



6

PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING MP
INTERVIEW WITH PETER COUCHMAN, RADIO 3LO MELBOURNE
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PC: Good morning, Prime Minister. Good to have you joining us.

PM: Thank you.

PC: We have been discussing the erosion of support for the Labor Government from the so-called 'true believers' and people have been advancing reasons for it. Why do you think the true believers are deserting you?

PM: I don't think they are. Just take the - not the opinion polls, but the real polls - in 1990 Labor's primary vote was 39 per cent of the national vote. In 1993 it was 45 per cent. So we picked up 6 per cent of the national vote in primary votes between 1990 and 1993 and, I think, if you take an electorate like my own, I think I got 72 per cent of the primary vote and previously I have never had over about 65 or 66 per cent. So, in 1993 we had probably the biggest Labor vote in a decade. I just don't think that this thing is really happening and to the extent that it is, the mosaic is changing. We have picked up a lot of people in the middle ground that we never had 10 years ago.

PC: All right, so you are losing some but you are gaining some you think?

PM: We have to be because we have won five elections.

PC: Let me just put to you some of the things that people have told me this morning while we have been discussing it. They feel betrayed because as Jennie George pointed out in an interview she did the other day, the people in the lower pay scales have borne the full brunt of economic restructuring that has gone on. They just haven't seen any return for it yet, or they feel that they haven't seen any return for it.

PM: What has happened, we've now had fairly strong real wage growth for many years and in the 1980s where we had wage restraint in the middle 1980s to recover our competitiveness, we gave compensation by way of tax cuts. This was a huge tax cut program that went on from 1984/85 right through until 1993 and by cutting government spending as we did, when I became Treasurer back in 1983 we had government spending at 30.5 per cent of GDP and by 1990 it was down to 23.5 per cent. So, it was down about six to seven percentage points. That is about today, \$30,000 million a year, \$30 billion a year and because of that we are able to give those huge tax cuts. Those tax cuts and the transfer payments, such as the Family Allowance Supplement which we pay to low income families, all of that has pulled them right up from where they were. For instance, a decade ago the bottom tax rate was 30 per cent, it is now 20 per cent. The tax free threshold was \$4500 it is now \$5460 from memory.

PC: The trouble is, they don't feel any better off and there are two factors here, I think, they feel as if they have been thrown a few morsels and then the better-offs - the haves as opposed to the have notes - have been getting huge salary increases.

PM: Yes, but there was a lot of that in the 1980s, Peter, for a few people up the top end, but I think a lot of that has disappeared, too. Look, these are the real numbers - household disposable income, and household disposable income per capita. Now, per capita measures wages, salaries, supplements and pension payments, and household disposable income per capita per person has risen by 21 per cent in real terms since 1983. Household disposal income per household has risen by 40 per cent. They are the best measures.

You won't find anything like that in the United State. You won't find it in most parts of western Europe. It is very strong real growth. Partly the reason for that is, of course, the huge employment. We have had two million job growth since the early 1980s. We have had about 26 or 27 per cent employment growth, which is about 2 to 3 times the OECD average. And because more people in households are in work, household income has risen.

PC: Yes, but you see people are earning less than \$30,000 a year. Look at a story like the one that was published in the Australian yesterday, some of the senior executives in one of the Government's own corporation, the Australian Industry Development Corporation, have got the most huge salary increases, I mean millions of dollars a year going to seven or eight executives in that corporation. They just see the Government speaking with fork tongues on something like this.

PM: This is a body which we have thought of privatising and selling. Essentially an investment bank like the AIDC is really only a collection or a collation of its top staff. I mean, it is basically as I said, you know, computers and office dividers and bits and pieces, but the

business is really the people in it. Now, to keep those people, you keep them against the competition in the market place. But, again, that is decided by the AIDC board. But the things I have been interested in, Peter, and the things Jenny George is interested in, is for instance the Family Allowance Supplement. You take someone on \$18,000 who has got two or three kids - 18 base rate. That would have taken them to roughly about \$25,000 a year. Now there is no way that someone on that income could negotiate in a workplace a sort of 6-7 thousand a year wage increase. Now I have got John Howard running around - in fact he is following me around Melbourne at the moment, I was just over at 3AW, me and my shadow - I said to him, if I give you my itinerary will it help. But anyway, I don't know whether he will burst in on us in a minute.

PC: He hasn't rung us up though ...

PM: He might come in with his smiling countenance in a moment. Anyway, the point is what he is about, is basically cutting this out. You see, he is out there talking about battlers. I mean, the cynicism of it is he's opposed every wage increase bar one since 1978, and when we introduced FAS, the Family Allowance Supplement, now called Additional Family Payment, they were opposed to it. They have been opposed to all of these benefits which we have paid to low income families. Now when he talks but doesn't show us the list of his policies which include cuts in government spending to get rid of they say "waste and duplication". But it really isn't waste and duplication, it's cuts in payments to families. It's cuts in payments to schools. The same sort of things that Jeff Kennett has done here in Victoria, but on a grander scale nationally. What we have done in Australia - there is a disparity in incomes, Peter, it has happened world wide.

PC: So you acknowledge this.

PM: Absolutely.

PC: The gaps between the haves and the have-nots has widened.

PM: This is now an international country and the wage spectrum reflects that which exists in a lot of other countries. The chief executive officers, etc. But what we have done, unlike the United States, unlike Britain, unlike the Thatcher's Britain which John Howard would seek to emulate, or Ronald Reagan's America, we have brought the bottom two deciles at least of income deciles, two groups, up immeasurably so that yes the gap has widened but nothing like the way it would have widened. So if you inject into that heaps of employment growth so that a couple more people in the household are at work or the wife has a job and formerly wouldn't have, because there is massive participation now by women in the workforce, all of that I think means that we will keep the Australian family together by keeping the place

more financially, economically cohesive. That is with employment and a good social wage. That means, the likes of the Family Allowance Supplements. That means the safety net for wage increases which Mr Howard wants to do in. It means Medicare. It means all of those things that really buttress a family. Now, you will still have people say as they have said to you, Peter, well okay we still feel as though some of it has passed us by, and I can empathise with that, but nothing like it would have. I mean, I don't know whether you noticed the US labour secretary, Robert Reich, the US Minister for Labour, about 3 months ago said - well in America we have had heaps of employment growth but we have had real wages falling for 16 consecutive years. In the United States, 70 per cent of the incremental wealth of the last decade has gone to 3 per cent of the population and the people at the bottom, they are really at the bottom. This is not true in Australia. The values of this government and the values of holding this society together, I mean, Working Nation looking after the long term unemployment, One Nation getting the place started again, and those big social questions, occupational superannuation for the workforce - these are all about making Australia different and better.

PC: Oh yeah, I think you are right. I think anyone who goes to the United States comes back saying you are infinitely better off here if you are disadvantaged than you are there. But your problem, politically, is that John Howard is reminding people of just why they are finding it tough in Australia. He pointed out last night, for instance, that the cost of servicing an average mortgage in Australia has jumped from \$651 in 1983 to \$974 in 1995 and that is in real terms. Now that is a hell of a lot of money out of people's pockets if they are earning less than \$30,000 a year.

PM: Again, I would have to look at those numbers to know whether they are right. But partly that will be explained, some of it will be explained that house prices have risen. I mean, many people will say to you - oh I feel better about things because I bought a house for \$120,000 and it is now worth \$300,000. Well the new buyer who is coming in to buy the \$300,000 house is going to have a higher level of repayments than that person who bought it 10 years earlier. So that is the sort of meaningless comparison, but if you look at the interest rates we have got now, Peter. And here is John Howard crying crocodile tears about the repayments but he has opposed every wage increase. You see he says this - "oh isn't it shocking that you are paying this on your mortgage", in other words, your household income has been diminished but "by the way I do oppose your wage increases" - you know, you have got to say are you for real, really. I mean, are you out there crying crocodile tears about peoples' disposable income but you have opposed formally every wage increase bar one in 20 years. Now, before I opened up the banking system in the 80s, when you went to get a mortgage you would get maybe \$30,000 at 13 1/2 per cent, then the next \$20,000 would be at

the overdraft rate which would then be 15 or 15 1/2, and then the next \$20,000 would be at 18 per cent. They used to call them cocktails because the banks couldn't lend on a consolidated mortgage. So your average interest rate, God knows what it was then, it was around 15 or 16 per cent. What is it now - 10 - and it is all in one lump. So you can actually go in and say well look, I want a mortgage for the house and it is in one consolidated mortgage and it is around 10 per cent and at the same time you can actually say and we want to actually start by putting, you know, a new fridge in and a garage on the side and the bank will let you have actually a bit more on the mortgage at the mortgage rate to do those things. Back in the 80s, in Howard's Australia, you could get \$30,000 from a bank, so you had all these fringe institutions growing up, permanent building societies - remember the growth of the permanent building societies - they were all there because the banks couldn't lend and people had these very high interest rates. So, if it does comfort people to think that their house is worth more, they must know that when someone buys it they are going to have a bigger repayment than they had 10 years earlier or 20 years earlier. But the question is how much of their income goes on it. And this is the housing affordability index and housing affordability is very good now because wages have risen and interest rates have come down.

PC: Just while we are talking about housing and so on. One of the things that would have helped you and, I'm sure, heartened you enormously would have been a cut in interest rates between now and the next election whenever that happens to be. Now, the latest retail figures we've got this week seem to indicate that that is not very likely at all. Were they good news but a disappointment to you politically.

PM: Well, by the same token, the balance of payments for the month was very good. Two months ago we had everyone going potty about the thing running at 3 billion for the month and last month it fell to 1 1/2 billion, the previous month, 2.2. So, there is a sharp fall. You might remember, Peter, at the beginning of the year Ralph Willis came out and said the current account deficit would be 27 billion for the year. Well there is now going to be, I think, a sharp revision downwards of that number, which means the economy is behaving in a controlled way. So we might have seen a strong retail figure for the month but that doesn't mean to say that the economy is tearing away. I don't think it is. When the next quarter comes around it will be 17 consecutive quarters of growth, we are in our fifth year of growth now. We have had 16 consecutive quarters, four years, as of last quarter. In the next quarter, the one we are in now, when the numbers are published, it will be the longest growth phase in Australia since the second world war. The longest continuous growth phase since the second world war, but not just the longest continuous growth phase, the longest continuous growth phase with low inflation. We had some higher growth in the 70s but it was with 10 per cent inflation. Now we have got strong growth with two to three per cent inflation.

PC: Which must make it puzzling to you that you are not getting support from not just the true believers, it's the middle class greens, you know the tree huggers, they are saying to you now we are the enemy and we are going to bring this government down. A survey of business leaders the other day I noticed overwhelmingly wanted John Howard as Prime Minister.

PM: That is not true, though. Look, the public know the polls are a sort of partial snap shot of opinion and they also know it is a way of sort of spurring the government on, you know, needling the government. It is a bit like a by-election, you can sort of have a needle at the government through the polls. But it is only when we get down to near the vote that people really start to focus sharply on where their interest lie. This is just as true in the 1993 election. I was having the same conversations, to some extent, that I am having with you today, different issues perhaps, but the same theme, but then of course the growth was only starting to - it would have been around about a year, it was not as obvious as now. I think that Australians know that this is a good place to live. We have a chance of creating here, if not the fairest, one of the fairest societies in the world. This makes your life much more pleasant and that means a good social wage, decent wage increases, a safety net, a good medical system, access and equity in education, long term savings in superannuation and retirement incomes. All of these things are what it is about - low inflation which really means low interest rates. Before they walk away from that model and go back to a Liberal Party unprepared for office. I mean, here is Andrew Robb, the Federal Director of the Liberal Party, last week going on television saying - we have 98 per cent of our policies finished - well why are they keeping them a secret. Why are they so slick in not showing the public what their policies are. The answer is they don't think the public will like them.

PC: Well the answer is they want to keep the pressure on you and they want to make you the focus of public discussion and the public campaign.

PM: No, they think the public won't like them, they think they will slip them out to the public in the last week of the election campaign and they will slip under the wire without really being pinned down. Remember when Jeff Kennett said about three or four years ago - no one will lose a dollar of income when we come to office - and of course that was completely untrue. Howard will say the same things. He will start talking about softening his wages policies, don't believe him. He is going to be cutting into wages as he has always wanted to. Now, I think, when the public take all of that into account they say - what has this government given us, four continuous years of growth and now the longest growth phase since the war, low inflation, equity in the wage system, enterprise bargaining but a safety net, a decent social security system, income support for families, retirement incomes and

not just that, a view about Australia's identity, about its culture, threading together the biggest free trade agreement in the world with APEC which we are part of - they say will we walk away from this and take pot luck with the Liberal Party. I don't think they will do it.

PC: How seriously do you take these threats from the greens. I mean, they do represent a large slab of the middle class vote don't they. And if what we are hearing is true, they're pretty disillusioned with you at the moment especially over forest policy.

PM: I don't think so. I mean, what happened, we have had a few intemperate remarks by some people in the Wilderness Society because what we are seeking to do now is the grand-daddy of forest policy around the world. What this Government, this Labor Government is seeking to do is to do as no other western government anywhere has done. We are seeking to put away in representative reserve systems for forests 15 per cent of the cover which existed before European settlement in 1788. No other country is trying to benchmark 15 per cent, they are mostly working on 7 or 8 per cent. So we have got a most ambitious policy and we now have a draft in the marketplace for three weeks which is a Commonwealth/State set of documents looking at Deferred Forest Areas. So what we are hoping to get to is what we called Regional Forest Agreements. Let me not confuse people with the terms, Peter. What a Regional Forest Agreement is is this, we say look if you want to take logs, that is native forest logs or regrowth from particular areas, you can only do so if there is a Regional Forest Agreement. And what a regional forest agreement will be about is having representative, solid strong representative species of trees in representative reserve systems. Once that is in place, they can go taking these things and they can export their woodchips but only where these deferred forest areas have been agreed. But before we get to a regional forest agreement which takes two to three years to put into place because you have got to firstly measure and survey the areas, you have got to know what the species are, you have got to be clear that it truly is a representative system. We are putting away now what we call Deferred Forest Areas or DFAs. In these three weeks what we are agreeing to is what goes away for the next two to three years so we can have the Regional Forest Agreements later. And what will happen in this process, you will have the greens pushing for more and the foresters pushing for less, but what the Commonwealth ...

PC: And the Government sandwiched in the middle.

PM: No, the Government will come through the middle with a system which does justice to our native forests but at the same time tries to preserve a forest products industry, perhaps not in the form it is in now, but preserve a forest products industry that can actually work off either regrowth, plantations or parts of the native forest. But it won't be parts of the native forest which tear away at the integrity of that

reserve system. So if we were not doing something like this, if we just went on for years just approving woodchip exports like we had last years debate, and not tried to put this together. You see, what I said at Christmas last year is if these States don't come to the party, if Tasmania doesn't sign up and the other States don't sign up here, we will be cutting woodchip exports by 20 per cent a year to nothing, so in five years there will be none. So they all said, God we better get into the game. So they have signed up, Tasmania has signed up which is the State we needed to be in it, along with Victoria and NSW and we are now in this sophisticated process that no government like this is doing anywhere in the world. And I just hope - there was a very good piece in the Australian on the weekend where one journalist said look I hope the greens understand how important this process is and what quality it is and how good this is going to be for Australia and that they are part of it and not removed from it.

PC: Prime Minister, we have got to break for our news now, but thank you for stopping by this morning and I'm sure we will see you again between now and the next election, whenever it happens to be.

PM: If you give me a good invitation, Peter, I'm sure I'll turn up.

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