What will you do about the Wallis Inquiry?

PRIME MINISTER:

I expect quite a lot John. I suspect that many of the recommendations will be picked up. The Wallis Inquiry, I think you all know it. I was really a stocktake on Campbell and the progress that had been made in deregulating the financial system since the Campbell Inquiry reported in 1981 and whose recommendations were in a rare outburst of bipartisanship in Australia, firmly pursued by both sides of politics in Australia I think to the benefit of the system. There are a lot of those recommendations in Wallis that commend themselves. Some require quite a lot of study, including the recommendation about the future prudential supervision of financial institutions, both bank and non-bank. I would expect that we would be making decisions on the Wallis recommendations in the very near future. It's very much on the agenda, a response to that Inquiry, certainly before the end of the year. I think closer to now than to the end of the year.

QUESTION:

Do you have plans to give the Reserve Bank statutory independence? The rest of it is part of the argument, thereby enhancing international confidence in the stability of the Australian dollar?

PRIME MINISTER:

Well, I suppose you can never take the Treasurer out of the Prime Minister, but I think the current level of the Australian dollar is about right, and I have no comment to make further on that. I know that Prime Ministers who come to this city occasionally say things that have effects on share markets and I have no intention of trying to match that. The Reserve Bank of Australia already has a lot of independence. It's not sort of an antipodean Bundesbank. And I can't see it going any further. We've given them a clear inflationary objective. We've given them, we've given the whole system a charter of budget honesty. I mean, one of the things I didn't mention in my speech is that we've now passed a law in Australia that says when the next Federal election is called, the Federal Treasury will automatically publish a statement of account. In other words, they'll throw the books open when the campaign starts. So, we'll be spared the inventive arguments that have occurred during the course of election campaigns in the past, particularly by incumbent governments, I might add, not challenging oppositions, but incumbent governments about the state of accounts. And, I think the level of independence that the Reserve Bank has at the present time for Australian circumstances is about right. I think one of the reasons why there has been that beautiful contraction between the bond yields on United States securities and Australian securities over the last 15 months has been a belief that the Reserve Bank in setting interest rate levels and monetary policy targets, has acted with a great deal of independence. I think people rather like it the way it is. I think it's working very effectively, and I have very great confidence in the current leadership of the Reserve Bank of Australia.

QUESTION:

Why not eliminate the withholding tax on Commonwealth Government bonds, especially given that foreign investors can easily avoid it, that this irritant will only continue to encourage investors to hold Australian dollars offshore?

PRIME MINISTER:

Well, I've been asked that one before and I can understand why people would want that to happen. I guess there are arguments for it. There are arguments against it, I guess revenue arguments against it. I don't want to encourage people to think that we are going to change it but when you're having a process of taxation reform, it's always possible to look at all sorts of propositions that are put forward.

QUESTION:

This is from Jim Black sitting here. He wants me to mention.. I'm very happy to do it. Greetings from the 15 members of the American/Australian/New Zealand Chambers of Commerce gathered around the United States. He has a question as well. What strategies are in train to further add value to our mineral resources destined for export?

PRIME MINISTER:

I think there are three or four things that you can do. I think the first of those is to continue to get the micro-economic environment right. You can adopt a strategy which seeks to cut through bureaucratic delays which are involved in major investments, particularly in value adding potential exports industries. One of the things I did a few months ago was to appoint a respected Australian businessman, Bob Mansfield, who some of you will know as a special consultant in my office with the title of Major Projects Facilitator. His job quite literally is to go around the country, find major

projects that are being held up by unnecessary bureaucratic delays, tell me about those projects, tell me whose responsible for the delays, and as a result getting some very speedy results. I think that process is beginning to bear fruit. We, of course, have not only a national government, but state governments as well. The interaction of the two can sometimes cause unnecessary delay. And one of the roles of that person is to eliminate those. I think a better taxation system would help all export industries in Australia. I think if you have a very attractive investment climate and you have great price stability, those things will be also working in the direction of encouraging value-added industries. I think we suffered a lot a few years ago, when we made, I think, quite a bad decision in relation to the creation of a pulp mill in Australia which would have made a major attraction on one of the sort of glaring deficiencies of our current account situation, in that we go through the rather foolish process of exporting chips and buying back large quantities of paper. It's always struck a large number of Australians that's the wrong thing to do. I think one of the ways in which you can change attitudes and bring about results in certain areas like that is to rather graphically point out to the Australian population how absurd it is that we should have that kind of circumstance and how much better off we would be in terms of foreign exchange and in terms of our current account deficit if we were able to avoid that sort of thing happening.

HOST:

Well, thank you very much Mr Prime Minister. We all wish you well as you continue with your government and then your trip home.

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