



NATIONAL 9 NETWORK CANBERRA BUREAU
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Date: 9 February 1992

Time: 0900

Source: National Nine Network

Program: Sunday

JIM WALEY: Time is fast running out for Labor to dig Australia out of recession. New Prime Minister, Paul Keating, has very few shots left in the locker. His first will be the economic statement to be delivered on February 26th. Mr Keating is now sifting through the wish lists of business and union leaders - lists that include large increases in government spending, investment incentives for industry, and superannuation reform. In the Prime Minister's latest catch-cry he will be trying to do the hat-trick of creating jobs while keeping inflation down and lowering the foreign debt. Mr Keating is with us this morning. To talk with him Sunday's political editor, Laurie Oakes. Laurie -

LAURIE OAKES: Thanks, Jim. Mr Keating, welcome to the program.

PAUL KEATING: Thank you, Laurie.

LAURIE OAKES: On our last program last year our guest was also the Prime Minister - a different Prime Minister. Has the change at the top made any difference for ordinary Australians?

PAUL KEATING: Well, I mean this is a Labor Government; there will be a continuum in the policy but there'll obviously be a change in direction of some substance and there'll be a change in style. So, yes, there will be a difference but there will,

from front to back, be a continuum in the general direction.

LAURIE OAKES: Well, if that's the case what's in it for ordinary Australians? They've seen you squabbling for the job but now you're there what's in it for them?

PAUL KEATING: When I say 'the continuum' - the change is one of internationalising Australia; making Australia an externally oriented country and making that change, completing that change, and in this case bringing Australia out of a recession and into a recovery. It is that, and the speed of that change and the quality of it, which I'm addressing myself to now and which will be different than what obtained in 1991.

LAURIE OAKES: So you are better equipped to do that, in your view?

PAUL KEATING: Well, I think in the Party's view. That was what basically the election was about.

LAURIE OAKES: The former Prime Minister is obviously planning to jump ship fairly soon. Can Labor win a by-election in Wills?

PAUL KEATING: I'd like to think we could, but that's a matter for Bob. It's always been. It's a matter for anyone who's served this long in high public office is entitled to do as they please, I think, and if it's Bob's view that he's better out of the place, that's fine. If it is his view that he'd like to stay there, he can certainly stay with, I am sure, the support of everyone in the Caucus and certainly mine.

LAURIE OAKES: The Party is very pessimistic, though, about Wills. If you lost that it would obviously be damaging and presumably it would be seen as a rejection of your economic statement, wouldn't it?

PAUL KEATING: Well, I should - look, let's not jump hurdles before we come to them but let's also not kid ourselves we're in a recession. We've been doing badly in the polls. If we lost Wills last month, this month or next month, in a sense it would be simply part of what the Labor Party would have to face whenever it sticks its head up electorally ahead of getting a recovery going; ahead of putting its changes into place and having its changes work. So I'd like to think we

could win Wills if it was - if it is a vacant position. If it isn't, well there's no - it's only speculation. If it is, then I'd like to think we could win it. But, by the same token, were we to - were we not to - it would be part of the price we paid for the recession and our general tardiness in coming out of it.

LAURIE OAKES: If unemployment is still in double digits at the time of the next general election, can you win that?

PAUL KEATING: Well it depends where the direction is, I think, Laurie. If the direction is ... unemployment is stabilised and coming back, the answer is yes. If unemployment is still rising, much more difficult. It's a bit like interest rates in the 1990 election. The convention wisdom was, with interest rates, if you've got high interest rates you can't win a poll. Now I used to contest that often, and we did win the 1990 election and I would contest the view that a win is not possible with high unemployment but I think the direction of the economy becomes then terribly important.

LAURIE OAKES: So if unemployment is still at 10 or 11 per cent you can win if the public sees that it's coming down?

PAUL KEATING: If they think the direction ... if it's stabilised and heading down and the direction's changed. That is, the place is coming out and we've preserved all the big benefits, low inflation, that we've got the exports still running strongly and Australia will have a secure place in the '90s.

LAURIE OAKES: It seems that -

PAUL KEATING: The worst thing would be to have a recession and then find yourself in the 1990s in a terrible long term economic hole. That we can avoid and I think if the nation know we've avoided that - that we're not going to go the way of Argentina or some of these other countries that just can't pay for their imports, that just can't deal with their inflation rate, that just can't deal with their structure. If we do all those things - and we can because we're going to come out of this recession in much better shape than 1982-83---

LAURIE OAKES: But it's unlikely, isn't it, that unemployment will be below 10 per cent when you go to the polls - or much below that?

PAUL KEATING: Well, let's wait and see.

LAURIE OAKES: You've got no projections on that?

PAUL KEATING: Not at this stage, no.

LAURIE OAKES: The last time you were on this program was back in June on the day before your first unsuccessful challenge---

PAUL KEATING: Mm.

LAURIE OAKES: And in that interview you promised a touch of excitement. What's happened? It's been more hesitancy and uncertainty than excitement, hasn't it?

PAUL KEATING: I don't think so, Laurie. I think that ... Let me repeat what one Cabinet Minister said to me last week. It was said to me that the Cabinet meetings are again exciting - are again exciting - and I did say at the time that I thought we lacked a bit of esprit de corps and a touch of excitement, and I think that's coming back. I mean, I've seen this sort of ... You've just mentioned this line about me being nervous. I mean you can't win with the journos. For years I was too arrogant. For years I was insufferably arrogant and for six weeks I've had me head down working out what we should do with the place, and how to do it, and now I'm too demure. I mean now, Laurie, my job is to produce a statement which gives hope to the Australian people but I'm not going to be doing sort of bird calls on tele while I'm at it. I'm not going to be in there cooing around the television sets while I'm doing it. I mean, it's a serious job of work and it has to be done. One has to find one's way through it. I'm trying to do in six weeks what would normally take us six months but the enthusiasm within the Cabinet, the good will, the focusing on the job is more than I could have expected.

LAURIE OAKES: Do you think that excitement will spread to the public when the statement emerges?

PAUL KEATING: Well Laurie, look, this Government taught Australia about economic change. I mean in the decade up to 1983 there was no economic change in Australia. It's this

Government which produced the economic change. It taught the press gallery about change; it encouraged the public into change; and now what's good for the system is the public's pushing the political system for change. Now, I want to keep that change going but now we're in the harder parts of the changes. We're past the big macro changes. We're into all these areas of the micro-economy - wharves, ports, airlines, telecommunications - where you're dealing with States; you're dealing with private companies. It's not just things which are in the Commonwealth exclusive realm. You're dealing with others so you can't do it as quickly. But I'm trying to do now things which induce a recovery, but at the same time provides a long term plan for Australia, that's actually a long term plan which means we've got to comprehend a lot of these issues, and to do it in six weeks is hard work that's going to be difficult to do and we're trying to beat the clock in a sense. Australia needs it; it needs it now and that's what I'm about and I mean this is the sort of inter regnum over Christmas and in the parliamentary period and things always go down a bit and the journos are always looking for a story a week and the answer is they can't have one.

LAURIE OAKES: Before we go into detail on domestic issues, you said on that Sunday program back in June that Australia had to have a better idea about the region we live in. You said we didn't pay enough attention to New Zealand and, more importantly, to Indonesia, and certainly not to Japan. Well now you're the Prime Minister what are you going to do about that situation?

PAUL KEATING: Well I hope a bit - quite a bit. And I've already had the benefit of two very long discussions with President Bush about the Pacific. I've already put to him our view that we need a better political and institutional set of arrangements in the Pacific and the United States should be in them; that Japan should be playing a key role in trade liberalisation in the region and itself. And I'm also interesting myself in issues which affect us, such as New Zealand.

LAURIE OAKES: Are you going to visit Indonesia and Japan, for example?

PAUL KEATING: I may well do, Laurie. I think if I ... for any visits I'll be having they'll be to the Asia-Pacific area before anywhere else. But my job at the moment is to focus on domestic issues and to get the domestic issues right.

LAURIE OAKES: You're not going to make the ritual trek to Washington and the capitals of Europe? Wouldn't that be the normal thing for a new Prime Minister to do?

PAUL KEATING: Well, maybe, but I don't think ... In fact I've had the benefit of an American president coming here - which is unusual for us and obviously saves me the time of going there - in a useful exchange of information and views. So I won't be doing the northern hemisphere thing but I'd like to be doing the Asia-Pacific thing but I'll be doing the Australian thing first.

LAURIE OAKES: Prime Minister, we'll take a break there and get on to the detail of the economy in a moment.

PAUL KEATING: Good, Laurie.

(Short commercial break)

LAURIE OAKES: Mr Keating, ACTU President, Martin Ferguson, says that when you deliver your statement on Wednesday fortnight you will be on the mat. Is that how you see it?

PAUL KEATING: I don't think so, but I think if he means that there's an expectation that the Government will deliver a statement for a recovery and a longer run program of change for Australia, a plan for Australia, to that extent he's right. That is, not that we're on the mat but much will be required of us.

LAURIE OAKES: But if it doesn't get a good reception you're just about dead politically, aren't you?

PAUL KEATING: Well I think it will, that's the point, because we are doing things to accelerate the recovery but at the same

time doing it the way which does provide a long term for this place; a plan for the long term. So we're not going just to have a big fiscal bang that goes up in a puff of expensive smoke but things we'll be doing will have a long run benefit and form - integrated parts of a long term plan.

LAURIE OAKES: How wide, how broad is it going to be? Is it a mini-budget in the sense that you'll be looking at pensions as well as things to create jobs?

PAUL KEATING: It'll have a productive focus, Laurie. I mean the great need of Australia is to continue to lift its domestic capacity so it'll have a productive focus.

LAURIE OAKES: Does that include things like pension increases, though? Or will that have to wait until August?

PAUL KEATING: Not necessarily, no, and---

LAURIE OAKES: That won't have to wait?

PAUL KEATING: No it doesn't - not necessarily include them - and they are things which more particularly are confined to budgets but the Cabinet hasn't completed its consideration of all these issues but I just say it will have a productive focus about it.

LAURIE OAKES: Just while we're on that. What's your view of welfare? Do you think there's room in a recessed economy for pension increases at the moment? Can they look forward to the Budget with some optimism?

PAUL KEATING: This Government increased ... they extended increased outlays through the '80s which was quite strong but we had spending falling as a proportion of the total economy because the economy was growing so fast in the '80s. That's not to say we didn't spend and we spent ... Every spare dollar went in either tax cuts or transfer payments. So we lifted all of those social security benefits and payments and targeted the system. So we've now got a very closely targeted system, but as generously applied as fiscal policy in this country could permit, and I think that still remains our policy. We'd always like to be improving the system where we can but budgetary policy matters.

LAURIE OAKES: Well what about tax cuts? Could they be within

the scope of the statement? Or are they also budgetary matters?

PAUL KEATING: There's a lot been said about them but what motivated the tax cuts in the past? The answer was inflation - getting inflation down, reducing nominal wages growth in lieu of tax cut for inflation control, for inflation. We've now broken the back of Australian inflation. We've got a statistical rate of 1½% and an underlying rate of about 3%. So we're down there with the best of them. So I think that the focus and the target now has to be inflation and everything else has to fit into that. I mean that's got to be maintained and we won't, for our part, be doing any inflation-wrecking, like Dr Hewson with his 15% tax on everything everyone spends - goods and services. Having broken a 20-year problem we won't be letting that genie out of the bottle again. That is, we'll be trying to keep it there and wages - our wages policy - will be tailored to our policy on inflation. Tax cuts will simply fit into that context. Now, whether or not we provide tax cuts, whether or not they can be useful, what positions we take before the Commission, will be governed by one thing - inflation.

LAURIE OAKES: And when do you decide this? Negotiations are this week, aren't they, with the ACTU on that---

PAUL KEATING: We're going to meet them in a week or so's time.

LAURIE OAKES: So, is a wage-tax trade-off one of the options still?

PAUL KEATING: It's an option but the primary option is maintenance of low inflation levels. There's got to be a sort of a 'C' change in attitudes here. In the '80s we were always about aggregate wages growth, aggregate wages growth, aggregate wages growth targets. Now we're about maintaining - pinning that inflation number.

LAURIE OAKES: There's been a lot of confusion about your wages policy, partly because of misreporting, I know, but I guess the key question is, 'Will the Government support an application for a general wage rise this year?'.

PAUL KEATING: Well, we'll see.

LAURIE OAKES: Bob Hawke committed the Government to do that, didn't he?

PAUL KEATING: But I'm committing the Government to low inflation rates.

LAURIE OAKES: So a Hawke commitment is not necessarily a Keating commitment?

PAUL KEATING: It's subordinate to the commitment to low inflation - subordinate to the commitment to low inflation.

LAURIE OAKES: What about the speculation about a likely shake up in the aviation industry? That's caused more excitement than anything else, I think, in the run up to this statement. Are we going to see an open skies policy?

PAUL KEATING: We're looking at options in aviation, Laurie, again, can I say, the first government in a quarter of a century to do so. But one thing we are determined about and that is Australians had a taste of deregulation with Compass. They had a taste of the low fares and they liked it because they had mobility which was formerly denied to them. Compass failed essentially because it was badly managed but one of the issues in that is ease of access of entry into competition. So one of the things we are looking at is the provision of common user terminals by the Commonwealth so that entrants are not carrying that burden and don't have to squeeze themselves into the Ansett or Australian terminals to start. In other words, they're in a competitive environment which is their own. Now, there's a line between where the Government's role in this starts and finishes and where the private sector role starts and finishes and we'd like to try and get that line right but at the same time we want to give Australians the benefit of the opportunity of competitive fares---

LAURIE OAKES: And these would be new terminals?

PAUL KEATING: New terminals. But not letting the two major airlines drift back into old habits of higher prices. In other words, with the competitor out of the way seeing the fare structure drift back up. We'd like to see room for competitors but obviously the Government can't be providing

competition. We can't have two, three, four airlines owned by the Government. That's not going to be on any more than trying to fix Compass's financial problems were on. But we can do things which make for ease of entry and ease of competition and competition will be important to us.

LAURIE OAKES: Does that mean you don't want Qantas running domestic services?

PAUL KEATING: Well that's another issue and that is on the big canvass of policy and that's something which, you know, we may or may not get around to.

LAURIE OAKES: And will all this affect the privatisation of Australian and the partial privatisation of Qantas?

PAUL KEATING: The whole environment matters because we've got these things up for sale. Obviously a bidder is going to say, 'Look, what's on here? What's going to happen after the end of this year? What's the environment going to be?'. That's for Qantas and Australian and obviously that's on our mind, too.

LAURIE OAKES: In the run up to the leadership challenge you promised Senator Rosemary Crowley that the Medicare co-payment would be dumped if you became Prime Minister. Now that's a Keating commitment. Are you going to stick to it?

PAUL KEATING: My private views about this have been well known. Over the years, as Treasurer, I never supported co-payments and I wouldn't have supported one in the Cabinet discussion but there is one and what I've said is we'll debate this properly in the Cabinet, and we will.

LAURIE OAKES: But if you go into Cabinet and say, 'I want that dumped; it will be dumped' - is that what you are going to do?

PAUL KEATING: I don't think I should be saying to the Cabinet you must do this or must do that, but---

LAURIE OAKES: You made a commitment.

PAUL KEATING: But my position is that I don't believe the co-payment was the right way to go.

LAURIE OAKES: And you accept it if Cabinet takes a different view - they make a liar of the new Prime Minister?

PAUL KEATING: Well, let's wait and see, Laurie. Let's wait and see. I mean, the Cabinet's sensible. They look at all these things. They've had some chance now to weigh up the way in which this is working and also to get a greater level of public reading. So let's wait and see.

LAURIE OAKES: Do you agree with some of those committed royalists, who've changed their mind recently, that this royal visit's going to cost too much money and it's a ridiculous extravagance in a recession?

PAUL KEATING: Well, no I don't. The Queen is our Head of State. She visits here I suppose regularly, but in a sense irregularly, and I don't think those costs matter. Can I just say, from my part, this visit was arranged well before I became Prime Minister, anyway, but any request by the Queen for a visit would ordinarily be approved of by the Government.

LAURIE OAKES: But it's \$1.6 million that you could spend on helping the unemployed - creating jobs in your economic statement.

PAUL KEATING: But \$1.6 million is not going to change the world and I don't really think that's an issue. I don't think it's an issue, Laurie.

LAURIE OAKES: What's the ball park for you, looking at business representatives where some have told you the country can afford \$2 billion to kick start the economy. Will you accept that figure?

PAUL KEATING: We'll make our own judgment about it. We've been doing that in the 16 or 17 statements we've introduced since 1983. We've made our mind up about what we thought was appropriate and what we thought the Budget could stand and we'll come to the right figure. The public debate's interesting and it's always interesting and it's relevant.

LAURIE OAKES: Do you accept there's some concern about the \$2 billion figure on the money markets?

PAUL KEATING: Oh, there could be but I mean money markets are a bit smarter than I think the media gives them credit for. They've been around. We turn over \$40 billion a day in the 'A' dollar. They're not bunnies. They've been around for

nearly a decade.

LAURIE OAKES: We're just about out of time but I suppose the overall question people want to know from Paul Keating is have you abandoned you level playing field philosophy? We've got a new interventionist Paul Keating who's put all that stuff behind him.

PAUL KEATING: I just know it's a bit of the program about level playing field and clothing, textile and footwear. I mean there was nothing level about asking Australians to pay 300% duty on shirts and 320% on shoes and the rest. The fact is - let's get this clear - there is no concept of a level playing field outside of Australia. Outside of Australia you just cross the low water mark - it's catch as catch can everywhere. They all cheat. They all muck about. They all play favourites. But inside you're only cheating yourself if you run policies which have scarce national savings going to the wrong places. Now, what we've tried to do is make sure that our scarce savings go to the most productive places and the most productive places are not necessarily putting buttonholes on shirts or collars, which are highly labour intensive, where we're never going to be competitive, compared to a very productive place which can actually add to our national wealth - employment in the current account.

LAURIE OAKES: Well what about the 30-xxx (tape failure) - jobs in textile, footwear and clothing industries?

PAUL KEATING: This change was on from 1988. We had a vast rate of employment growth through the '80s. A lot of those people were taken up and hopefully they will be taken up again. At the moment we are in a recession but, again, now is not the time to change structural policy. So if you are asking me, which is really what you are saying, 'Is there any revisionism on the vision splendid?' - which is to internationalise Australia - emphatically, no, but---

LAURIE OAKES: Mr Keating, we're out of time.

PAUL KEATING: But let me say this, Laurie, that that's not to say that we are going to be taking an absolutely hard and fast attitude to every single issue that comes along; that where a

bit of latitude is important and useful - that's what we'll be about.

LAURIE OAKES: Thank you.

PAUL KEATING: Thank you, Laurie.

LAURIE OAKES: Back to you, Jim.

JIM WALEY: The Prime Minister there, with Laurie Oakes.

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(Transcript by NJP - Monitair)

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