



PRIME MINISTER

TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING MP INTERVIEW WITH JOHN LAWS, CANBERRA, 13 FEBRUARY 1995

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JL: And on the line from our Canberra studio, the Prime Minister of Australia Paul Keating. Good Morning Prime Minister.

PM: How are you John?

JL: What a good thing you didn't want to come and visit us in our studio's in Sydney because you would have had some difficulty out at that airport.

PM: Yes, apparently I would have. But I think it is clearing.....

JL: No, I'm not talking about a fog, I am talking about a protest.

PM; Yes, so am I.

JL: Well I hope the protest is clearing...is it coincidental that the control tower for the East-West runway won't be opened until after the NSW State elections? It wouldn't be politicking on Mr Brereton's behalf would it?

PM: No. There is a brand new control system - a completely new control system - and it is important that it goes into place in a way that guarantee's everybody's safety and the efficiency of aircraft operations. It is a very large change from a cross runway pattern to 2 parallel runways...

JL: Plus a cross one....

PM: And a cross one on the bad cross wind days.

JL: So it is just coincidental?

PM: Indeed.

JL: OK. I also hear on the rumour vine that there's a possibility that you may announce today that Ricky Stuart will Captain the Canberra Raiders? Any truth in that?

PM: Well it may be true, but I won't be announcing it.

JL: You won't?

PM: It's not for me to announce, but I.....Prime Minister's are made of many parts, but announcing the Captains of rugby league teams isn't part of it.

JL: Well I think your predecessor might have been delighted to do it. He liked that sort of thing.

PM: Well, he had a great interest, and maintains a great interest - but so do I - but not to the point of announcing the Captaincy of teams.

JL: Anyway, if somebody offers you a wager, I would put money on...

PM: Yes, get your money on Ricky - I would say that's right.

JL: I would say it's right, too. OK, when you - or when the Government - framed the Budget last year, you said that the deficit - the gap between your revenue and your planned spending - would be \$11.7 billion. There were no spending cuts there, there were no tax increases - despite the "deficit daleks" as you called them calling for stronger Government action to reduce the size of the deficit, have you now become a "deficit dalek"?

PM: No. A "deficit dalek" is somebody who believes that the Budget deficit can never be small enough, or the surplus large enough, in any circumstances - even in the recession, these people, when the Government deficit...when the shock absorber effect of the Budget should be to let Government spending run somewhat to help the economy when private investment is low - the daleks always believe in surpluses. In other words, stick it to them, make them take the medicine - it's almost like a knee-jerk response, and there's a fair few of them - they're in the financial markets and what have you, and the reason they are John....see, these are people who are basically punting securities around the world, and trading in foreign exchange and their interest is not in the Australian economy, in growth or employment, or the lot of Australian business, but only how they can protect the investment that somebody has made in Australia via the exchange rate or the interest rate...

- JL: Ok, well when you say that their attitude is "stick it them, make them take it" - there would be a lot of people out there listening to us across God's great garden who would reckon that you have stuck it to them a bit, and that you have made them take it, and now there's talk about interest rates and tax increases as well - isn't that kind of sticking it to them a bit?
- PM: We gave more tax cuts in our period of office than any Government in history, and including the last one which we gave in the end of 1993, so...
- JL: But you were going to give some more that were going to be that boring "I-a-w tax"?
- PM: We had 2 tax cuts legislated - we brought one forward, and we have put one back, and the one we put back you will hear about in this year's budget.
- JL: But are we going to hear about it happening?
- PM: You will hear about it. But let me just make this clear to you - because the Government said we will put it back probably until 1998 - that is what I said, and what the then-Treasurer John Dawkins said 2 years ago.
- JL: But prior to the election, they were "I-a-w" and they were going to....you didn't put....I mean, people anticipated that they would happen shortly after the election, not several years after.
- PM: No. The first lot happened earlier than planned after the election, and they were paid at the end of 1993. But when I said that they were "I-a-w law", that meant that they had passed the House of Representatives and the Senate to be paid...
- JL: Yeah?
- PM: ...to change them, the Government had to secure the support of the House of Representatives and the Senate. Which it did by paying one lot earlier and putting one back.
- JL: Well nobody's knocking back the second lot are they? You're just not giving them?
- PM: Well again, we paid the first lot, and what's happened since then is that the requirements of fiscal policy - that is, because the economy is growing even more strongly than we estimated, and employment's growing even more strongly than we estimated - means that to put a second round of tax cuts in the market say this year, would have been the wrong time for everybody. So are you doing people a favour - you

pay them a tax cut this year which they then lose with wage or price inflation.

JL: Well I don't know if you are doing them a favour or not, but obviously somebody - whether it was you or somebody else - under-estimated the growth that this place would take on - it escalated rapidly, and obviously somebody made a mistake with the "I-a-w law" tax cuts?

PM: Well listen (inaudible) the person I opposed at the last election, John Hewson, told us in the last week of the election campaign that we would now be in a depression - he started with a double-dip recession, and then a depression. Well we have now got the fastest growth of any western world economy, with low inflation.

JL: But you try and explain that to the people out there who are hearing about interest rate rises, and the possibility of not tax cuts "I-a-w", but tax rises - they don't quite understand why if this place is blossoming the way it is - and it is on paper - why it isn't....

PM: John; let's forget the "on paper" business - it is everywhere. We have had the largest fall in unemployment ever in the last 12 months. We have had the largest fall...let me just make these points to you. The unemployment rate fell by 1.7% in 1994 - the largest calendar fall year in our history. We have now got over the highest number of Australians ever in work - over 8 million - since the election, the Government has created 494,000 jobs from its policies. That is 700 jobs a day.

JL: But the Government hasn't created those jobs - the private sector has created those jobs.

PM: It has come from...if anything goes wrong, it's Government policy, if anything goes right it's the private sector. Of course it's been the Government's policy with the private sector. *One Nation* stimulated the economy and got the growth back - essentially John, the Government was re-hired in 1993 to restart growth and employment. That was the key issue of the election, that was the key commitment, and the key issue, and the key commitments have been met.

JL: OK, but at what cost? The size of this deficit?

PM: Sorry?

JL: At what cost? I mean, these things are...theoretically - forget on paper - theoretically, all those things that you're saying are absolutely correct, but the people who are listening to us across Australia now feel that something is wrong, and can't understand why there have to be hikes in interest rates and why there have to be possible tax

increases and why there have to be perhaps cuts in other areas when everything is supposedly rosy in the garden?

PM: Well they feel that something is wrong because the media has now stopped talking about unemployment, and they have started talking about the current account deficit. You see, a balanced appraisal of Australia's circumstances shows us to be very greatly advantaged compared to comparable countries.

JL: Yes.

PM: I mean, here we are in Europe where the average rate of growth is about 1.6% - the Australian rate of growth is 5.5% - 6%.

JL: Yes, but it is hurting us.

PM: Well it's not hurting the people getting a job, John. Tell them that - try and get that message over.

JL: OK, but it is hurting somebody, otherwise you wouldn't have to talk about proposed tax increases or interest rates rises?

PM: Let me come to that in a moment, but all I'm trying to say to you is let's get the balance right - what was the Government's principal commitments in the election campaign? To restart growth and employment. How did we do it? By bringing the *One Nation* spending arrangements into place, and the *One Nation* tax cuts into place, in 1990, and those tax cuts were paid at the end of 1993. That kicked the growth along, and it kicked the employment along. But what it has also kicked along is a very big investment phase. We have now got 24% growth in investment, and because investment is essentially about producer goods - and this country, in the main, doesn't produce producer goods like mainframe computers, computer-operated machine tools, this sort of thing - there is always a bulge in any investment phase in the trade accounts in the current account. That is what we are seeing now, and we have seen quite a bit of spending - private consumption - over the last year or so. What the interest rate rises were about, was essentially smoothing that. That is, taking some of that spending out of the economy, and the reason the Government believes that it is prudent now to tighten policy for the Budget, is to make that growth and employment growth sustainable. In other words, the hardest thing that we can do - and to give Australians - is a maintenance of this strong growth, strong employment, low inflation recovery.

JL: OK. Now it isn't true - the investment that you talk about, which has provided the growth - has come about because of considerable borrowing from overseas, which has cause the blow-out - if you want to

call it that, and they do - in the deficit? That the money has come from overseas because there's not a large enough saving pool in Australia?

PM: That's true.

JL: So if all that being true, why is it then that you make it tough for people to save because if you had \$100 and somebody said to you - and meant it - that unless you spend that \$100 in the next few minutes, I'm going to take \$20 away from you, you would spend it wouldn't you?

PM: No. Why does the country have a relatively modest propensity to save? I mean, why is there that modest likelihood to save....?

JL: Because, I believe, you tax savings.

PM: No. The answer is because of 2 decades of double-digit inflation. That's why. We have so inculcated into people's minds that they shouldn't keep money in the bank, they couldn't keep money in savings accounts, they shouldn't keep them in fixed-interest securities - they should have them in real property - they should have them in a flat, a holiday house or something else because what the last 2 decades have shown is that if they hang onto it, inflation will tear the hell out of it. Now that's the point I make...

JL: So it's got nothing.....

PM: Well that's the point I make about our friends in the Liberal and the National Parties. I mean, they left it to the Labor Party to break the back of Australian inflation. I mean, in the recession on 1980-81, we came out of it with 11% inflation. We came out of the last recession in 1989-90-91 with 2% inflation.

JL: Yeah. So, are you telling me that people are so pre-conditioned - and they're so bovine in their attitude to things like their own money - that they just out of habit, don't save it.

PM: Well forget the bovine description. One thing is very clear. There is an inculcation in the public mind of this country that anybody who had a lump sum in cash in 1970 or 1980 now finds that has been massively cut to pieces by it's purchasing power through high inflation...

JL: So what do you do...

PM: ...and they believe that the neighbour next door, the person next door who bought a flat or a second property or something like that, actually saved the value of their savings. Now this comes from the high inflation mentality. The Government has broken the back of inflation, and we have got inflation somewhere between 2-3%. And we have it there for about 3 years, and in 3 years you don't change the savings

mind of the country. In other words, there hasn't been a long enough period of a return to the good times of low inflation to convince people that basically they ought to increase their discretionary saving. So what happens when you have a big investment phase like we're having now - which we need for the jobs, and which we need for our productive base....

JL: Yeah, but the money is borrowed from overseas, so why don't we encourage a savings pool in Australia?

PM: Well, we have done that...

JL: Well it hasn't worked.

PM:well, we're doing it in a non-discretionary way from the middle 80s with Award Superannuation. And we have now got 6% of everybody's income - on the 1st of July this year the taxi meter turns over again, and another 1% to 6% - the whole nation saving 6% of their income. Now, without that...and that has now added to the pool of savings about \$300 billion - \$300 thousand million. So, we are getting it up. And one of the other ways that you can save is for the public sector to save by going back into surplus, and what the Treasurer said a week or two ago, and what I have said in this period, is that as we go to the second half on the 90s, in the medium-term the requirement is going to be to add to our savings, and the public sector can do a bit more by the Budget moving back more quickly than it might have otherwise into surplus.

JL: OK. Well now all the headlines after the 1994-95 Budget was that it was a gamble on growth. I always felt that the 1994 Budget was a make good for the 1993 Budget that caused you some problems, particularly with the Independents from the West - is it true that the 1994-95 Budget was bothersome to you because you didn't want to go through the ritual that you had to go through to get the last Budget cleared?

PM: No. We made....there are 2 points about the 1994 Budget worth making. The 1993 Budget - the Budget John Dawkins presented - you are right, we had so much trouble with in the Senate because John Hewson's Opposition opposed every measure and we relied on the Democrats and the Greens to get it passed, that Budget...

JL: But that took a bit of talking, didn't it?

PM: It did. And why did it? Because for the first time in history the Opposition - the Liberal Party and the National Party - took the unprincipled stand of opposing the Government's Budget measures in the Senate.

JL: But didn't you think that there was a possibility that might happen again in 1994-95, so you made it a bit softer?

PM: You have already asked me, let me just give you this answer - in 1993, we put in changes worth to the Budget, to the Fiscal Policy over time, of \$9 billion. Now, those changes came in, that was increases in sales tax, petrol prices etc, they came in at various other times in 1994 and in 1995 - this year. So in other words, we believed that in 1994 we had a fiscal change already embedded from 1993s sufficient for the growth which we had forecast. But remember this John, we forecast in the 94 Budget an increase in private investment of 14.5%, and we had - you're right, as you said a moment ago - the headlines the Government gambles on growth - they have got these overly optimistic growth assessments, and we had Mr Costello running around saying "where's the investment, where's the investment?". Well it turns out we had 24% investment. Not only did we make 14.5%, but we exceeded it by 10%. And it's that big bubble of investment, which has come because of the very propitious conditions of low inflation and competitiveness, and the tax system and everything, which has produced now a big bubble of investment which has put pressure on the current account, which now our policy - that is fiscal policy and monetary policy etc - has been responding to that...

JL: OK.

PM: ...in other words, the Government has been doing the perfectly reasonable, sensible thing in the circumstance.

JL: OK, but explain now why you want to reign in Government spending, for which I incidentally applaud you, and think you should do it more, and why you want to put up taxes, for which I don't applaud you? I mean, why is that happening if growth in the economy was better than it was forecast to be?

PM: Let's say that the Government does nothing about it. Let's say we haven't adjusted interest rates, and we don't touch fiscal policy. And we keep blasting along at 6%, and we have spending running at 2 percentage points faster than our production in the economy. That's what we have had - we have had spending running at 8%, and we have production running at 6%. Well obviously if you are only producing growth at 6%, and you have got spending at 8%, 2% is going to fall into imports in the current account. So in other words, the thing has got a "get up and go" about it, which is even stronger than anyone believed....

JL: Well that's.....

PM:which is a good thing, a good thing - but let's make sure it's a sustainable thing.

- JL: OK. But that forecast - that growth forecast for a 5 year period - will this 24% keep going for 5 years?
- PM: Investment?
- JL: Yes.
- PM: No - we had 14.5% in for private capital investment....
- JL: Yes.
- PM: That's where the jobs come from - when businesses invest, that's where the employment comes from. We had 14.5%, and we had all the pundits - as usual "Oh, the Government gambles on growth - the Government gambles on growth" - turns out, as always, we were conservative, and the growth came in at 24% for investment, so the sensible thing is, John, if people want a pro-growth, a strong growth and low inflation economy - where inflation is not tearing the hell out of their savings, and ruining their competitiveness, and ruining the Nation's competitiveness to export and sell abroad - the thing to do is to modestly reduce it. And that is what we'll be doing.
- JL: OK. The expectation was that businesses would start to use those increasing profits for capital investment, and generate job growth, which they did to a degree.
- PM: Which they did massively. I mean the point is that the biggest fall in the unemployment rate ever - fullstop. We have had - John, let me give you the figures again - since the election, and it's not that long ago - it's 2 years next month - we have had half a million jobs. When the Government came out in the election and said our target is 500,000 in 3 years, the Liberal Party laughed at it, John Hewson said it was a hoax. We have met the half million in 2 years - in other words, we have met the target in two-thirds of the time. It's been the largest growth in employment that we have seen, and that is a great thing for this country - a much more fully employed society than - we have now got the unemployment rate at around 9%, from 10.7%, which is a tremendous achievement for the country.
- JL: Define full employment in Australia?
- PM: Well I know it is very hard to say what full employment is because in an economy where there is so much structural change - you know, to the information industries, to information technology, out of some of the older low paid unskilled jobs - that you will always have a pool of what was once called "structural unemployed", and it is very hard to say now how large that pool is. Some people believe it is about 6%.

JL: Do you?

PM: Well, it's not zero. And what the Government has said is we want to get unemployment around 5% by the year 2000, and we are well and truly on the way.

JL: And would you call that full employment?

PM: Well it's going to be....in terms of the debate about structural employment, it's going to be, I think, relatively near to it.

JL: OK. So somewhere between zero and 5%?

PM: Well, it may be 4%, it may 5.25%, it may be 5.5% - I mean, who knows? If you look at every economy in the world today, where you have got this flux in the labour market, with this huge change in the productive base, and increase in the service industries etc, information industries - you have just got a tremendous structural change all the time.

JL: OK. Talking to the people to whom I talk on this radio program around Australia, it would appear to me that unemployment would be considerably improved if we didn't have the problems that we have in the industrial relations area?

PM: Before I leave the Budget, can I just say this - we have got all this debate about what the Government will do and not do, and this is because of some document which has been leaked to the Opposition. Now, you realise John, every year that I have been a Minister, we have had such documents produced - they have no status, they have the status only of being documents that come from the bureaucracy. Now, I would just like to make a couple of points about this. John Howard got a communication from Andrew Robb - his Federal Director - from his advertising agency that said "surely the object until budget time is to make every welfare recipient feel like they're about to lose it, and if they don't lose it this time, they'll lose it next time". Howard then started opportunistically leaking this sort of material, and you might notice in the Sydney Morning Herald today in Mr Gittins' column and which says "Howard sabotages expenditure cut", and it starts off "John Howard's unprincipled attack on the Government's alleged spending cuts carries a warning to all those people who want the budget returned to surplus, but are implacably opposed to tax increases. Their stand " - and that is the Liberals - "is a recipe for fiscal failure. Let's be clear from the outset: Mr Howard's behaviour is unprincipled. It is unprincipled because it is hypocritical. Here are the party and the man who've been insisting for years that the Government slash its spending, turning all the guns on it [the Government] at the first sign it [the Government] may follow their advice. It's unprincipled because it's a blatant campaign to scare the electorate, particularly the most

financially vulnerable: the elderly, the sick and the jobless." Now, that is what he says - Mr Gittins - and before I go on, can I make this quote from the weekend, the Sunday Age, and it says this - "Canberra is awash with pre-Budget leaks courtesy of the Federal Opposition, but you are not supposed to know that. Continuing its pre-Budget policy of scaring the wits out of welfare recipients, the Opposition yesterday tried to convince media that it had further damning evidence of cuts planned by the Keating Government. This may or may not be true, but Opposition officials would not permit the Sunday Age to view the documents, and it said that they had to be anonymous: 'we will give you details of further proposed Budget cuts worth millions, but you will not under any circumstances source it back to us' ", and it goes on to say, "the question is, if not then can I source the information to the Opposition? - 'we do not want it to be connected in any way to us. Why not? Because we do not, we do not want you to approach our Leaders office or any of our Shadow Ministers.' ". Now in other words, here is the Opposition running around Parliament House, handing this stuff out - in this case Mr Paul Daley, the National Affairs Commentator with the Sunday Age - saying these things to them, and then saying "look, can I say that it came from you, and this is the source of the documents?" They won't show them the documents, and they don't want them to say that it came from them. See, John Howard wants everyone to think Honest John Howard, but if John gets a choice between doing something the slick and slippery way, he will always take it, and what we're seeing here...he could have started his leadership off with a stand of principle and said "I do believe in cuts in Government spending - we had been advocating \$5-10 billion ourselves, therefore we will see what the Government now does with this Budget", and then attack the Budget if they want to. But what they are trying to do is run around and scare people about cuts to welfare recipients and other people which the Government has traditionally looked after.

- JL: Yeah, but these are scare tactics - John Howard told me on this program that he believed in the cutting of Government spending, I think he has made it quite public that he does - but tell me, how did you win the last election?
- PM: By saying that the Government will restart growth and employment growth.
- JL: But also, by saying just prior to the election, perhaps not you as an individual, but certainly collectively, by scare tactics about the GST, so people do tend to use scare tactics.
- PM: Yes, but the GST was a fact, it wasn't a scare. I mean, the difference between a scare and a fact, this is a list prepared by officials of a whole lot of draconian measures which the Government has shown in the past when these lists have been presented, it has not accepted.

The GST was a fact of life, it was going to add 15 per cent to everybody's cost of living.

JL: Apart from all the indirect taxes that were going to be removed.

PM: Yes, but the net gain to the Budget from it was enormous. And, people would have found that the beneficiaries of the GST would have been those on high incomes and the people on lower and middle incomes would have carried the burden. So, I mean, what you are saying John, how dare we or any of us had the hide to say 'this GST will actually hurt you.' Well, it was fact of life, it was their direct promise, it would have been implemented and it would have hurt people. So, I don't accept the fact that was a scare tactic. It is a truth.

JL: In light of what Brian Howe said yesterday, do you think that the Opposition may change its attitude. I mean, he said the Government had already done and I quote "all the hard work" in reference to finding out where to cut expenditure. Again, I defend your right to continue to look at ways to cut spending, but there are members of the Cabinet who continue to argue that all the hard work has been done, that the job of the Government is now to be generous with the tax payers ...

PM: No, that wasn't what he was saying. Look, he was paraphrasing something I think I've said before. In the 1980s we cut spending back by \$30,000 million and we cut it back carefully having clear regard for the most needy and without hurting those who shouldn't be hurt. That's what we did. We cut it back, I think, intelligently, carefully, compassionately. Now, we are now back to a relatively small public sector with outlays around 25 or 26 per cent of GDP and what this savings list the Opposition has shows is all this nonsense about lets cut out \$10 billion of spending from waste and duplication. Well, there is no waste and duplication worth \$10 billion on the list. What's on the list is all hard tack. In other words, there are no easy savings left and that is because we did cut back \$30 billion in the 1980s. Now, the people who go on saying, and you often hear Peter Costello and you'll hear Howard "well, we'll get into outlays cuts, but we will cut out the waste and duplication" and it sounds a slick easy line, but wait to they run into a finance official and they see a list. They won't find anything that approaches that sort of money from waste and duplication. You've got to cut programs. You have got to cut payments to people.

JL: So, what are you going to cut?

PM: Well, we will do, just back us in on our record. I mean, when I became Treasurer in 1983, when I followed John Howard, Commonwealth spending was 30.6 per cent of Gross Domestic Product. When I left, it was 23.6 - a full 7 percentage points - that is \$35 billion a year reduction. In other words, John Howard was the biggest spender and the biggest taxpayer in Australian history, he had a 60 per cent top

marginal rate, a 46 per cent company rate, he had revenue to GDP at 26 per cent, he had outlays to GDP at 30.5 per cent, he was the biggest spender and the biggest taxpayer ever and we've now produced the lowest revenue share in the western world, this is the lowest taxed country bar one country, Turkey, the lowest taxed country of the 27 member states of the OECD and we have got outlays such now that we have got a very small federal public sector. So therefore, any further cutting has got to be very carefully done.

- JL: When Brian Howe was talking he was also talking about spending on public housing, but I think he used words similar to "I would like to do to public housing what we did to Medicare" or words to that effect. Does that mean he wants to put a levy on public ...
- PM: No, not necessarily. I mean, I think, a lot of it is about using the public housing stock more efficiently perhaps than it has been used in the past. We have had a thing called the Commonwealth State Housing (CSHA) Agreement which pumps a lot of money into the States every year and I think there has been a lot of misgivings about how well the CSHA money is being used. That is, whether or not the housing stock has been officially managed. It is not all about extra money.
- JL: Well, what will it be about if he says that he wants to do to public housing what he did to Medicare?
- PM: What it will be about is making certain that those who are less well off and disadvantaged can reasonably believe that their housing needs will be accommodated, either in the public or the private sector.
- JL: Should the Government have a greater say over how ATSIC spends the tax payers money in the delivery of health and welfare to Aborigines or should it be the other way around or should ATSIC be partner with Government on health spending?
- PM: Well, I think, I mean ATSIC was a very large change in the way the Commonwealth administers funding for Aboriginal and Torres Strait Islander people. Formerly it was done by a Commonwealth department and while that Commonwealth department had some indigenous influences about it, by and large it was like every other Commonwealth department. So, the change to ATSIC was a change to give Aboriginal and Torres Strait Islander people a say in the spending that goes to their communities. The problem with health is that it is (a) for a start, long standing (b) arises from primary health problems such as water, sewerage and basic infrastructure as well as medical care. So, trying to deal with it is complex and I think what the ATSIC funding for health probably shows is that unless we deal with these primary health matters as well, such as infrastructure, no single agency is going to be able to solve the problem.

- JL: So, you haven't answered the question. Should this be handed over to Carmen Lawrence's department?
- PM: Understand this John, like most things, my life is a life of complex issues.
- JL: Yes.
- PM: Yours is often a life of simple statements. Life isn't simple here, it is complex. That's why I'm saddled up with this job and your saddled up with yours.
- JL: My life is a life of simple questions, the simple question is, should it be handed to Carmen Lawrence's department or should it not?
- PM: But, they are not simple answers and that is the point I am making. There was a very good piece in the paper today from Noel Pearson from the Cape York Land Council in The Australian talking about the complexities of health delivery for Aboriginal people. For a start you have got to get the communities interested and into it. You have got communities that are not into the habits of health protection and health care as the non-Aboriginal community of Australia is. So, for a start, you have got to sign the community up to be in these things and secondly, you have got to have the infrastructure there. So, the Government will be examining the whole issue of Aboriginal health again in the Budget because the Budget is the annual occasion where we set the expenditure priorities of the Government and the policy.
- JL: Because a lot of money is spent on Aboriginal health, but obviously from what one reads it is not being spent the right way. I mean, there is \$54 million and it appears the health of the Aboriginal people is getting worse and not better. So, it is being mishandled and I mean we have a responsibility to look after the Aboriginal people in the area of health because they have great problems there.
- PM: Well, I accept that absolutely of course I do. But I think, Pearson makes a point today, there has been substantial advances in Aboriginal health, but are the advances sufficient? No, I don't think they are, but the remedies are complex.
- JL: Yes, the remedies are complex, but they are necessary and I would think that they were necessary quickly in light of what we see. \$54 million being misspent it would appear, wouldn't it be better if Aboriginal health was cared for the way that the health of all Australians, and they are supposed to be Australians, is handled and that is by the one organisation?
- PM: Well, that is a matter for discussion for us and evaluation, but one thing is clear. Let's say we had the, if you like, standard health

arrangements in Aboriginal communities, for a start as you know, you often don't get the sort of medical officers, you won't get the medical service we get with general practitioners in these remote communities, that's for a start. You haven't got Aboriginal communities signed up for this sort of treatment, this is a complex social as well as professional problem.

JL: You see there are three medical services in the Northern Territory - Aboriginal medical services - that apparently are in danger of closing down, one of them is being supported by the white doctor who takes care of it, a fellow called Dr Scott Bell, he has used \$3,500 of his own money to put petrol in the ambulance and the Alice Springs hospital won't give them anymore medical supplies because they owe \$9,000, the Royal Flying Doctor can't land because of the state of disrepair of the strip, so it is being mismanaged isn't it? And it is tax payers money.

PM: Well, put it this way, I don't know of those issues you raise, but it is very clear to all of us that we have not solved the problem of Aboriginal health in general and so whether particular programs are adequate or whether ATSIC is funding the petrol bill inappropriately for that particular medical centre I don't know, but what we do know is that we, all of us, have to do better - that is the non-Aboriginal community, the Government and the Aboriginal community - to see that we improve absolutely the health and welfare of Aboriginal people.

JL: Yes, it is tremendously important and as I say \$54 million is a lot of money and if you want to cut down on wastage it would appear that it is being wasted when the poor Aboriginal people really are not improving as far as health is concerned.

PM: John, I couldn't say to you, how could I say to you, that not a dollar of that is being wasted, some of it may be. But, the likelihood is that a lot of the problems in this area are primary problems. They are to do with water and they are to do with sanitation and they are to do with things that are not in the health budget at all.

JL: OK, so if it is not being wasted, if it is not being severely wasted then does that mean it is not enough and more money should be given?

PM: Well, it may be that in some of these infrastructure programs that more should be done and again that is something to be looked at. But, again, there is another layer of problems there, normally these are handled by the States. Normally water and sewerage, drainage and these things are handled by the States not the Commonwealth, so there has got to be the States signed up for this as well as the Commonwealth as well as the Aboriginal community as well as the Australian community in the broad.

JL: OK, as far as Aboriginal health is concerned, whether or not it should be run by the health department under Carmen Lawrence or whether it should be controlled by ATSIC what do you favour?

PM: I said to you, this is a matter I think the Cabinet will have to take advice upon, but we will take advice, we will actually see what we are spending, how it is being spent, how we believe ATSIC is able to spend it. I mean, I don't think a lot of Aboriginal people would care particularly about whether it is exclusively ATSIC or the health department provided that there is a substantial influence from indigenous Australians about how their health care is provided. Now, you know, so therefore if that is their mood and it may be the mood of some and not others, but if that is the mood, then it is for the Cabinet to try and work out arrangements where the dual objectives of self determination so-called for Aboriginal people and adequate health protection and program delivery are met.

JL: OK.

PM: In other words, it is like every other problem, John, it is complex and it needs to be gone through and we will go through it, but a lot of people are trying to discover Aboriginal health being a problem as though it wasn't a problem last year, the year before last, the year before that and the decade before that, and the decade before that.

JL: Yes, but it seems it is not getting any better and that is a tragedy for the Aboriginal people and it is also a tragedy for Australia. I mean, we do have a responsibility.

PM: I think it has got better, but not fast enough.

JL: OK, another real concern of business is wage demands. I think it might have been the last time you and I talked you said that wages demands in the area of 14 or 15 per cent were affordable. I didn't pick you up on that, the world however did.

PM: No, I didn't say that. I said it depends on what the productivity growth is. Let me just make this point John. Normally we have, productivity is the amount of extra output that comes from efficiency in the labour market and obviously if you have got high productivity you can pay higher wages. What I was saying to you then when you asked me about the 15 per cent ...

JL: Yes.

PM: I was saying that is fine depending on the number of years it is over. If it is two years it is 6 to 7.5 per cent that is not fine.

JL: What is affordable now?

PM: If it is three years that makes a hell of a difference because let me just, again, repeat this is another key good news point, the reason that 2 per cent inflation rate is sitting there - 2 to 2.5 per cent - is because of the high productivity growth of the last year. In the last year we had productivity growth of 4 per cent. You know what our long term average is? About 1.6 per cent, about 1.5 or 1.6, that is the 60s, 70s, 80s about 1.5 or 1.6. This year we have done 4 per cent. This means that the cost of employment to firms has been falling even though real wages for employees have been rising. So, there has been an increase in wages for people, but it hasn't had the normal effect on profits and inflation because of this presence of high productivity. This is the point the Treasurer and I have been making. When can you remember a year that had 6 per cent growth in production, 2 per cent inflation, 3 and 3/4 per cent employment growth and 4 per cent productivity growth. I mean, not in any post-War year was this the case and this is why it is so wrong to have this impression put about that we have got sort of economic troubles or some sort of economic malaise when we have just completed the best economic year since the war.

JL: Yes, all that is true, but again, let me say ...

PM: I'm afraid it is true.

JL: Yes, don't be afraid, I mean ...

PM: How dare I dally with the truth.

JL: Yes ...

PM: Isn't it shocking that I should even mention it.

JL: But, the people out there are still going to have difficulties understanding why if everything is rosy as you say it is, which it is in the garden, why is it not affecting them in a favourable way instead of an unfavourable way? Why have I got business men ringing up and saying I am terrified to employ people because of their stupid industrial relations law because if I have to fire somebody they will be off to the court and I'll be in for a fist full of dollars to recompense them because I had the temerity to dismiss them because they were incompetent.

PM: John, you will always have somebody say this, but look at the overall outcome. How can you have an industrial relations system which is failing yet is still producing an employment rate of 2 to 2.5 per cent. I mean, the two just cannot sit in harmony together. The fact is the industrial relation system is working better than at any time in our history. It is more flexible, more productivity related than any time ever.

JL: Do you know how many claims there are for unfair dismissals since that was introduced by Laurie Brereton?

PM: No, I don't.

JL: 5,862.

PM: Well, there is eight million in the work force remember.

JL: That's right, but it grows at the rate of 140 a week. 140 people taking their ex-employer to court and he has got to foot the bill and he has to prove that he is innocent. He is guilty until he proves himself innocent. Now, if it is growing at the rate of 140 a week what is that costing the nation?

PM: Well, go to the overall policy as you have to in anything in this business and what the overall policy is delivering is more flexibility in the labour market, a better capacity for employees to be suited to jobs, to multiskilling, the award restructuring, the enterprise bargains. We have now got enterprise bargains in 55 per cent of the federal award area under enterprise bargains which we never had two or three years ago and that is why there is 4 per cent productivity growth and that is why we have got low inflation. Can I just say this, John, that people say, you asked me the question legitimately 'well, what does all this mean to people?' Well, let me just give you what I think is a really riveting statistic - the combination of employment growth and increases in real wages since 1983 has meant that real household, real that's after inflation, real household disposable incomes have been growing impressively by 40 per cent since 1983, so the real income of Australian households is 40 per cent greater than when John Howard left as Treasurer. Now, that is through low inflation, strong employment and decent wages growth and I might say John Howard opposed every wage increase since 1983 - every single one. And, if we had taken his advice you wouldn't have that strong growth. So, that is what it means. That's what good policy means. That's what high productivity, low inflation, strong employment growth because there are more people in households in work.

JL: Listen, it is very interesting to note, I've just been out of interest taking a note, I haven't asked you one question directly about John Howard, but you have brought him up 10 times. Is he becoming a thorn in the side?

PM: No, I brought him up because every radio interview he will do will be full of negative stuff about the Government and about me and when I get on, I mean, the last interview I did on 2UE was not with you but John Stanley, it was all about productivity, it was about dealing with the inflation rate, it was about how we maintained the growth et cetera, I'm

the one that always focuses on, I think, gives the answers, I mean I give facts not argument and what I get is always these transcripts full of abuse. So, when I have the opportunity, I just want to make this very clear, when John Howard has the front page story in the Sydney Morning Herald which is those journalists not having the principle of the person on the Sunday Age and saying 'if you don't give me the information or let me attribute it to you I won't publish it' when he does that and when Ross Gittins says that Howard is sabotaging the expenditure cuts that is an important public point to make. Here we are about to put together a budget which is going to be central to maintaining growth and employment and what is the new Opposition's policy? He believes in expenditure cuts, but the moment the Government thinks about it, he'll run around trying to bag the Government and scare the wits out of every recipient, pensioner, elderly person, sickness beneficiary or what have you.

JL: Isn't it true that it wouldn't matter what Government was in power, that spending cuts would have to be introduced? I mean, if John Howard suddenly became Prime Minister tomorrow, it wouldn't make any difference to the fact that spending cuts have to be made don't they?

PM: In this Budget, they will have to be made, but it is a matter of how you make them - compassionately, sensitively, creatively - or whether you just go for people. At the last election the Liberal's said they were going to kick people on unemployment benefits off after nine months. I mean, what do you do to somebody who is unemployed through no fault of their own, that has got a family, say after nine months 'there is no income for you'. It is down to the St Vincent de Paul or the Brotherhood of St Lawrence and if you can't basically feed and clothe yourself there it is too bad. I mean that was their policy and then under pressure in the election, as the election came on they had to abandon it. I mean, could you imagine this Government adopting anything like that?

JL: No.

PM: That's why I say it is all about compassion and creativity and sense.

JL: Of course, there are many people, me included, who question why if the plans as utilised by not just this government, but governments before, whether they be of the Liberal persuasion or a Labor persuasion is immaterial, but if those plans are working and if welfare as such is beneficial to this country or any country why does the welfare bill keep increasing, why does the number of unemployed with the exception of this country in the last little while keep increasing, why does the number of homeless people keep increasing and why does the number of illegitimate births keep increasing if the policies are working?

- PM: Well, the Government can't regulate family values or change the norms or mores in society. I mean, it can do its best to cope with them, it can design policies to deal with them, but in the end, I mean the resort to divorce or to single parents, these sorts of issues are issues which go to the society as a whole.
- JL: Why do you think, and we will have to be very quick I just looked at the clock, why do you think we have an illegitimacy rate of about 24 per cent in Australia - almost a quarter of the children are born out of wedlock?
- PM: Well, I don't know the answer to that.
- JL: You don't think the fact that it is made easy for people to be able to support these children when they are brought into the world contributes to it?
- PM: Well, if you ask about people having children illegitimately because there is support for children in the social security system I think the answer to that is no.
- JL: But you don't think if there wasn't they would avoid having children?
- PM: But, I mean, what is the principle? The principle when I had the pleasure of introducing the Family Allowance Supplement for low income families in the 1980s or any of these changes, the principle is you support the child. I mean, remember this John, we have still got a budget sector just about as small as any in the world. We are doing all of this with the spending level overall just about as small as any in the world. Are we that callous when in the face of high profits and the good times, I mean there has never been more Porches and Mercedes Benz's and everything sold out there than this last 12 months, are we saying that we can't afford to support a child regardless of its circumstance?
- JL: No, it must be catching, now you are making simple statements. I didn't say that.
- PM: I'm dealing with the simple implication behind the question. I mean, this is where I make very clear, I mean, it's another point I make about the Liberals, they are always saying support families ...
- JL: We've got about 60 seconds, Prime Minister.
- PM: They say we are for families, I mean as if the rest of us, I mean the arrogance of that statement is as if the rest of us are not, apparently they think we are martians, we came from somewhere else but a family, but they don't support family support. They are for families, but they are not for family support.

JL: Yes, well, one would hope that everybody would support families support. I suppose it depends again on how you define the family.

PM: Look, as you and I know families are now complex. People opt out of marriages, there is a lot of single parents about and it is very hard to say, any of us to say, why this trend is there, it is the same in Britain, it is the same in the United States, it is the same in many developed countries that we have got to try and make government policy respond in a compassionate and humane way, but on a basis that the nation can afford. I submit we have done that.

JL: OK, Prime Minister, thank you very much for your time, you have been very generous.

PM: Thank you, John. It is your first day in Canberra broadcasting into the ACT I believe.

JL: Yes, so now they won't have to run around with ...

PM: Well, now the Gallery won't have to eavesdrop. That will make them terribly happy.

JL: I look forward to talking to you soon.

PM: Good luck. Good bye.

JL: Good bye.

ends