



## PRIME MINISTER

TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING, MP  
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EGOE PROOF ONLY

PM: A few of you have asked me for comments, as you know I have just returned, you have asked me for comments on the unemployment numbers yesterday and I thought I would give you a few introductory remarks and then take questions.

The first thing I will say is that the Government is very disturbed by yesterday's numbers. While we could see some employment growth there the number of people joining the workforce meant that the outcome was entirely unacceptable to us and I think we understand entirely clearly what that means in human terms. The pressure that this condition puts on individuals and on families is profound and therefore the Government's priority will be as it's been, certainly since I became Prime Minister, and that is restarting the economy, getting growth coming through and getting employment growing more strongly.

The one thing we won't do in any of this is panic, because there is no point in doing so, the structures the Government have in place, I think, mean that we will be having more of the One Nation money coming through, which was announced in February and remember we announced about \$500 million of it to be spent in the last financial year, the bulk of it to be spent in this financial year, and I have got every expectation we will spend every cent of it. And as well as that we have got the natural stabilisers in the Budget working, with a shift in the Budget balance from a surplus of \$8 billion to a deficit somewhat above \$10 billion, a substantial shift of \$18 billion plus, whatever it might be, which is of course cushioning the impact

of the recession. We have got the cocks fully open on interest rates. So on the monetary front, on fiscal policy, on the One Nation spending coming through, the next thing will be, as the Treasurer said yesterday, that the Government is determined to make the Budget an employment Budget, and we will be spending money there but directly on the unemployed rather than indirectly, for a fiscal boost to the economy directly on the unemployed. And that will also include naturally whatever spending consequences may emerge from the meeting on youth unemployment and the measures and policies which emerge from that gathering as well. Some of you will recall, of course, that when I announced the One Nation package I had said in the context of the period I had spent in the backbench that the economy was very weak and that I thought that it needed stimulating, and I think that what yesterday and the recent period reveals is that it was weaker than we thought. But there was some general criticism of One Nation on the basis that we provided a fiscal stimulus for an economy which was already growing. And that, therefore, I had inherited an economy already on the up-swing and I had found myself caught with the rhetoric of slower growth, and that it was convenient therefore to pursue the One Nation spending. It is now obvious that the One Nation spending was entirely necessary and some of the comment around at the time about how it was going to blow fiscal policy, how the Government had given up on responsible economic management, all of that can now be seen for what it is, a misjudgement. Now the fact is One Nation was necessary and will be coming through for the economy at the right time. But I think what all of this means is that the economy has to start growing again, and we do believe it is growing to grow in the 4 per cent area over the course of the year. Now that being the case, obviously employment is going to lag, and employment has been lagging, and now additional people have joined the workforce, the participation rate has risen and therefore the unemployment rate has gone up. So the growth comes through slower, the structure is in place to bring it through, that is, the general shift in the Budget balance, the interest rate structure and the additional spending of One Nation, and for those caught in unemployment, now a substantial group of people, we will address them directly in the Budget with Labour market programs and with the programs which emerged from the Youth Meeting Summit and also with some industry assistance measures, and possibly some measures also designed with a regional focus, where regional unemployment is having an influence. So I think I will leave my introductory remarks and invite questions.

J: Prime Minister today John Halfpenny, of the Trades Hall Council in Victoria, suggested one way to overcome any fiscal difficulty would be to abandon the promised tax cuts. George Campbell of the Metal Workers Union says that the Government should seriously be looking at raising taxes in some areas. Have you any sympathy with these causes?

PM: The tax cuts are not the issue for this year or this year's Budget. I mean this year's Budget will be about focussing first of all the spending of the One Nation money, and then focussing any additional support on those directly affected by unemployment. So again I repeat, the change in the Budget balance which is the better part of \$20 billion, plus the low interest rates, plus the One Nation spending is going to hit the economy at the right time in terms of that response. Now if the economy grows as we expect it will, I have got no reason to doubt it won't, then we are living with the lag of employment, unfortunately.

J: When are you expecting unemployment to start moderating, Prime Minister?

PM: I can't give you a quarter by quarter view on that, but there is obviously going to be substantial employment associated with growth of any order in the sort of 4 per cent area. Now, where the unemployment rate will then rest will depend upon the participation rate, that is the number of people out there looking for work.

J: Have we bottomed out yet?

PM: In terms of employment?

J: Unemployment, yes.

PM: It depends on where participation goes. As the Treasurer said yesterday, this is a statistically uncertain measure, and the trend rate is the one to look at. The trend rate is at 10.8 per cent. Now the Government did forecast in the Budget 10.75 per cent as the peak, the trend rate yesterday on the numbers was 10.8 per cent. So it's very hard to say. But what we saw with employment was employment actually grew in the month by 26,000.

J: Mr Dawkins avoided saying the worst had passed yesterday. Are you now prepared to say the worst has passed?

PM: It's not a matter of being prepared to say that at all. I'm not going to make a forecast about next month's participation rate.

- J: Mr Keating, would you say you'll spend directly on the unemployed in the Budget, can you be more specific about that. Is it dangerous not to spend on productive things?
- PM: When we did the One Nation package we found it impossible to get more programs into place and spend more money in the public sector. At the time there were no more State programs that we could use or Commonwealth programs. That is, no programs that at the time the States said they could reasonably get up in the required time frame. As well as that, we thought that the balance in the One Nation spending at about \$2.3 billion was correct. So for the programs that we had in place we thought that was well and good. But what we were envisaging now, rather than simply rely upon the employment effect, either direct or indirect of that spending, what we'll be seeking to do in the Budget is to support those people who are actually affected. Support them personally and directly. And I think that's the qualitative difference in seeking any remedy for the unemployed in that way, as distinct from adding a bigger fiscal stimulus to the economy in general or the public sector in particular.
- J: When you say it's support personally do you mean higher benefits, or do you mean short term make-work schemes, or training?
- PM: Labour market programs the design of which will be revealed in due course.
- J: With these disastrous unemployment rates are you prepared to accept that your policies to date have failed?
- PM: Which policies do you mean?
- J: Economic policies.
- PM: Do you mean the ones that have taken Australia from an industrial museum to give it a future, or do you mean the cyclical ones?
- J: In fairness, Mr Keating, you've been Treasurer, you're now Prime Minister, you're facing catastrophic unemployment figures. I'm asking you, do you now accept that your policies have failed?
- PM: No. What we are seeing here is a largely cyclical response in the economy to the cycle of change. But to make a judgement about the Government's policies over the last nine years, the measure of failure would be to have the same size labour market as then. And the labour market is 1.5 million larger than it was, or 22 or 23 per cent larger than it was in 1983. Now what one desirably would like is to

come off the boom of the late '80s, having been through a period of adjustment on the current account and inflation, without profound employment effects. We've not been able to do that. But again, what I say is that the structure of the policy that we have in place is the best one for pulling the economy out.

- J: How much worse does it have to get before you're prepared to accept that it's not just a cyclical problem, that you've got a structural problem in your policy, that you have failed?
- PM: I'm not sure you understand what the word structural means. Structural means that if you're trying to compete with countries nearby with labour rates of \$7 a week, if you think that you don't need to adjust yourself to those kind of structural changes, I think you're mistaken. The fact of the matter is that Australia has been through a very profound structural change, but the largest part of the unemployment we are experiencing now is cyclical. And the quicker the economy starts growing again, the better, and everything we've done on the macro side and on interest rates and on fiscal policy, I believe, will pull it out more quickly than any other prescription around.
- J: Mr Keating, you're the Prime Minister now because you believe you could fix this, and you've simply failed to date. You've made it worse, not better.
- PM: I said I would commit myself to getting the economy restarted and providing jobs growth. We are saying in forecasts that the economy will grow through the year, and employment is already growing. It's not growing as much as we would like, but it's already growing.
- J: Do you believe in the next six months we'll see the unemployment rate up about where it is or getting worse? In other words, the forecast you've just made now may be a long time coming, in fact it may not even come before the next election is due.
- PM: There are two factors. If the growth comes through, there will be an employment response. The magnitude of the employment response will depend on two things. Firstly, productivity - how much productivity there is there? That is, how much of the growth will translate into productivity vis a vis jobs. And secondly, where will the participation rate go? And it may be that in the economy picking up, people will be encouraged to rejoin the workforce so their participation rate may rise. On the other hand, it may not. So I think you'll have to wait till the Budget till we give

you, again, forecasts about employment and unemployment.

- J: Mr Keating, you said that the deficit will be something over at \$10 billion. How much more over \$10 billion?
- PM: Well we're not certain. As Mr Dawkins said to you yesterday, there's been a fall away in the revenues in part built upon the success we've had with inflation. Lower inflation means ipso facto lower revenues, and lower revenues mean that the Budget balance shifts further into deficit in the short term. The important thing is the structure that sits underneath the Budget is a sound one, and I contend the '80s provided for Australia a lot of youthful work on fiscal policy which does leave us in the position where now you can contemplate the spending we have in One Nation, and what we may do in the Budget and the impact of the natural stabilisers, the natural decline in the Budget balance, at the same time seeing it by the middle '90s come back into surplus.
- J: On the labour market programs that you mentioned earlier for the older unemployed, exactly what do you have in mind - make work schemes, red schemes revisited?
- PM: I think, Russell (Barton), you'll have to wait till we settle the design of those programs, of which work is proceeding. But again, the Budget is not that far away.
- J: I'm just talking about the concept. Will it be direct Government spending to higher unemployed people, is that the idea?
- PM: It will be Government spending on labour market programs. We are contemplating at least two issues here. That is, the youth unemployment issue which I'll be directly addressing at that meeting on youth unemployment, and the labour market more generally in the Budget.
- J: Mr Keating, despite the decree as to whether the unemployment is cyclically caused or not, do you accept that there comes a time when rising unemployment becomes politically fatal to any Government and aren't we at that point?
- PM: The political fatality would rest in whether people think an addition of 15 per centage points of the consumption tax which would be an anti-employment thing would be better. Whether they think tighter monetary policies, higher interest rates, a cut in fiscal policy, a 15 per cent consumption tax, a massive addition to inflation and to interest rates

would be better. Now I contend it wouldn't better and all that we would do is simply endanger the recovery for a prolonged period of time. So Australia had to come off the spending levels of the late 1980s, the questions which are being put to me today as directly as they are were being put to be about the current account deficit two or three years ago, and it was then all about imports and the Government took remedial action to bring our demand within our product growth. But in a recovery phase the structure which is there, which the Government has put into place, is the appropriate structure. To go now to a massive impost upon spending through a consumption tax, a massive addition to inflation, a massive addition to interest rates, a \$10 billion cut to fiscal policy is going to do what? It is going to murder employment. The Coalition's policies would murder employment.

J: With the increase in the deficit, does this mean that the 'One Nation' tax cuts are still deliverable?

PM: Yes, I think so. Fiscal policy in Australia in the 1980s became exceptionally strong and is standing us in good stead now.

J: So the undertaking that the budget balance would be restored in five years, is that still in tact?

PM: Yes, I think so.

J: Prime Minister, earlier you said that the Government understands entirely clearly what it means in human terms, do you think it would be appropriate to offer an act or at least an indication of contrition to those nearly one million Australians who are unemployed?

PM: What have you got in mind?

J: Well it's up to you, you are the Prime Minister.

PM: We all get these sort of questions and I have said over and over again that the Government understands the damage caused by unemployment, it's disturbed by it, feels it very poignantly, has done all the macro-economic, broad economic things it can possibly do to set the system up for growth again, and in the meantime try and look after those who are directly disadvantaged. That doesn't mean cutting their unemployment benefits after nine months, it doesn't mean producing an underclass of people who are off unemployment benefits after nine months, or employed people who are working at employment rates near the dole. This has never happened in Australia.

- J: Does it mean saying sorry?
- PM: Look Dennis (Grant) don't try silly drama with me. I've made my position on this clear for years.
- J: Do you accept responsibility for the 953,000 people out of work?
- PM: I take responsibility on behalf of the Government yes. But remember this about the private sector of Australia, I don't take responsibility for the massive crude spending of the late 1980s and I take responsibility also for getting our imports under control and getting our inflation rate back into the best order in the world and these were all joint responsibilities on a responsible Government.
- J: Mr Keating, do you accept that whatever may happen to the exact employment figures, we face the probably permanent situation of a large body of probably permanently unemployed people who will end up being a sort of underclass, making the traditional notions of fairness and equity really disappear?
- PM: I think the answer to that is in the negative. I don't think we need a large or will see a large body of permanently unemployed people, I don't think we should accept it, I don't think that structural unemployment means that at all because I think a lot of it is cyclical and the Australian way has always been to pull everybody along, give them a job, to give them a place in society, to look after them when they are down, when they're unemployed or their sick and that's what this society must do. It shouldn't chop them off after nine months, it shouldn't turn our young people into an economic subclass. It should pull Australians along, give them their proceeds of the growth, give them their share of the growth. The traditional way Australia has divided out the share of the growth is through employment, and that's why in the 1980s the Government committed itself absolutely to employment as indeed it's doing now, but it's waiting for the response in the economy.
- J: But after each of the cycles over the last twenty years we have been left with a larger body of permanent long-term unemployed.
- PM: That's right, but it's not at 10 per cent levels. It's at something much below that, probably less than half that. At the peak of the cycle in the 1980s we had unemployment under four per cent in some capitals.
- J: Yes, but it's still a lot higher than it was twenty years before that.



- PM: True, but again twenty years before that we didn't have the countries of the Asia-Pacific making manufactures and other things in competition with us. Australia, like many industrial societies is going through a change and a technological change. We didn't have jobs being displaced by computers and it simply means that one has to commit oneself to more growth. If technological change means there's more output with smaller employment, the answer is to have more output. That's what we tried to do through the 1980s, that's what we're trying to do now.
- J: Would you comment please on the much higher growth in part-time work than in full-time work and what do you see as the implications of that both in economic terms and short term and longer term?
- PM: It's been a feature of the whole of the 1980s a shift to part-time work, and although the work force grew in aggregate there was a shift in the competition between part-time and full-time employment. Partly this is in consequence for the higher participation rate by women in the workforce. It may also be a consequence of the change to a more service-oriented economy, or also a consequence to the change to an economy which is now living with higher technology and technological capacity. So I don't think one can be profound about the change.
- J: Can you see it skewing the statistics as we've been used to knowing them?
- PM: Maybe, but I think if the economy does growth sufficiently strongly, if we've got low inflation in place and Australia's well resourced with a technological able workforce, it can grow strongly particularly in the 1990s and it will pull up a lot of employment both full and part time.
- J: Mr Keating, Mr Dawkins said yesterday that Australians who do have jobs are quite well off now because of the drop in interest rates. Do you think that in the light of that and in the light of yesterday's figures that we should delay the national wage case that's coming up?
- PM: He made the point for those in employment and particularly those who have mortgages, their positions improved quite sharply as mortgage rates have come down to quite low levels. This may not have come by way of disposable income because some people have chosen to repay their mortgage faster, I'm not sure banks have actually offered, I think only the Commonwealth Bank has offered to reduce repayments, I'm not sure the other three have. Perhaps they should if people want that weekly

relief rather than paying a mortgage off more quickly. Where we go on wages will be a matter for judgement, but obviously the labour market will condition our thinking about it and that's something to think about. But again, generally economies with no wages growth are economies with no demand growth.

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