



PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON PAUL J KEATING MP
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E & OE - PROOF ONLY

McKEW: Mr Keating, you've given us \$2 billion in goodies. Have you suddenly become Mr Yes. You used to be Mr No?

KEATING: I was Mr No when the private economy was so strong, the only sensible thing to do was withdraw public spending and any public stimulus. But now the private economy is so weak and investment is so weak, the sensible thing is to lift public spending and public capital works.

McKEW: We had two statements last year: a March industry statement and a job statement in November. On both occasions we were told that recovery was on the way, these statements would boost confidence. Now, that didn't happen. Why is this statement different?

KEATING: It's got larger fiscal effects, and it's also got, I think, confidence-bearing effects. Given that a lot of the funding is going to go in long-term infrastructure, in building a national rail highway, in connecting the ports of the rail system, building roads, highways and ring roads around capital cities. This is all basic infrastructure for Australia which Australia now, as a trading country, desperately needs.

McKEW: But is business finally going to get the message: to start investing itself?

KEATING: There is a landmark change to depreciation in the package. It allows business to write-off plant and equipment more rapidly. For instance, an item of plant and equipment with 20-year life can now be written off over seven and a half years. Or a 40-year life over 15 years. It gives business a cost of capital regime, a depreciation rate competitive with any country you'd like to compare us with.

McKEW: You made the point in the Parliament the other day that a lot of the investment in the '80s was frittered away. Where is the guarantee this time around that the

investment goes into the right places?

KEATING: Because we don't have a global financial market spreading credit around at 20 per cent a year. The fact of the matter is that banks will be more abstemious with credit.

McKEW: Are you sure about that?

KEATING: Well, they are. They've taken the loss. They've taken the hit. The fact is though, that businesses now are changing their spending equity in these areas, and if they do we'll reward them with a very, I think, efficient depreciation schedule and a better cost of capital regime. What we've got here is a partnership of Government and business together. Government spending at a time when private spending is low, using a fiscal situation which it took this Government 8 years of painstaking work to put together. We didn't do as the US did, and that is not take the big budget deficits back in the good times, we took them to a strong surpluses. That now gives us the capacity to be able to spend Government money. It is, after all, only about half a per cent of GDP. I mean, it's not extravagant, but it's sensible and it's well directed and it's in time.

McKEW: What is ambitious is your forecast for growth: 4.75 per cent by the middle of next year. How is that going to happen with the recovery so sluggish?

KEATING: I don't think that's ambitious at this stage. After the 1982/83 recession, after John Howard and John Hewson's recession, the first year of recovery we had growth running at about 6 per cent or better. 4.75 per cent coming off this economy, the fundamentals of which are much better: low inflation, a much better budgetary situation where we are seeing a turnaround in the drought, an improvement in international prices, a change in the stock cycle, 4.75 per cent is I think a reasonably conservative estimate.

McKEW: What we're not seeing though is any improvement in the global economy. If we were to race ahead with that level of growth, wouldn't that cause us problems with a sluggish global economy?

KEATING: We're not racing ahead. Also, as we pick up, so will they. They'll pick up over time. But it's worth recording that the recession in Australia is met with the recession in the US, Canada, Britain and France - and the recession in those countries is deeper and the malaise is greater than Australia.

McKEW: Indeed, you would have heard Alan Greenspan's point in the last 24 hours or so. He's talked about a very faltering recovery in the US?

KEATING: You can't have the sort of roaring '80s, the financial blow-out at 20 per cent credit growth a year, displacing equity with debt all over the place, with banks lending as they were; and when it collapses, when asset price inflation collapses to come out the other side sort of dancing along without any cut in GDP, without any recession. It was not likely to happen. The thing to do was to get out of it, to get back to recovery. What we have come up with is a 4-year plan to get us out of recession and into recovery, but built on improving our long-term infrastructure for our trading future, and at the same time offering tax cuts which take the tax rate to 30 per cent - without Dr Hewson's 15 per cent string attached - without the

consumption tax, while at the same time bringing the budget back to surplus.

McKEW: Mr Keating you've talked about one nation. Could I put it to you that it's really a divided nation? Ten per cent who are unemployed and the rest who have jobs?

KEATING: Nothing like as divided as it would be with the consumption tax, where the people on low incomes spend it all, so whether you tax their income or the expenditure is immaterial, it's all one and the same. And where at the top end of the income system, where they spend only some of their income, they not only don't wear the burden of the consumption tax, but they get a tax cut as well. That's the sort of division that will break Australia up, or where the Liberal Party tries to wipe out trade unions. This is not what we're about. We're about a partnership with business. There is no depreciation schedule like this in the Fightback program. They are in fact going to put the company tax rate up to 42 per cent. There is no partnership with business there. In fact Dr Hewson said I shouldn't have been talking to business. He said they were only asking for handouts. There was no discussion with unions about keeping the inflation rate low. Dr Hewson wants to blast it back towards 10 per cent. So that's the sort of division. We call this *One Nation*, because we're pulling Australia back together again, in a cohesive fight against the recession, back into recovery, using all of these various areas of the community to come together.

McKEW: But over the next year or more, there's a whole group of people who will be left out? Your forecasts say that we'll still have 10-10.5 per cent unemployment in the middle of next year. If that's the case, electorally you're done in, aren't you?

KEATING: No. We're saying 10 per cent providing the direction is right, providing the direction changes. We've got to stabilise unemployment and bring it down. It's the direction which matters.

McKEW: 800,000 jobs. When will we see them?

KEATING: You will see them over the forecast period. As you saw over the first four years of our Government, something like about 800,000 from memory. With these sorts of growth rates, which Australia can afford, we can basically bring unemployment down. Employment is entirely sensitive to product, the growth in the economy, the GDP. GDP is up, employment is up.

McKEW: Aren't you asking people to have a lot of faith, though? You are basically saying re-elect us, say about May next year and the recovery will come later. They have been hearing this for a long time, haven't they?

KEATING: That's why we've got spending going to families in April this year. That's why we've got the rail, road and other infrastructure programs beginning as quickly as possible to get that spending going, so we get out of this recession as quickly as we can.

McKEW: Why not more assistance to specific industries to help promote value-added production?

KEATING: We've got a number of quite innovative tax measures here. We've got a

tax measure for pooled development funds that provide funds for small and medium business, that can't get equity on the stockmarkets. They just can't get equity privately. As well as that, we've got a proposal for pre-start industrial arrangements, for large investments which put together large mineral projects or large resource projects, there is a development or investment allowance available beyond the depreciation rates to encourage them to do that. There is a tax provision for private provision of public infrastructure. So we will see in the future, private provision of roads, rail, ports, electricity generation. They are the sort of things that will make Australia stronger; and one of which actually rewards winners. If you get your major project together, you get an investment allowance. So rather than picking winners, we are rewarding winners.

McKEW: You have attempted to diminish the Hewson Fightback package as nothing more than an exercise in accountancy, as you've called it. But when that package was released, it was seen as being very impressive in its boldness and in its scope.

KEATING: By whom, though?

McKEW: I think it was general acclaim.

KEATING: It's basically a very nasty tax camouflaged, wrapped with a whole lot of changes. As you take the changes away, what's left underneath is a rapacious 15 per cent consumption tax which will raise \$28 billion. Dr Hewson proposes to give back only a small proportion of that - \$9 billion in tax cuts.

McKEW: Mr Keating, I haven't heard anyone as yet describe your package as bold and sweeping?

KEATING: Well, if you don't think rebuilding the rail highway of Australia isn't bold. If you don't think opening up the airlines for the first time ever, from the Liberal's two-airline policy, to let the domestics fly internationally and Qantas fly domestically is not bold, I don't know what is. If you don't call taking over technical and further education like we took over universities, to change for our children, to give them an opportunity, bold, I don't know what is. But if you think it's bold to tax the food you put in your mouth and the shirt you put on your back, well good on you Maxine, if you think that's bold, then you've got a very different definition of bold than I have.

McKEW: You'd argue then, there's now a much clearer ideological divide between yourself and the Opposition?

KEATING: Look, Dr Hewson had an opportunity as Opposition leader to stand back and say, what should I do for Australia? What he stood back and said is what can I do to be different to Labor? Oh they won't have a consumption tax, I'll have one. That's where he started. Where we started is we sat back again and said what can we do now? We've made the big changes to macro economy, let's keep pushing the micro economy in rail, road, ports, airlines, electricity generation, TAFE, training, it's Labor doing the usual reforms. It's always us doing the big changes. What's he about? Instead of sitting back saying well I can use my opportunity to make Australia better, oh no, I'll be different, I'll have a consumption tax. I'll tax the low-paid and give a tax cut to the high-paid. Well, big deal! As I said some time ago,

it was a tenth-order issue. The first-order issue is jobs, recovery, growth, efficiency, the micro changes, getting a container between Sydney and Melbourne, crossing the ports, being able to run a decent tourism industry by flying in and out of Australia, training our kids. They are the first-order issues, not whether you tax income or expenditure.

McKEW: Things are getting pretty personal between you and John Hewson, aren't they?

KEATING: Not with me. But you can't dare criticise him without him calling me a cheat, a liar, a distorter. He's very nasty. He's had such a dream ride for a couple of months, if you dare criticise any of his things, he reverts to this sort of language, this sort of nastiness. Now, he came into the House yesterday with a censure motion of all things, because I dared, he said, misquote the econometrician who put the modelling together for his GST package.

McKEW: He says you've got your facts wrong?

KEATING: I didn't. I produced the computer print-out of Dr Murphy's model which showed that Dr Hewson's package actually reduces GDP, actually increases unemployment and inflation in the 3 scenarios in the model. I gave him the computer print-out. The fact of the matter is, here it is after labouring so long, his own econometrician says that Fightback actually reduces GDP, increases unemployment and increases inflation. There is nothing more damning, and I can understand why he was so hurt. But I can't understand him. He's so sensitive. He's such a delicate little petal. He had to get in there with a censure motion of all things because I misrepresented his econometrician. Tut, tut, naughty me. I won't do it again.

McKEW: John Hewson also, the other day, tried to suggest that you had no class, because as he saw it, you were disrespectful towards the Queen. If he keeps that sort of thing up, will that rattle you?

KEATING: That was just devastating. It really devastated me, that little comment.

McKEW: But you see what he's trying to do? He said well, we both come from the same sort of backgrounds, but I have respect. Paul Keating doesn't?

KEATING: He has respect for old traditions but no regard for Australia. No respect for Australia.

McKEW: How can you say that?

KEATING: If he believes that I cannot say that this is a more independent country, that we're not tied to Britain's coat-tails, and I say it to the Queen of Australia not the Queen of Great Britain, as The Age pointed out. If he thinks that we ought to be basically into British boot-strapping, forelock tugging, and he calls that respect, it's not respect for this country.

McKEW: I think he was talking about being respectful towards the Queen?

KEATING: I was. I said that Australia had changed from a country ... the Age said it, in fact I've got the editorial here, it said this: "*when the Prime Minister addresses the*

Queen, he addresses her as the Queen of Australia, and it is entirely appropriate for him to articulate independent Australian attitudes." She's part of our change. She took the royal style and title of Queen of Australia in 1973. She's part of that independence. She is not here as Queen of Great Britain. But John Howard is talking about going back to 1950s. The fact is, if we develop a constitutional museum in Parliament House, John Howard and John Hewson ought to be the first two exhibits. Back down the time tunnel to the '50s to forelock tugging and British boot-strapping and all that nonsense. Apparently we had some House of Lords character on "AM" saying if they cut their ties with Britain, Australia will give up all of their cultural inheritance. Well, Hewson and Howard believe that stuff.

McKEW: What about the British press? They sound as if they want to lynch you?

KEATING: As I said, when you look at a British tabloid editor, it's a particularly low-form of human life, a British tabloid editor. So let's take no notice of them.

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