



PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING MP
INTERVIEW WITH JOHN LAWS, RADIO 2UE, 21 MARCH 1995**

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JL: After that 10 day overseas trip, you leapt right into domestic issues. Didn't talk once about what was achieved while you were away. What did you achieve while you were away?

PM: Well, the purpose of the visit was to re-establish Australia's relationship with the third largest economy in the world, that's Germany, and also to again try and rebuild further our relationship with The Netherlands, and to attend the UN Social Summit in Copenhagen.

JL: When you say rebuild with The Netherlands, has there been a problem with The Netherlands?

PM: Oh no, but again the last Australian Prime Minister to go to The Netherlands went there in 1975. So that's a long time ago and I think even though they regard us as people they can rely upon and we the same with them, there is a point in going and I had a terrific conversation with the Dutch Prime Minister, and I had a very, very big meeting and discussion with the German Chancellor.

JL: Okay, are they of equal importance to us, The Netherlands and Germany?

PM: Europe is the largest economy in the world. The European Union has a gross product of about 6.6 trillion. The United States is about 4 and I think Japan is about 3, so it gives you some idea of the size of the thing, and Germany of course is the largest west European country. It's now reunited with 80 million people, I mean before that it had 60 million people.

JL: And they were all sort of around 60 million weren't they - England, France, Germany - they were all somewhere around that number weren't they?

PM: Yes, they have been sitting at around 55-60 million since the war which has meant there has been a sort of equality between them. But I think what is happening now, the new dynamic in Europe, is that with West and East Germany united, at 80 million and with enormous investment by West Germany in the east, in Eastern Germany, their national accounts came out the week I was there and they had the West German economy growing by about 2 per cent and the East German economy growing by about 10 per cent. I think what all that means is that Germany is going to be a united stronger state and its economic performance is going to see it pull away from countries like France and The Netherlands, particularly France, and I think that therefore the imperatives of the union, that is tying - for instance, let me just make this point...

JL: Just back to the growth in Germany, you said 10 per cent?

PM: 10 per cent in the east.

JL: Well, if you were running the joint, you would have to lift interest rates wouldn't you to slow down the growth?

PM: Well, the whole country is running at 2.9 per cent because the east is still a relatively small part of the German economy but it's going to be, because it is much the same sort of land area and it's got still a large population, what's going to happen is Germany is going to continue to grow quite strongly and modernise via the east and I think that this is going to put tremendous growth potential into Germany. And the whole point of the Helmut Kohl-Mitterand discussion of the last ten years, and the whole point of the post-Second World War arrangements in Europe with Conrad Adenauer and Schuman and these people, was to tie Germany into Western Europe because Berlin, where I went as well, is 40 miles from the Polish border. Germany sees essentially a relatively invisible border between Germany and Poland which means the German economy will drift into Poland.

JL: How many people in Poland, do you know?

PM: I think it is about, from memory, about 40 million. It really means that we are seeing Germany start to return to where it was before the First World War, that is it's starting to go east again. So it's got to get a sheet anchor in western Europe and the sheet anchor is the European Monetary Union. And it was that that I had quite a long discussion with the Chancellor about and let me say that means that basically there is one currency, what they call the EMU, one currency which would be in France, in Germany, in The Netherlands, in the Benelux countries. In other words, we would just not have simply a single market in Europe, but a single currency in western Europe.

JL: How does that affect Australia?

PM: Well, how it affects Australia is two ways. One, that it would mean for the first time really since the 19th century, well the first time ever, we would have a united Europe. Certainly in the West with these key economies of Germany, France and the Benelux countries. That means there's a much more stable set of currencies because when there's a flight out of the American dollar, people buy Deutschmarks. But Deutschmarks only have the monetary base of one country, that's Germany. If there's an EMU, there's a bigger monetary base but the most important point is this John - it means that Germany will not, in that circumstance, find itself drifting east towards Poland and Russia as was the case in the past. Unless that monetary link comes together, Germany will simply grow away I think from France and all the old suspicions start again.

JL: Yes, exactly.

PM: So, nobody in Australia should ever think that what happened in Europe doesn't matter to us. I mean here we are, we are in the Asia-Pacific, it's nice and peaceful here.

JL: That's very important.

PM: You can see what's happening already in Bosnia. I mean look in 1895, 100 years exactly ago, in Europe, the Balkans were a problem then, they're a problem now. People thought they faced the new century, the 20th century, with great hope and expectation. I just think that the Europeans have got to work quite hard now to pull this monetary link together.

JL: What do we do, just keep an eye on it?

PM: Well, let me say, it comes at a time when President Mitterand is retiring so this great partnership which Chancellor Kohl has had with him is going to change.

JL: There's no love lost between the Germans and the French anyway, is there?

PM: I think there's a big commitment now, not simply by the Governments, by the communities to work together. I just don't think they can countenance ever again the problems of internecine strife between them, but while ever the Deutschmark puts pressure on other currencies and we have different rates of growth in Germany, different rates of workforce growth in those countries, I mean there is a case, I think, for getting it together. One of the interesting things, John, I'm sure you may be surprised to know, but you know there's a thing called the Maastricht Treaty, you know of that?

JL: Yes, I'm aware of that.

PM: This has very, very tight disciplines about who can join the European Monetary Union because the Deutschmark sits, in a sense, and the

Bundesbank sit at the moment on the top of that particular heap and you've got to be in first rate condition to join. Now at the moment, the only two countries in the OECD, that's the western world area, who meet the Maastricht Treaty criteria are Germany and Australia.

JL: Is that right?

PM: Australia is the only other country in the world that could actually join this year the European Monetary Union on the convergence criteria.

JL: Will Australia do that?

PM: No, well of course we're not in Europe. So we're not joining.

JL: But if you were able to, would there be any advantages in doing so?

PM: Well, for us, no. It's just completely different economies and we're just too far away. But a key point is on inflation, on productivity, on Government debt to GDP, on a whole lot of criteria I think we're the ones who could join with Germany and I think Luxembourg comes in next year. So, it's a measure of how we're going. The Chancellor, can I say, was quite surprised at this but I gave him a little note with the various criteria, he didn't doubt for a moment what I was saying was right. But it just makes this point, it makes two points: (a) they've got to get the link together quickly and that political stability, because the monetary union in Europe is not just a matter about the monetary system, it's a political imperative, it's not just an academic exercise to central banks, it's a political imperative to basically tie West Germany into western Europe as it continues now historically to start to look east and to works its economy east-ward.

JL: Okay, on the subject of money. The Australian dollar is being sold off dramatically at the moment against the US dollar. Our dollar, I think, is 6 per cent lower in value now than it was at the start of the year. I presume you're going to tell me it has got nothing to do with the concern of the financial world about the size of the current account deficit?

PM: Well, it's always got some of that in it, but by and large, the currency has been a commodity driven currency and I think that they look at what they think was going to happen to commodity prices, basically, I think that's part of it. But again, I mean these fluctuations come and go. We have appreciated quite substantially over the last 18 months and I always believe let the market fix this price. It's the most important price in the economy, it's the thing that governs our competitiveness abroad.

JL: If it's 6 per cent lower than it was at the beginning of the year, what is the reason?

PM: Well, all sorts of reasons I think. Commodity prices, where they see demand going, an important thing will be the message the Government

sends to the financial markets about the Australian budget, and let me just make this as clear as I possibly can: we will be introducing a budget which does all that I believe it should to make a contribution to public savings by bringing the budget deficit back more quickly.

JL: Are you going to increase tax to do that?

PM: We are in the course of preparing that budget now, it will be announced in May, and I think markets will be waiting for that to happen. But I mean John, there have been a lot of shifts in the currency market lately - a lot of skittishness with the collapse of the Mexican currency and with the upsets in the US dollar market.

JL: OK. Another concern of the money market is that interest rates are being deliberately held at the current level because of the NSW election.

PM: Well that is just nonsense - that is absolute nonsense, I can assure you - that is absolute nonsense.

JL: So after the forthcoming NSW election you won't back off the shackles, eh?

PM: No. Monetary policy is set by the Reserve Bank in conjunction with the Government, and I can assure you I and the Treasurer have had no such conversations with the central bank to do with the NSW election. And again, the NSW election is largely being fought out on state issues.

JL: As it should be.

PM: As it should be, exactly.

JL: Will the spending cuts you announce in the May budget be deep enough to satisfy those who are yelling loudly for deeper cuts in the budget deficit?

PM: The problem is not that we need the budget to meet a short-term demand management task, but rather a medium-term savings task. That is, what we need to do is see the public sector save some more, mainly because Australian private savings are lower than they need to be for the level of Australian investment.

JL: Yeah.

PM: In other words, we want to keep this level of investment up - we need to save more. If private saving is not as strong as it ought to be, then the Government has got to play another role it wouldn't ordinarily be expected to play. That is, to actually add more to public savings themselves.

- JL: OK, so are you going to add more to public savings by cutting Government spending further?
- PM: We will be cutting government spending, but again, it's all a matter of degree, remembering John, that this is now the lowest taxed country in the western world, it has one of the smallest public sectors in the western world, and that happened because of the cuts in Government that this Government put into place in the 1980s.
- JL: Yeah, but there will be more cuts?
- PM: There will be more cuts, but there is every year, and we will be seeking to bring the budget balance back.
- JL: You see the tax payers get pretty upset - understandably - when they realise it costs them more than \$50 million a year - which, in the overall scheme of things probably isn't a lot of money - to pay performance bonuses to senior Government bureaucrats, and another \$50 million a year is needed to compensate bureaucrats for the stress they suffer doing the job. Now, surely that sort of thing could, and should be, looked at?
- PM: Well, I am not sure where those numbers came from ...
- JL: From your people.
- PM: ... well, there is an enormous ...
- JL: That's \$100 million we are talking about.
- PM: We are talking about a public sector of a couple of hundred thousand people, so \$50 million might should a lot but it doesn't go very far spread across that number of people, but ...
- JL: But if you add a whole bunch of \$50 million together, it goes a long way.
- PM: the key point is this John - we cut Government spending from 30.5% of GDP down to 23.5% in the 1980s - by 7% of Gross Domestic Product.
- JL: What is it now?
- PM: It is about 25.5% - 26% - but it's heading back to around 24%. In other words, on a no policy change basis, it is heading back to around 24% of GDP. Now, that's 6%...now GDP this year - that's the total economy, what we call Gross Domestic Product - the total value of our goods and services is about \$420 billion, 6% is about \$24 billion, so every year, this Government has cut back around \$24 thousand million as a result of what we did in the 1980s. That's why Australia...that's one of the reasons why Australia would meet the EU Convergence criteria.

JL: Yes, but you know as well as I know that it is all about perception, and \$50 million mightn't be a lot here, there or some place else. Another \$50 million even might be important - but it is about perception. And if the people who are going to vote or not vote for you or any political party, keep hearing - and they do hear constantly because we tell them - that \$50 million a year is paid into performance bonuses over and above a high salary that those public servants get anyway and another \$50 million goes for stress when there are people listening to us across Australia now who are pretty stressed trying to pay the mortgage, the perception of the Government is not really very good.

PM: Well, the federal public service is the largest employee group in the country and \$50 million may sound a lot of money but spread across a very large number of people I don't think it is. The point is, John, there is no point in you and me trying to work out how we cut government spending on 2UE. I mean, in the end these are things we have proven that we can do over a long period of time and that is why Ralph Willis and Kim Beazley, the Minister for Finance, have been sitting in our Expenditure Review Committee now for weeks running through these line items of outlays so as to get it back. But I think the important thing is that we will produce a Budget which is appropriate to Australia's economic circumstances and keep this competitiveness rolling.

Let me just make this point again about Australia in Europe. I was able to go to Europe and say amongst other things, I am walking around with five per cent economic growth, two and a half per cent inflation, three and three quarter per cent employment growth and four per cent productivity growth, I am the only leader of a government in the OECD area, in the western world area, able to say those things. You know, three and three quarter per cent, we have had now 590,000 job growth since the last election, I mean, what happened at the last election John, essentially the Government was signed up again for three years to restart growth and get employment going. Now, if you look at the NSW election John Fahey is running around spending the state budgetary monies on this project, that project, but essentially it is coming off the Federal Government's growth policies. In other words, who has introduced the growth and the wealth and the change in the last three years? It is has been this Government.

JL: OK, just back to this Budget, talk continues about taxation increases. One tax being talked about in the NSW election campaign is death duty or an inheritance tax, long-term goal of the Left wing of your party, everybody knows, and it was also one of the key recommendations put to you in the Fitzgerald Report on a national savings strategy. Are you ruling that out absolutely and totally?

PM: I ruled that out at the last election.

JL: But what about now?

- PM: I mean, I made that very clear, but John, these old furphies have been around for a long time. The biggest taxing outfit around at the moment is NSW. Did you see that ...
- JL: Yes, but hang on Prime Minister, you still didn't answer the question, are you ruling this out totally?
- PM: I am. I ruled it out last time, but John, I am not in the business of ruling in and ruling out taxes on radio.
- JL: Well, you did last time.
- PM: That was an election campaign.
- JL: I see, it is different then?
- PM: Well, you can start then on the excises, you know, beer, cigarettes, liquor, all these sorts of thing, I mean we could be sitting here for half an hour going through it. Look, the proof of the pudding is this John, which is the lowest taxed country in the developed world? This is, Australia, under this Government.
- JL: Yes, I am aware of that. But just back to what I said about death duty or inheritance taxes. When you say you are not in the habit of ruling things out on radio, you have done it before with me frequently, ruled things either in or out.
- PM: You get up to it, but I don't often come in on it.
- JL: Well, you have a few times, but listen I would have thought that this was the best place of the lot to rule it out when you have got about 2.5 million people listening to you.
- PM: Well I have just made that one clear. What I suspect you are at is to go through another heap of them.
- JL: No, no, I am simply asking you about the death duty or inheritance tax, is it ruled out completely? I won't ask another question about that tax.
- PM: The answer to that is yes.
- JL: OK, so what does Ralph Willis mean when he talks about the need for action on both sides of the Budget, what does that mean?
- PM: That means receipts and outlays.
- JL: There is a lot of talk about company tax increases and you have just, again, cemented the fact firmly in our minds that we are a low taxed country, does that indicate to us that company tax might rise?
- PM: No, it doesn't, and again that is the point I am making, I can't go through the Budget here on radio.

- JL: No, I don't want you to do that.
- PM: Well, I think you are trying to, you are getting around to it.
- JL: Well, I'll get as close as I can.
- PM: Let me just say this, one of these sorts of debates in this country, you have got Mr Howard running around saying 'oh, I think we ought to have lower taxation in this country'. He was the highest taxing Treasurer since the war and revenue to GDP was much higher under him. We have cut it. And, there you have got his mate in NSW, John Fahey, who has got the highest State taxes and charges than any other state in Australia.
- JL: Yes, a panel of economists today ...
- PM: I mean they are good.
- JL: Yes, well I suppose they are all in the same business. A panel of economists today are saying Australia can't sustain growth of over three to three and half per cent because higher rates of growth push up the rate of imports and imports on consumer products don't help us to much, we have got to get capital equipment in here. How do we escape this growth trap. I have been looking at some of the people who are saying it. Peter Costello is saying it very loudly and ...
- PM: Well, you can just discount anything he says. You wouldn't trust him with a jam jar full of five cent pieces.
- JL: "After 12 years of Keating rhetoric the fact is that everytime growth picks up it spills over into imports and Australia is faced with another current account deficit crisis, the current crisis is the third in the last decade and the second blow-out since the days of the 'banana republic'." Now, what do you say to Mr Costello?
- PM: What I say is this, that what we have to do in this country is to improve the capital stock. You can't do anything but produce your way out of your difficulties. Now, what happened in Australia in the 1970s with double digit inflation and in the earlier part of the 1980s is that the capital stock, that is the stock of equipment with which we produce our goods and services, fell into antiquity. We ended up with an industrial museum here by the early 1980s. John, one of the other things I was in Germany for was for CeBIT - the information technology fair - we had 170 Australian companies with leading edge technology as the guest country of that great international exhibition. This would have been inconceivable 10 years ago. We would have had maybe three companies there. There is now 170 with software, all sorts of niche IT technology. All this has come from the renewed industrial base of this country, but it has to be put into place.

Now, Australia does not have a mainframe computer manufacturing industry. It does not have a mainframe manufactured tool industry and so whenever we have an investment phase of strength we always see the current account move out of line. At the moment, I think the economy is slowing naturally. It is starting to slow down and that is fine.

JL: If it slows down naturally, does that automatically mean that you won't increase interest rates?

PM: We have already increased interest rates last year and, I think, at the right time to slow it so that it becomes sustainable with low inflation.

JL: OK, but if it slows of its own accord, it is unlikely then that interest rates will rise?

PM: Much more unlikely that interest rates will rise and that is why the Budget becomes, again, important. In other words, what we want is the highest rate of growth we can have which is sustainable with low inflation. What the Liberals would have given us is 1.5 to 2 per cent growth, like John Howard did through the 1970s. They had one fifth the level of employment growth that we had. Now, we averaged, I think, over 4 per cent GDP growth right through the 1980s. They averaged less than 2 per cent - about 1.7 or 1.8 per cent. Anyone can hold inflation down by squeezing growth and employment out of the economy, but not anyone can hold inflation down with growth, that is the hard part.

JL: OK, the Green movement is keeping up its pressure over what it sees as some sort of back down by you on the woodchip issue. Have you lost your patience with the sight of these fool protesters deliberately sabotaging forestry workers who are attempting to earn a living in a free country?

PM: I think there has to be, as always, a balance in these things, but that story you are referring to says, you know, the Government has given up on the processes again. I mean, it is sort of a pro-green anti-forest story. Then the next story you will see will be a pro-forest anti-green story. I mean, the problem about The Sydney Morning Herald, it can never get that nice place in the middle where the Government and the community must be. That is, how do you have a sustainable forest products industry while at the same time looking after, as best you can, these important stands of trees and our national estate. That is the aim of the game and there is nothing that the Government is going to be doing that will detract from that.

JL: I think it is a bit unfair to give The Sydney Morning Herald a bake, it was the ABC news.

PM: It was on the front page. The story is on the front page of The Sydney Morning Herald saying ...

JL: Probably from the ABC news last night.

PM: No, I don't think so. I think one is from the other and I think it was the other way around, but basically I mean, it is either all bad news for greens or it is all bad news for forests. There is nothing inbetween with them. In fact, what the Government has to do is do what, I think, most Australians want done and that is to have a sustainable forest products industry, but at the same time protect those important areas of native forest and forest with heritage values which are important to us all.

JL: Are you going to reserve seats in Parliament for Aboriginal people?

PM: That was a recommendation in the Justice Committee Report. That is something that we have got to think long and hard about. Can I just say though John, the Government and I think all Australians, including Aboriginal Australians have two very great victories in the last couple of weeks. While Mr Howard was in there asking improper questions under privilege with his mate Mr McLachlan, we had passed the Land Fund legislation and we had in the High Court the validation of the Native Title legislation. I mean, two huge landmark social and cultural changes in this country.

JL: Will that do for a while or are you going to look at the idea of having reserved seats in Parliament for Aborigines?

PM: We are now looking at the pressing problems of Aboriginal health and housing.

JL: That's good. I hope you looked past ATSIC.

PM: Well, I am just saying this. Have a look at the substance, I mean, you see all this crazy elements of the public debate, of people throwing muck around in the House, in Parliament, just see what the Government has done - seven to zero on Native Title, Land Fund Bill passed and now we are moving on to Aboriginal health.

JL: OK, we'll keep an eye on the Aboriginal health because, I think, that is an area that obviously needs great assistance and I don't believe they are getting the right assistance from ATSIC, but we'll talk about that on another occasion. Thank you very much, as usual, for your time. Good to talk to you.

PM: A pleasure. Thank you.

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