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PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING, MP
PRE-RECORDED INTERVIEW WITH MAXINE MCKEW, ABC 'AM'
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MM: Prime Minister, we seemed to have come a long way in six months from the pretty heady optimism of 'One Nation' to I suppose, what you could say the realistic qualifiers in this Budget.

PM: We've certainly reduced the growth forecast, but I think the important thing is the economy is growing again and then we had the National Accounts for the full year just a week ago growing at about 1.6 per cent. That's the same as western Europe, but this coming year, the year we're in, this financial year we're in, we're going to be growing at around 3 per cent on average, nearly 4 through the year and in fact, faster than Europe, but about on average the same as our trading partners if you include the North Asian economies as well. So it is a reasonable rate of growth and it will start to pull employment up.

MM: The task of recovery is obviously proving a lot more difficult than you ever imagined it could be after you took over as Prime Minister.

PM: I think it has been harder to ignite the growth that we now have and we hoped we'd have more, but in the same period the OECD has now twice revised down its forecasts for OECD area growth, so has the IMF. This is now pretty much a phenomenon that is a world wide one, but the main thing is there is a role for Government, the Government has a job to do in kicking growth along and protecting the people who have been hurt along the way, the unemployed and also moving our social agenda along by such things as

improvement of public hospital access under Medicare, increasing the aged pension, support for carers et cetera.

MM: You mentioned the unemployed, I suppose you never imagined six months ago that you would have to face a press conference as you did, what a month or so ago, and explain a figure of 11.1 per cent.

PM: No, because that was occasioned by the number of people looking for work and one can never make judgements about this participation rate. If we had the same participation rate today that John Howard faced, we'd have unemployment at 8.5 per cent or thereabouts. The fact is we were very successful in the 1980s in employing Australians. The Australian workforce is a quarter bigger than it was in 1983, we've kept most of the 1980s jobs and people not unreasonably had the expectation of finding work. So when things start to look better they've obviously gone out there looking and that's shoved the unemployment rate up to around 11.

MM: As you see it, it's obviously become a political and a social necessity, a matter of social justice as you say to spend money on job creation schemes, but does that go against the grain a little bit in that the jobs you're creating are not the new clever jobs that you talk about, they're not the sort of jobs that will give us export income, that will make us hold our heads high in the international arena?

PM: No, but in the 1980s when I was Treasurer in this phase in 1983 we had the Community Employment Program doing some of those things, we were then developing the labour market programs which had more of a training component to them and we've now sophisticated those over the period. So those labour market programs will reach over 400,000 people this year so it gives all those people a chance of having work experience and training and that means that they're likely to get back into the full time workforce much earlier, more quickly.

MM: And are you ready to go into top gear with these programs straight away?

PM: They're all programs largely which have been developed and which we're adding to. The new ones were announced a couple of weeks ago in the youth initiatives which I announced, that is the Career Start Traineeships et cetera, but the ones which are here; Jobtrain, Jobskills, Jobstart are all existing ones which we can wind up quickly.

MM: If you accept that a substantial element of that unemployment is structural, job creation schemes won't do much about that will they?

PM: There is a new Budget initiative there for open universities, open learning and that means that many Australians will be able to get access to tertiary education who can't now, that is in addition to the 50 per cent addition to places we've already put there, the 120,000 extra university places we've created and the total remodelling of TAFE. So if we are, as we have been for most of the 1980s now developing a much greater skills base in the economy, producing more sophisticated products, it simply follows that the sort of workforce who'll be producing those products will be a trained one. We're putting the institutional things in place, I mean there's been a revolution in the change and the participation rate in schools, in universities and in technical education, and in technical education it's going to be improved, so of most OECD countries there can be none making such a transition so rapidly as we are.

MM: Despite those efforts, some of our employers are saying that the growth we are likely to see will come via higher productivity meaning they will do more with fewer employees.

PM: That's true and that means if you want to get unemployment down, you've got to run the economy faster. This is what I keep saying to the Opposition. They want a policy where they have a pool of unemployment as a natural check on wage growth. They're saying don't open the accelerator up, don't let the place grow quickly, because a pool of unemployment is actually handy to keep wages down; that's the Hewson model. Our model says if you've got more productive businesses with a given level of output being produced by fewer people, to produce more employment you've got to have even more output, that is even greater growth. And how do you do that without it spilling into wages and prices? Answer: a wages policy, an Accord.

MM: But business is not investing in the first place.

PM: It's starting to pick up in these forecasts and part of that pick up we saw in the National Accounts for last year, investment starting to stir. But the notion that we shouldn't be growing and that we should hold it down and with some sort of miserable view that a pool of unemployment is actually something that has a depressing effect on wages which is a good thing, the sort of nark conservative view is a view we won't accept.

MM: What of the growth figure of 3 per cent though? That is not likely to make much of a dent in unemployment, I mean the Budget forecasts say well we're still looking at 10 per cent by the middle of next year.

PM: Down to 10 that's true, but again it's the direction which I think is important and the psychology of the country, the direction is important particularly where those labour market programs picking up 400,000 of those people unemployed. And through the year that's 3 3/4, in other words a 3 per cent for year average but the actual speed across the year is nearly 4 per cent. That will totally change the psychology of the country and I'm quite sure that the public expenditure programs now, that is the highways, the \$2 billion on roads, the national rail system, the 'One Nation' spending, last week we ordered 3,000 tonnes of rail steel, a million concrete sleepers, that's all starting to happen. I think as that happens and the Budget spending happens and this regional policy of spending in the regions all that will kick the growth along right at the right time.

MM: But Prime Minister there was another chilling comment in the Budget papers and that was that as we see the recovery coming through there will be a kick up in the current account. Now what has the 1980s been about if not trying to get that current account under control?

PM: Yes, but we're now in the last few years running a large balance of trade surplus, we're now running a balance of trade surplus of about \$4 billion. The current account debt came from the fact that we were running a trade deficit, we were importing more than we're exporting. This has not been so of the last two or three years so we've still got a current account deficit that is true, because of the interest payments on the old debt. But as investment picks up imports will pick up and slow that progress down, but again it's a pretty modest increase from 3 3/4 per cent of GDP; 3.1 to 3.7.

MM: But doesn't it worry you that we're seeing the growth in private consumption, in housing?

PM: But again what's the answer? Demand management, sit on the economy, don't let it grow; the only thing to do is to add to supply, that is be able to produce more goods and services. I mean the great thing about Australia is we have made this vast transition to elaborate manufactures and manufacturing exports. Manufactured exports have trebled since 1983, elaborately transformed manufactures have done the same and all we should do is continue to add to supply and that's the way we'll beat the current

account. We won't beat it by trying to sit on the economy, that is kill the imports by killing the growth and killing employment.

MM: Our performance, of course, is dependent on a stable international climate, and again the Budget papers refer to the fact that if we see a further contraction in Japan, then the forecasts are at risk.

PM: Well we've got ourselves growing in this, our trading partners are growing at 3 per cent on average, that's exactly as we see ourselves growing.

MM: Mmm, but that growth is again dependent on Japan, is it not?

PM: The bulk of it depends on the United States', and some of it on Japan's, some of it on Western Europe's, and some of it of course in the South Pacific and North Asia areas. They're growing much faster than we are, but taken as an average group it's about 3. Even if there was a shift in Japanese growth it wouldn't change the forecast much.

MM: You mentioned the US there. What of the possibility of a Clinton victory in the US say in November? Now even the prospect of that is making the markets a bit nervous at the moment.

PM: Could be, but one of the things I think Australians should understand, that is the United States didn't fix their budget deficits in the 1980s, and in the good times they didn't produce surpluses. We did. And now they've got a budget deficit this year of 6 per cent of GDP, we've got one of 3.3. Ours is going to come back towards balance, theirs isn't. And that's now why they can't use fiscal policy as we can use it to lift the stimulus and let growth move in the economy. These are now options Australians have because of good management in Budget policy.

MM: But if you had a Bill Clinton in the White House next year, he'd be worried about winning re-election four years hence, not so much worried about the economy and getting that down from 6 per cent.

PM: The US political system has not been able to manage this economy, and there's been this dichotomy between the power of the President, the Congress, and the Executive. And they've not been able to manage fiscal policy, and that's why they took no precautionary action in the salad days of growth, and now why they're basically hoisted with these very high deficits and no capacity to actually stimulate the economy.

MM: Indeed, but if it's bad there it could be bad for us.

PM: It could, but I mean again, they're in a cycle and they'll pick their way out of the cycle as well as we are. I don't think it's going to change our forecast much at all.

MM: Well, just to some local comment. Business leaders here have cast doubt on the 3 per cent. They say it could be less optimistic than that.

PM: I mean, you'd have to have a huge contraction in growth off our national account numbers of last year - that's the actual growth we've measured, the statisticians measured, for the year to June 30 this year. For the last financial year you'd need a contraction to produce some of those numbers. No, we've got here I think conservative numbers, a conservative forecast at 3 per cent for year average growth, and 3 3/4 through the year.

MM: Is this Budget a plan for the future, or is it a palliative?

PM: No, no, it keeps the structural progress going, that's the point, and the social progress. That big change to Medicare for hospitals, the change to the social security programs, the 150 per cent for R & D to keep that research and development component coming through, on top of the huge change in depreciation rates in the One Nation Statement in February - the pooled development funds, all of the other innovative tax changes which obtained then - and for the general business environment, low inflation, low interest rates, a competitive exchange rate, a very high profit share and about to go higher, a set of wage arrangements in place which will hold the inflation rate below our trading partners. It's a pretty good scene coming up.

MM: You referred before to the training programs that are in place, and certainly in the last month you've gone to a lot of trouble to get a comprehensive training program in place. Kim Beazley said on this point that what we will see in the future is the marriage of training with national economic goals. Now, some might say well that's only half the picture, why not go ahead and marry industry policy to national economic goals, and much more directional industry policy?

PM: Well it basically is. I mean look, we're saying sell your brains, train your kids, keep them in school, put them through universities and TAFE, sell innovative products, sell your brains. John Hewson is saying don't do that, let's sell the dumb products, let's cut the wages to \$3 an hour, let's compete in the low orders of the international division of labour, let's compete with

the people on \$15 or \$20 a week in South East Asia, let's try to make the things that we shouldn't be making, and let's keep in the game by cutting the wages of low paid Australians. We're saying, give that up, let's have a trained work force doing clever things.

MM: To what industries would you like our young people to sell their brains, in what areas should we be competitive and getting the exporting going?

PM: Well, all the ones we're doing now – elaborately transformed manufactures, services, education services, health services, tourism, financial services, and in those clever parts of, you know, computer software programs.

MM: But are we doing enough? We've got the manufactured exports up, but they're only up to about 25 per cent of our total exports.

PM: Well they're higher now than rural or mining exports for the first time ever. I mean the Liberals should have hung their heads in shame that for 30 years the whole post war trade in goods and services passed us by, we were just basically into producing a bit of wheat and wool and a few minerals. As important as they are, and remain, they are not enough and they don't employ people in cities. You can't say get a job at the back of Queensland or in Western Australia if you live in Sydney or Melbourne. So we had to re-establish, we had to rebuild the basis of our manufacturing and our services because this community didn't have its share of international services.

MM: Prime Minister, in terms of the political battle you gave a bit of a chest-thumping speech to the Caucus the other day along the lines of 'you ain't seen nothing yet'. What have you got in mind?

PM: We're going to paint Dr Hewson and his policies, which are basically about survival of the fittest, the Gordon Gecko view of the world, you know – 'greed is good' and if you're not a millionaire you're a layabout – stick a consumption tax on everybody, make the low paid people give tax cuts to the higher paid people, make people pay for their health care regardless of their income, no Medicare, you have a right to go to university if your parents can afford full fees – \$12–15,000 a year. We're saying that's not the view, that the mix we've got, the blend between an open market economy introduced by a Labor Government, ironically introduced by a Labor Government grafted together with a really comprehending and compassionate social policy, with a role for business and a role for the unions, in an evolutionary change in the labour market. That's the model for

Australia. Not some sort of late '70s Thatcherite model which is basically built upon the greed syndrome – if there's a quid for you go and get it, and if there isn't there's no point to you. And that's the difference between the parties. And that ideological difference is going to become more apparent as the months go on.

MM: Don't you think the electorate, though, with reservations might say we might as well go for that because we want to punish Labor, they have given us 11 per cent unemployment?

PM: Look, we get New Zealand thrown up to us as a model by Dr Hewson. There are the same number of people in jobs in New Zealand today as there was in 1983, in fact fewer. In fact, by a modest amount, fewer. In Australia there is 25 per cent more people in work. When I became Treasurer the work force was 6 million, it's now 7.6 million. We had more growth in Australia in the 1980s than there is GDP, total product, in the New Zealand economy. We've made the great transition to an externally oriented society, we've built one of the best social security safety nets in the world. I mean, why should the community punish us to reward a set of coalition layabouts who got us into this hole in the first place, a person who was advising the then Treasurer for 7 years, who left us with a massive current account imbalance, ballooning foreign debt, a 10 per cent inflation rate, nearly 11 per cent unemployment, 10.5 per cent unemployment, and a hopeless sort of outlook? Why should that group ever be rewarded by the electorate vis a vis a government which has taken all the courageous changes and tried to make something of Australia, to give it a place in the world, notwithstanding the fact that the game got overheated in the late 1980s and the result is the recession. It has been the recession, but the same recession that we see in Britain – did you know that Britain has just slipped back into negative growth. I mean, we're now growing at 1.6 for the year to June, they are actually contracting 1.5. The United States is in a recession, Japan is in a recession, France is in a recession. This has been part of the debt hangover of the '80s and the collapse in asset prices. And to say let's throw the baby out with the bath water, let's take the Government that really made the post war changes, that made the courageous change to an externally oriented society, that made all the social changes, the structural changes, and what will we have back? The Gordon Gecko of Australian politics, to give us the 'greed is good' syndrome. Thatcher, 1979, who wants that?

MM: Prime Minister, I suppose you're not holding your breath about a Kirner victory in Victoria. Isn't there the same sentiment about the Federal

Government, to a certain extent, as there is about the Victorian Labor Government?

PM: I'd hold my breath for a Goss victory in Queensland, though. What points that make?

MM: Prime Minister, thank you.

PM: Thank you, Maxine.

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