



PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P.J. KEATING MP
DOORSTOP, CONDELL PARK PRIMARY SCHOOL, 14 DECEMBER 1994**

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- J: What is your response to interest rates?
- PM: Well, this is the fastest growing economy in the western world. This is a great thing for Australia and for Australians and our most earnest wish is to keep it going right through the 1990s. If we can keep this sort of growth up - that is, strong rates of growth - but rates of growth so that we can sustain low inflation and then the recovery. So, the point of today's rise in rates is to shave the top off demand so we keep this recovery sustainable, to keep all those thousands of jobs coming through and we keep Australia with a great future.
- J: ... two and a quarter per cent in four months, are you touching the brakes or are you jamming them on?
- PM: Nobody would expect to have the interest rates at this stage of a strong cycle that we had at the bottom of the cycle and that is why we have had a change. But, it is a change, I'm sure, that all Australians will understand over time, it is going to give them much greater prospects. For instance, this year we have had 4.5 per cent household income per capita growth which is a phenomenal level and that is because of low inflation producing higher real incomes. We don't want to see that put asunder and we don't want to see too much pressure on resources including the labour market, we don't want to see too much pressure on wages. So, this is the way, if things are getting a bit too strong, this is one of the ways we can smooth it out.
- J: But, have you given the earlier rate increases a chance to flow through before acting again?
- PM: These are judgements. Monetary policy is as much an art as a science, living off both the published data and anecdotal evidence about the strengths of the recovery and I am sure the Government and the Reserve Bank think that we are getting this right to give

Australians that chance. That is, a chance that very few countries like us in the world have - a chance of reasonably strong growth.

J: Are you looking at cutting expenditure at all?

PM: I hear today that Alexander Downer has committed himself absolutely to cut expenditure. Now, when the Government brings down the budget and when we have brought down budgets and statements we explain everything, all the detail is there. Alexander Downer can't go wandering around the countryside saying he will cut spending and not say whether he will cut payments on health, pensions, schools, all of the other areas of Commonwealth expenditure, income support, labour market programs, so if he wants to say that he is about cutting back the size of government, he has got to say where he wants to cut it back.

J: ... interest rate rises for low income earners ...

PM: Well, there hasn't been a full flow through of the past interest rate adjustments to housing. There has been quite a lot of competition in the banking sector, but the point of the rise is actually to shave some of the top off spending, that is the essence of it. So that we keep the recovery going, so that people - low income people, middle income people, high income people - can find in three or five years from now we have still got a strong recovery, we have still got low inflation and we have still got great opportunities which, as I say, if you look at a comparable European country to Australia we are growing at the moment at 6 per cent, they are growing between one and two. That makes all the world of difference about jobs. We have had now 430,000 jobs growth since the election. Since the March election of 1993 we have had 430,000 job growth. Our labour for the first time ever is past the eight million mark - there are eight million people in the workforce, ten years ago that was six million, so we have kept all of those jobs and added to them and that is the key to it.

J: Do you think the demand for places will go up now?

PM: I think that there is a lot of competition in the workforce and in the economy and, I think, a lot of the key people in organised labour know that restraint in spending, some restraint in wages will keep low inflation and what happens with low inflation - your wage rise buys more - your wage rise turns into a real wage rise which buys more real goods and that is not lost on the ACTU, on the workforce in general and that is why they have been committed for so many years now to low inflation.

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