



# PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING, MP  
INTERVIEW WITH JOHN LAWS, RADIO 2UE, SYDNEY, 11 MAY 1994**

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JL: listened almost in silence to the Budget speech last night, which has to be a first. There wasn't much racket going on there was there?

PM: The Liberals were there, I thought, some wag yelled out at the end of it, "get them the smelling salts", get them the smelling salts. As I walked out I said, "I think they have all just sucked on a lemon." They were the sourest looking lot. Because they thought this is the Budget we should be delivering, all this growth, the good news in it of nearly 250,000 jobs. John Hewson, who in the election campaign was saying we are going to have a double dip recession and maybe a depression, could see himself up there wearing the laurels and accolade of growth and jobs.

JL: So, you don't think the silence was ...

PM: The silence wasn't out of regard for the Treasurer.

JL: It wasn't a bad sign, though?

PM: It was just, if you like, the silence of reflection.

JL: On what they have lost?

PM: Yes, on the opportunity.

JL: Well based on what happened to John Dawkin's Budget of last year, it doesn't matter how quiet it was last night, the fun and games really only starts now. You have got to try to negotiate the Budget through the minefield of the Senate. Are you going to put up with objections from the minor parties in the Senate again this year, or do you anticipate there won't be any?

- PM: Well I don't know if there will be any. Let me just say a couple of things about the Budget, John, which I think are important. The first thing to say about it, I think, is that Australians have earned this recovery. We have had a very good reception of the Budget, but there are always the sour puss commentators. If it is not pain it is not any good. They can't say well look we have had a recession, we have got out of it, we are now growing, people are starting to get a buck again, it is moving on. No, no, they won't. "Hop in there with tax increases, hop in there and get the Budget deficit down faster". We are getting it down faster than any other Government in the Western World, to a lower number than anybody else.
- JL: Can I just say, apropos part of the reaction, you say that it has been fairly well received. When you look at some of the headlines, has it been well received? "Hope and pray". "Labor gambles on business." "Gamble on growth." That's the kind of headlines we are seeing.
- PM: But I think the key thing is what the business community say about it, I think. Because they are the people who employ people, they are the ones whose expectations about investment matter, and I just noticed as I was coming up to the station this morning, on 2UE news there was Macquarie Bank, Bill Shields from Macquarie Bank, an ex Reserve Bank chap, saying that the Government's investment forecast and growth forecast are pretty much as Macquarie Bank and other forecasters had forecast them.
- JL: Well, that is one saying that. You have got others saying that the anticipated growth is not enough. And after all the anticipated growth is only just fractionally over the OECD average.
- PM: No, no. We grew in the year to March at 4 per cent. The Budget forecast is for 4.5 per cent. The OECD average is about ..
- JL: Is about 4 isn't it?
- PM: No, it is about one, 1 per cent. The Western World economies are growing, on average, around about 1 per cent. Germany is actually contracting, it is getting smaller, it is not growing, it is getting smaller. Japan is just at about zero, the United States is growing at a couple of percentage points, I think 2.5 per cent.
- JL: The OECD average, it is certainly not the average being claimed by some of the commentators. The OECD average is just about 1 per cent?
- PM: Around one, around 1 per cent. That is the position, and we are growing at 4 per cent. I am not saying we are projected to grow at 4 per cent, we actually have grown at 4 per cent for the year to March. And we are saying in the coming year, 94-95, from July to June next year, we are saying we will grow at 4.5 per cent. Given the fact that we have got low inflation, low interest rates, we have got a high profit

share, a competitive dollar, a much more flexible labour market. We were growing at 4.5 per cent on average through the 1980s.

JL: Are interest rates going to stay low?

PM: While ever inflation stays low, they will stay low.

JL: Are you confident of that?

PM: Of course.

JL: Just back to the Senate. Do you think the Green people and the Democrats will behave themselves as far as this Budget is concerned?

PM: Well there is no tax increases in it, John.

JL: But there is not all that much spending increase that they would have liked, not as much as they would have liked.

PM: There is quite a bit. Just let me run through a few things. There is \$500 million over five years for Aboriginal health. There is \$63 million over four years for youth homelessness. We have got a national Asian languages program in there. \$169 million over four years for mental health. \$209 million over four years for breast cancer. \$10 million for child immunisation.

JL: Is that going to be enough for them?

PM: Well, they are all the sort of things that they claim to be interested in. And we have got \$135 million there for the preparation of the Australian Olympic Team between now and the year 2000, and we have got \$68 million in for foreign aid, extra foreign aid. So, the sort of things which the Greens and the Democrats normally attach themselves to are very much here. And, of course, the Budget consolidates the White Paper: the largest attempt that certainly any Australian Government has ever had dealing with the long term unemployed.

JL: How much have you got for homeless youth?

PM: \$63 million over four years.

JL: What are homeless youth?

PM: Well, these are kids who just drop out of the system and find themselves in the Kings Crosses of this world, and the St Kildas.

JL: Because they don't like it at home?

PM: Well, some of them don't have homes. They just get driven away from home.

JL: I think they get beckoned away from homes by Government subsidies, in many instances. Obviously you are going to give them more.

PM: Well these are not subsidies, these are just refuges. But they are largely run by the States, but these are top ups which we provide them. But on the big agenda we have got, the key thing about this, is that Government spending, that is outlays, all Government spending outlays are running at less than the growth in the economy, and they will do that right down to the end of the decade, which means the Budget is going to go back into surplus later on in the 90s. In other words, if you can keep spending below the natural rate of growth in the economy, all the proceeds of growth then go off the Budget deficit. And that is the sort of fairly good position we have got here now.

JL: Just back to the Greens and the Democrats, did you have discussions with them prior to the Budget, on the Budget?

PM: I haven't, but we had a formal process this year, for the first time ever, of consultations between the Government and the minor parties in the Senate, and Ralph Willis and Kim Beazley, that is the Treasurer and the Minister for Finance met them, and as far as I know they had fairly good conversations.

JL: Did anybody warn them that you might change the proportional representation system if they wanted to play up again this time?

PM: I don't think so.

JL: Would you change it?

PM: We only mention it from time to time, when something annoys us.

JL: I would have thought that that might have been an appropriate time. Would you change it?

PM: That's an issue for the long run, I think.

JL: Well, given your position now, as you sit here in this broadcasting studio, would you change it if necessary?

PM: The best thing is to see how the Senate performs on these things. Look at the White Paper, John, the White Paper is a novel attempt, not just in Australian terms, but in world terms, to actually case manage personally half a million long term unemployed people back into work.

JL: Yes, well the White Paper has been well received, but that is a long way from would you change the proportional representations?

PM: Yes, but that is a long way from the Budget. The answer is no. I have no plans at this stage to change the proportional representations in ...

in the Senate. But the fact of the matter is, that in terms of social policy, the White Paper and the Jobs Compact, and the Youth Training initiative and the entry level training from schools to TAFE, and the Budget changes in Aboriginal health, and in breast cancer and these things, the sort of things that a developed country should be doing. And we can do it with a declining Budget deficit, and the Budget coming back into surplus.

JL: You are going to need the help of the private sector. In fact if it is not with the private sector, none of this will happen, will it?

PM: One of the points the Treasury makes in its commentary on the economy has been that there has been a sequential or rolling nature to the growth in this recovery. The first wave came from consumption, that's personal spending and housing. There has been another wave there from exports and rebuilding of stocks, and now private business investment will come in as, if you like, the third wave. Now, as you know we have had a great paucity of private business investment since the recession began three years ago ..

JL: But not enough.

PM: We have got 14.5 per cent growth in this year which is a real pick up, a strong pick up. And that was the figure that Mr Shields from the Macquarie Bank was endorsing on your news this morning.

JL: Ok, before the last election, in fact, during the first of the debates with John Hewson, I think 14 of February it was, Valentines Day, you said I quote, "We have got the growth, we have got the investment sitting there, \$130 billion, enormous, an absolute avalanche." I can't say it with the conviction that you said it with at the time.

PM: Well you have got the voice to do it.

JL: I am sure you are remembering the phraseology, "and once it starts to go, the economy starts to move", that's what you said. Now, that was nearly 18 months ago. "An avalanche of investment of waiting to fall on us, \$130 billion." According to last night's Budget we will depend on growth to pay for everything, and that growth depends on investment dollars, business investment dollars. But even Ralph Willis last night, despite all the layers of gloss, said the business investment had made little contribution to the economic recovery, and despite an optimistic prediction of an increase in business investment of 14.5 per cent, which you have just acknowledged, next financial year, that represents investment spending, according to Mark Westfield, Business Editor of the Australian Newspaper, of less than \$5 billion. So, what happened to the avalanche of \$130 billion.

PM: They were the projects which were registered for the development allowance. Remember we gave a tax concession which said you could write off 10 per cent of your investment in a development allowance,

but you had to register, or apply, that was the process of application. We have now got a large proportion of those registered, but the key point in the election campaign, John, was I was saying Australia is going to grow, and grow as fast as any other substantial economy in the world, and John Hewson was saying, "No, no, we are going to have a double dip recession and then maybe a depression."

JL: That's right, but you did say we had an avalanche of investment just sitting there, \$130 billion.

PM: We are growing now already at 4 per cent, and investment is going to play a part in that. But it is not just investment can I say? We have also got private consumption picking up from 3.5-4.5 per cent, and there is gross national expenditure up from three and a quarter to four and three quarters, private business investment, 14.5 per cent, non dwelling construction five and three quarters, plant and equipment 18.5 per cent. So, there is a sort of mix to it, but there is a big component of business investment, but so there should be, given the fact that we have got now a huge profit share in the economy.

JL: But where is the avalanche? Where is the \$130 billion?

PM: Well, 14.5 per cent is a pretty big slug, old son.

JL: Is Mark Westfield wrong when he says investment spending at the moment is about \$5 billion?

PM: That number is absolutely wrong, absolutely wrong.

JL: Well Access says investment will increase by less than 8 per cent.

PM: Well they have been consistently wrong in the last couple of years. Look, these are all the people who said to me when I brought the One Nation package out they said, "Oh this is a great mistake, it is going to bankrupt the country." I mean, it kicked us along in growth and as a consequence we are growing faster than any other substantial OECD economy. We are doing 4 per cent and the average is doing 1 per cent.

JL: Yes, and I understand that to be fact, and I accept that as being fact. But if you don't get the growth you can't pay for the programs, can you?

PM: Yes. Look, basically what have we done here? We have spent in large measure this year around \$1.1 to \$1.2 billion on the long term unemployed, on the youth training initiative which is about getting case managing for all young people under 18 who are unemployed. Personally managing each one back into work, and changing some of the incentives in the social security system so that low income people, and particularly unemployed people, can take on part time work.

JL: Why did it take so long to get this training wage? Because Blind Freddy could have seen that if you had to pay an 18 year old the same as you paid a 28 year old, and if you could get a 28 year old, you would take a 28 year old, and it was shoving youth out of the employment circle? Why did it take so long for the penny to drop, or did it only come about because finally the ACTU agreed with the Government.

PM: I will come to that in a second. Let me just make this point. You see, what some of these people say, "Oh well this all depends on growth."

JL: Well it does.

PM: Well the point I made is, well haven't we earned the recovery, haven't Australians earned the recovery after the last few years. Firstly high interest rates and then we had the recession, and we finally got the books balanced again, and got some sense back into bank lending, and taking some of the speculation out of the economy and got back to a real basis of earnings and exports and competitiveness, we have got the growth going now. What they are saying is, particularly some of this more rightwing rabid characters who write columns for the newspaper, sort of, "what are you doing spending \$1.1 billion on the unemployed?" And what they don't understand is, in this recovery we are going to need a lot of skills and the skills formation is not going to come from the migration program, as it has in the past. It is going to come from our own labour market.

JL: And it came from the migration program for too long too, didn't it? I mean, that is another thing that should have happened sooner?

PM: Well, it is going to come from new entrants to the work force, that's the school leavers, and it is going to come from retraining 350 - 400, 000 long termed unemployed people, giving them work experience, getting their esteem back up, and getting them back into work. Now, in a country this wealthy, to say callously to 400,000 people who have taken the brunt of the economic change, "sorry you have missed out, and we will carry you as an underclass, goodbye." Is not only inequitable, it is also inefficient because in this economy, this is why the business community has been very, I think, supportive of the White Paper - the Australian Chamber of Manufactures, the MTIA, all the people who actually employ people, have actually said, look, this is a good thing, you can actually get some skills complements here in the 1990s. And, John, we will have - this is the point - what the White Paper and the Budget which consolidates it says, as a society we will not go the way of a low wage working underclass or unemployed class as in the United States, as in Britain. We will not go that way.

JL: What's unemployment in the United States?

PM: What is it?

JL: About 6 per cent isn't it?

PM: 6 and a half?

JL: Ok, but we'll always have unemployment at about 5 percent, won't we?

PM: Well, I don't know but our participation rate is way beyond theirs.

JL: Well, when you and I have talked before I think we've agreed that there would be an ongoing employment rate of about 5 percent so we're going to have an underclass anyway.

PM: No, it depends how long people are actually... see, in the late 1980s we had unemployment down to six and a half percent ourselves and I think the average time people were unemployed was about three to three and a half weeks. So, you've got a pool of unemployed people but how long are they in it? And there wasn't a great pool of long term unemployed people but now there is.

JL: Yes, but that period of time, wasn't that what your people, particularly those on the Left of your mob, called the "decade of greed", when we had unemployment down at that rate? Wasn't that because private enterprise was employing lots of people?

PM: Exactly, it was. We had 1.6 million job growth in the 1980s and..

JL: Yes, but you make claim, or your Government makes claim - particularly Bob Hawke - to the 1.6 million jobs, we created 1.6 million jobs, but you didn't create them, the private sector created them.

PM: Oh, yes but only... that was three times the rate of growth as the Fraser Government had in the previous seven years. And the answer is because the government had an Accord and it restrained wage increases and it had a set of complementary tax cuts.

JL: So, you created the environment?

PM: We created the environment.

JL: OK, so if you created the environment for the 1.6 million jobs created you must have also created the environment for one million now not created.

PM: Well, absolutely and I have argued that point and accepted that point in the course of the election campaign. But, what I've said is let's get growing again and let's do the things to get growing again and I said on election night we would not leave the unemployed behind. We are saying as a society, certainly as a government and I think as a country, we're saying we will keep Australian society cohesive and together. We won't have someone slip out of the system. We won't have an underclass.



JL: Well, aren't you only able to do that by encouraging the private sector to employ because I mean, they are the employers they employ you, they employ all the parliamentarians, the bureaucrats...

PM: In the last year or so we've given them every thing that opens and shuts. They've got a 33 per cent corporate tax rate, John Hewson wanted to give them 42 percent, we've given them 33, the same rate as Singapore.

JL: But that's been for some time and it hasn't turned it around.

PM: No that's just been for 15 months. We've got the highest profit share we've ever had, that is, the share of national income going to profits is as high as it's ever been in Australian history, right at this very time. You can see that reflecting in the stock market. We've got a competitive exchange rate, we've got much more flexibility in the labour market through productivity bargaining so, everything is set up now for a big roll of investment and some of that is in the Budget. That's where that 14 per cent comes from.

JL: OK, now I know you wouldn't expect Terry McCrann to say anything kind about it..

PM: Oh, look, Terry McCrann, there ought to be a law against people like Terry McCrann.

JL: I suppose he's entitled to his say. He makes the point this morning that unemployment will only come down with at least 6 per cent growth, that's to get real jobs. So, growth could get to 4.5 percent, according to him it needs to be 6 percent before it's going to really bite. Do you accept that or not accept it?

PM: Well, he's arguing for a lower Budget deficit. They're real characters these guys, they say, "This depends on growth", and then they say, "We're not sure the growth will be there but you should cut the Budget deficit back." We say, "But hang on, if you cut the Budget deficit back you cut back all that government spending, that will slow the growth even further." They say, "Oh, no, no, no, that's not right, what it will do, it will actually make interest rates cheaper and therefore we'll have a big blow out in growth." I say, "But hang on, interest rates have come down from 18 percent to five - 18 to five - and you're saying if we have a tighter, harder Budget which may knock another billion or so out of it all of a sudden we're going to have some miraculous reduction in interest rates after it has fallen from 18 per cent to 5 percent.

You see, in the end these people are rabid, right wing ideologues. They all roll out into their company paid cars on their \$200,000 a year salaries, couldn't care less about the unemployed, couldn't care less about kids wandering around Kings Cross or St Kilda, couldn't care less about kids who are unemployed under 18 - couldn't care less.

All they want to do is write some thing for these financial markets so you've got some 24 year old kid sitting up at a Reuters screen trying to sell a bond to some superannuation fund. I mean, there's got to be more to life than that. And that's why the public have got to peer right past all the commentators and say, what has happened here? Terry McCrann said, when I bought the One Nation package out, that it was going to bankrupt Australia. Here we are, we are going to come back into surplus in the 1990s in our Budget. We've got one of the lowest government debts to GDP in the world, as the charts in the Budget papers last night show.

JL: That's if all the predictions are right.

PM: No, no that's just right now. Let me just make this point to you. We've got to the stage in public comment in this country where the culture of criticism is so bad that they won't even acknowledge that Australians have worked hard for this recovery and are entitled to it.

JL: Oh, I think the Australians acknowledge that and I think the Australians understand that.

PM: I think the public understand that and that's why the government is always in a relationship and conversation with the public and not with the media.

JL: Yes, well, when you talk of youth unemployment why wasn't something done about a training wage a long time before this, because you couldn't get the cooperation of the ACTU?

PM: Let me just show you this, your listeners can't see this but you can. Chart 3 in Treasury Budget Paper No. 2, comparison of general government debt. There's Australia, look at all the others. Look at Italy, Canada, UK, France. There's the OECD average and there's us - look, we're about a third of it.

JL: Yes.

PM: We're amongst the lowest. It says, "Australia's public sector debt is low compared with other OECD countries but with both gross and net general government sector debt to GDP ratio as being amongst the lowest in the OECD."

JL: Yes, but you've qualified that as saying public sector debt.

PM: That's right. But, this is the government Budget. You see, people are saying, you'd better get that Budget deficit down. The McCrann's of this world are saying, get the Budget deficit down but, hang on, our debt to GDP is amongst the lowest in the world, we're going to be back in surplus earlier. Let me look at this, another little chart here, it's interesting. Look, it says, "International comparisons of fiscal targets," and they've got the targets. Our target is one per cent of GDP by

1996-97. The United States is 2.3, France is 2.5, Italy is 5.8, United Kingdom is 1.5 and Canada is three per cent. The only other country which has a target of one and will get there, as we will, is Germany. Because it has got massive debt from the East German reconstruction. We're actually going to be under one, now. But, do you read that in any of that in the columns? Not a bit of it. You see, these characters will not accept the principal commentary which is, these are facts, not arguments.

JL: But, all this is going to be paid for by growth? It must be, it's the perennial budget fundamental question, where's the money coming from?

PM: The word 'paid for' is not right... let me just make this simple point about what is called the cycle of the Budgets. In 1989-90 when I was the Treasurer we had a surplus of two per cent of GDP, or about \$8 billion. This year we look like having a deficit, in 1993-94 of around \$14 odd billion. Now, that change is a change of \$22 billion. From a surplus of eight to a deficit of 14. That's \$22 billion dollars worth of cushioning which the government sector has given to the Australian community to cushion it from the impact of the slow down of the recession. But, when things start to grow again, when government spending comes back and when receipts and company earnings and employment pick up then, the cycle changes and the deficit starts to come back to surplus. We're saying we're going to come back to surplus in the later 1990s but we'll be back to a deficit of under one per cent of GDP in 1996-97.

JL: Yes, but all this hinges on all of your projections, or all the Treasurer's projections - which I would imagine are the same - being right.

PM: Well, what is the big number? The answer is 4.5 per cent. But, we are already growing at four and have for the last four quarters for the year to march.

JL: And you don't believe there's anything that can change that?

PM: No, I think Australia's really got the wind behind it now, in terms of earnings and growth and exports.

JL: But, do you understand the sceptics who aren't prepared to listen to the spin, as they call it in newspeak. I mean, you promised us, I think, you'd bring home the bacon in 1988, soft landing in 1990, the recession we had to have in 1991...

PM: Yes, but, John just remember, the 1980s were are period of great bounty for Australia. I mean, we ended up with one and three quarter million more jobs, basically, than we started with, and we averaged four and a half per cent growth all those years through the 1980s - we averaged four and a half...

- JL: So, you don't see the 1980s as the decade of greed?
- PM: I see the eighties as - well there was a fair bit of greed around but there were tremendous opportunities around, as well. Tremendous opportunities.
- JL: And, don't you think we should encourage that sort of opportunity again?
- PM: Absolutely, and that's why we've got the company rate at 33 per cent, we've got a high profit share, and we're also saying, this is not just a recovery for the top end of town. This is a recovery for ordinary wage and salary earners, that's why we reduced the tax rate on middle incomes in the tax cuts before Christmas. And, we're saying, also, to the unemployed and to other sections of society, "You'll be in this as well. It's not just for the guys who are doing well."
- JL: I know that you say this is not just a recovery for the top end of town and maybe that is said in order to placate some of the left wing that you've got to take care of but the top end of town has got to recover, it's very important that they do recover.
- PM: Yes, exactly, but it's your small and medium sized business enterprise I'm interested in. They're the ones who'll put the extra one or two people on. They're the ones who need the break in the labour market, in the tax system, in general competitiveness and they are the things the government is seeking to do. But, they'll need skills as this recovery picks up and if we don't retrain that great body of long term unemployed people we'll have skills bottle necks. And, when you have labour shortages you start getting wage push inflation. And, that's the thing we've got to avoid in 1996 and '97 and '98.
- JL: So, you do subscribe to the theory, if you want more employees you have got to have more employers?
- PM: Well, I have always done that. I mean, let me make this point again - in the seven years between 1983 and 1990 the Australian economy grew at an average rate of 4.5 per cent, exactly the forecast we have for this year and this Budget. But, to grow at an average of four and a half in some years you've got to be doing better than four and a half. In some years we did five. Now, you compare the economy then, to now. You never had low inflation, like now, we never had flexibility in the labour market, in enterprise bargaining, like now. We never had the linkages into Asia...
- JL: Why didn't we have all of those things you've mentioned?
- PM: Why? Because we had a slug of a government for 25 years, the Coalition, that never did a damn thing about any of these things.

- JL: But your people have been in there for ten years, you didn't do anything about enterprise bargaining for ten years.
- PM: Yes we did. We started in about '85 on productivity bargaining and started to change the centralised system around.
- JL: Yes, but nothing happened until the last 12 months.
- PM: Oh, no, no, no. We got enterprise bargaining in the late 1980s. The great change we put in in the last year was enterprise flexibility in the Federal Award area. So, even in places which are not organised, where there are no unions, small to medium sized enterprises, they can now vary their terms and conditions of employment...
- JL: Do you regret that you didn't introduce that earlier?
- PM: Well, I think everything takes time. You see, the rigidities and the interlinking awards and the leapfrogging which characterised our wage fixing system for 90 years can't be changed overnight. But we've now changed it. But, my point is this, John, that with all those changes, if we could do four and a half per cent growth in the '80s in a far more rigid economy the chances of doing four and a half now in this flexible economy - much more flexible, and remember this, that 75 per cent of our exports go to the Asia-Pacific. The Asia-Pacific is growing much faster than North America, Japan or Western Europe. This government has set up structures not only in Australia, but outside of Australia, for Australia.
- JL: So, what do you believe our growth could be? I don't want to hold you to it, I'm just thinking about the growth in Asia.
- PM: This year I think we'll do the four and a half, as forecast and, I think, it's possible for the Australian economy to grow at that pace or greater, over the period. Now, we're forecasting, in a sense conservatively, our growth rate drops back to around four per cent for the next couple of years.
- JL: Do you think you are making it easier for private enterprise to employ people or do you think you are making it tougher?
- PM: Oh, we're making it easier because, basically, now a good manager can make the wage bargain that he or she thinks can kick the business along. And that, I think, is the big change.
- JL: I hear the greatest complaint from the private sector, or one of the greatest, and there are plenty of them, but one of them, which I don't think is unreasonable, is that it might be easier now to employ people but it is very, very difficult to get rid of them.
- PM: Well, I don't see that's valid. But, the point about it is, look, let's not get gloomy about getting rid of people, the fact of the matter is that we

have, all of us, changed this economy from a closed, inward, frightened little place, with a tariff wall around it in the 1980s and a managed exchange rate and a sclerotic financial system to one which is open and free, free and open product markets with low tariffs, open services markets and open financial markets and great linkages now into Asia, with low inflation, low interest rates and a competitive exchange rate. The ball is at our feet, and where now 8 kids in 10 are completing secondary school; ten years ago when we started on the task it was 3 in 10. In two years time it will be 9 in 10.

JL: How many of those kids are staying at school because they believe they wouldn't get employed if they left?

PM: All the incentives have been to keep them at school because we don't want the Australian economy to be a low wage, low brow economy. We want it to be a high wage, high technology, smart economy doing the smarter higher valued things and you can't do that without education and research and development. Now, that's the sort of economy we've got set up for ourselves. Only we can muck it up at this point. The ball is at our feet.

JL: OK, when you say 'we', qualify that.

PM: Well, that is, by some characteristic of our economy or community we don't take the opportunities up. I mean, by the business community for instance not taking the opportunities up; by the labour market not changing.

JL: Do you believe they will?

PM: No, I think they will. Look, John, I was in Vietnam three week ago and I went to a function which the Australian Embassy had arranged and there were 235 business people there from Australia - 235 Australians in Ho Chi Minh City. We've got \$800 million invested in Vietnam. Australians are everywhere - in Bangkok there is a great group of them there that I met. We've made the leap into Asia as we've never had it before and that is what is holding some of this growth up. That is, that exports which have been going gang busters now for years are doing so because the linkages we have into an area of the world which is growing much faster than north America or Japan or western Europe. Now, if we continue to keep our competitiveness, get that right, but believe in ourselves, have some faith in ourselves and not knock the place or have these sort of crabby right wing journalists saying, "oh well, look, there's not enough pain here, what we need is another sort of ... I know they had high interest rates, but now let's give them high taxes. Let's belt them around." This sort of notion that if it's not painful, it's not any good; when do we ever get to enjoy it? And if we understand that we do have tremendous opportunities here I'm sure Australians are going to just grab them. In other words, in the terrible sort of tall poppy cutting and knocking of Australia, basically the community is in for the main chance, which is growth and opportunity.

- JL: Just back to industrial relations. I was saying yesterday that you have done extraordinarily well, or somebody had, getting the unions on side - probably Simon Crean in the main with your assistance - but, the new Industrial Relations Reform Act would appear a major impediment to getting changes in the work place. The flexibility promised by the White Paper of last week is prohibited by this Industrial Relations Reform Act because it reforms all the secondary boycott provisions, it puts up barriers to the formation and retention of non-union shops, you've got to advertise any work place agreement and consequently the unions can get involved again. Are you going to have another look at that?
- PM: No, because, look, secondary boycott things never made any difference to the way someone runs a business. What this means is, instead of the rigid flexibility of awards which we had from the centralised system, someone now who, let's say it's a business employing eight or ten people in a federal award area, even though the people may not be unionised, may never have ever been members of a union or been in any way organised, those people can now vary the terms and conditions of their employment in agreement with the employer without reference to anyone. Now, the only condition we put is that they can't be varied down. They can change their hours of work, they can change their remuneration.
- JL: But they have to have agreement.
- PM: Between them.
- JL: Yes.
- PM: Yes.
- JL: But the agreement has got to be a majority approval, but the funny majority you lot have down there is 70 per cent. I would have thought 51 per cent was a majority.
- PM: I can't remember what we've got in the Bill, John.
- JL: Well, that's what you've got.
- PM: The fact of the matter is, look, any employer with any nous these days has got all the flexibility to actually get their employees together and do something clever. Now, they are doing it. You see, one of the reasons why last month the inflation figure came out for the year at 1.9 per cent and in the old days wage increases without productivity would be pushing that rate up. The reason it has remained consistently low, and it is very low, is because we are getting wage increases, but they are paid for by productivity. So, it's not flowing into inflation and the system is already working. The proof of the pudding is in the eating. Just look at that inflation rate, I mean, we are not in a recession now.

We are growing stronger than any substantial economy in the world and yet we've still got inflation at 1.9 per cent. In the same part of the cycle in 1983-84 when we came out of the 1982-83 recession we had inflation at 11 per cent. We've got inflation now at 1.9 per cent and we got it because, basically, the system is more supple, flexible and productive.

JL: And do you believe inflation will stay that low?

PM: Well, we've got it slightly higher in the Budget at 2 and 1/4 per cent. From 1.9 per cent to 2 and 1/4 per cent.

JL: If it goes to 2 and 1/4 per cent will interest rates stay down or go up?

PM: No, I think there is no reason why interest rates should rise on the forecast. Because, we've already got interest rates running at 5 and 1/4 per cent or 5 and 1/2 per cent on bills for instance which is a real rate of interest on the short ends. That is, the real rate is taking the inflation from the nominal rate of interest - if the nominal rate is 5 and 1/2 and inflation is 2 per cent the real rate is 3 and 1/2 per cent. So, we've got a real rate of about 3 and 1/2 per cent.

JL: You see, because that's where the confusion exists - what's a rubbery figure? I mean, what is the real rate and what is the anticipated rate? That is where the discrepancy lies. Somebody said last night, I don't know whether it was Ralph Willis or not or somebody in an interview later, that we had the lowest income tax rates in the world.

PM: We are. Australia is the lowest taxed country in the western world. Again, that is confirmed in the papers ...

JL: Well, I'm just looking here, for the average wage of \$35,000 here, we pay 22.6 per cent tax. The same rate of pay in Asian countries has much, much lower rates; Indonesia 23 per cent; Malaysia 16 per cent; Korea 15.6 per cent.

PM: But, they are not OECD countries, John.

JL: But, these are the countries we are dealing with.

PM: I know, but, they don't have a developed road system, they don't have a developed health system.

JL: Japan doesn't, Singapore doesn't.

PM: Singapore is a city state. It is as big as the city of Sydney. I mean, once you put the roads down they are down for the next twenty or thirty years. Look at Australia, you've got to run highways.

JL: It is a bit bigger than the city of Sydney. Japan 10 per cent; Thailand 10.4 per cent.



- PM: Yes, but Japan's rate of tax is about the same as Australia's. That is, Japan and Australia are within a decimal point of one another as the two lowest taxed OECD countries and we are.
- JL: But, when you say the others aren't OECD countries, that of course, is quite right. But, they are the countries in whom we have been encouraged by you to place great faith because this is obviously where our trade is going to take place.
- PM: That is true, but you can't compare their general revenue effort with ours when we run a fully developed economy when they don't. But, what we have done for it to say, but, we do trade with them, and therefore as a concession to that point we've cut our corporate rate to 33 per cent so at least our businesses are on the same competitive footing as a business would be in these countries. But, in terms of the general community of Australia, we've got now a very low level of taxation because we don't have a consumption tax; we don't have social security levies.
- JL: But, it's not the lowest?
- PM: It's the lowest in the OECD.
- JL: Sure, but we are not dealing directly with OECD countries. Haven't we got to take the comparison between the other Asian countries.
- PM: Yes, well, go around Malaysia and go around Korea and see what conditions are like outside of Seoul or Kuala Lumpur or these places. It's just not like Australia, they are not developed countries.
- JL: But, these are the countries with whom we have to deal?
- PM: Yes, but we don't want to end up like that.
- JL: I agree.
- PM: I mean, they are trying to end up like us. They are trying to get to where we are.
- JL: OK, well now Prime Minister, tell us what we, as a nation, have now got to do?
- PM: I think, what we have to do is to consolidate our gains on inflation. That is, we have to always think about price increases and wage increases; we've got to keep the notion of productivity, the whole productivity culture in front of us; in preserving that inflation rate we preserve our core competitiveness. That keeps us in the market places of Asia and the Pacific and, to that extent, North America and western Europe. They are the things that will basically drive us. Then, I think, we have to keep a premium on education and training as we

are to make sure that we end up with a skilled work force producing clever goods and not a low income work force producing things that developing countries are producing. And, above all that, we've got to keep Australia as a cohesive society. We've got to be determined that we shall be an inclusive place. That everybody is part of the Australian family and there's not just part of the game for the wealthy and well-to-do people with the middle income earners doing it hard in the middle and those on low incomes doing it tough or the unemployed. That we keep the place as a cohesive whole. Now, if we do that, we'll do what the Americans have not done, what the British have not done - in the 1980s there has been basically an underclass rip away from American society. You've got a very high proportion of low income employed people, but people below the poverty line on abysmally low wages and you've got a body of unemployed people as we have.

What the White Paper is, is a statement which says we will not be that kind of society. That the Australian ethos of the fair go and egalitarianism will remain a core part of the culture under this Government and in the Australian community. So, we get those three things together, maintain our competitiveness, keep an emphasis on training and product innovation and keep the place together and cohesive, I think, Australia can be a country, the envy of many in the world.

JL: When will we start to see the results of these things when put in place?

PM: I think, we will start to see them relatively soon. One of the challenges in the next two years is to develop a private case management and job placement market, to sit beside the Commonwealth Employment Service so, if an employer needs somebody, with confidence they can ring a certain agency and find somebody relatively quickly who they know they have personal experience of. I think, it is also important for Australia's young people: there is a lot of alienation amongst young people because they think society doesn't care for them or doesn't care about them. I think, to be personally case managing them, one-to-one, understanding their personality, their educational ...

JL: You'd have to employ an awful lot of people to do it.

PM: Yes, we've got to employ about 3,000 we think to handle 125 cases a year, personally. But, you'll get to know the person, understand the person, their educational qualifications, their aptitudes, their work experience and they'll go away saying "well, look, I'm not on my own, I haven't been forgotten, I'm not just cast aside", and, I think, that 's terribly important particularly today when many young people who drop out of school early find that they can't get work because the sort of low paid, unskilled jobs which existed 25 years ago don't exist now.

JL: In the time that you've been Prime Minister, have you achieved everything you wanted to achieve?

PM: No one can achieve everything they want to achieve, but I do want to see Australia set up well at home and abroad. That is, set up well in terms of a productivity culture in our industry, but a community culture which has a premium on each Australian personality remaining important.

JL: What's the best thing you've done since you've been Prime Minister?

PM: I don't know, it's for others to judge I think, John.

JL: What's the worst thing you've done?

PM: Well, whatever it is I wouldn't tell you, not here.

JL: Later?

PM: Later maybe. Look, I think if we can get that kind of society and I think we are getting it now, we've got a tremendously good social security system, it's targeted, it's relatively inexpensive in world terms.

JL: But, is it really working?

PM: Yes, look, it has held the country together through these last couple of difficult years.

JL: Why have we got more people on it then?

PM: Because we've got more unemployed people, but ...

JL: So, it's not working?

PM: No, that's because the economy wasn't running at its optimum, but the system is working because it has picked them up and it's managed them and it's now managing a lot of them back into work.

JL: Why do we have more poverty now than we had before if the system is working?

PM: We don't have more poverty.

JL: Yes, we do.

PM: No, I don't think that's right. I mean, Australia is a much more ...

JL: We were not going to have any by the 1990s according to your predecessor.

PM: Australia is a much more fully employed place than it was ten years ago notwithstanding the recession. I mean, largely we kept of those 1.7 million jobs that were created in the 1980s, we've largely kept them

all. What we haven't done is we are not adding to new ones at the pace that we were formerly adding to them and that is what we are now changing - this year with 230,000 job growth and in the Budget forecast for another 240-250,000. So, that will make a difference. The social security system, the health system means that Australia is a very equitable place, I believe, and what we've got to do now is just make sure that the proceeds of growth are spread to employment and to education and that we continue to make these linkages into Asia.

JL: OK, thanks very much for your time. As usual you have been generous with it and thank you for the explanations. I still think there are a lot of things that need to be answered and I'd like it very much if soon, and I won't hold you to it, but if soon you could spend some time with us and talk to the people who listen to us around Australia.

PM: A bit of talk back. I'd look forward to that.

JL: You like that don't you?

PM: I like that, yes. I like an intellectual challenge, John. Thank you very much for the opportunity and I thank your listeners.

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