



PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING, MP
INTERVIEW WITH KERRY O'BRIEN, LATELINE
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KOB: Welcome to the program. Tonight I am joined by the Prime Minister, Paul Keating, who one month from now celebrates his first anniversary in Office. That period has seen his personal stocks and those of his Government make a remarkable turn around, in the face of the worst recession since the Great Depression and still rising unemployment. The polls show the Government in a position to win an election and Paul Keating is preferred by the majority of voters as Prime Minister. Yet the polls are more a measure of the unpopularity of the Opposition's policies, which is masking the Government's own failures to turn the economy around. On assuming power, Keating set the Government's vision, One Nation promised jobs, tax cuts and infrastructure spending, all predicated on growth estimates that now seem hopelessly optimistic. By its own forecast the Government has not measured up, commodity prices are down, the international economy is sick, the Australian dollar is under attack, business confidence is clearly still very shaky. As we move closer and closer to election mode, where is the recovery going to come from? All in all, plenty to talk about tonight. Paul Keating, welcome to Lateline.

PM: Kerry.

KOB: After you settled in as Prime Minister you laboured mightily to come up with a document that would at least match the Opposition's Fightback package as a strategic plan for the next four years. When you presented One Nation on February 26 you said and I quote, "Tonight the Government presents a statement to get Australia moving, a four year strategy for growth in the '90s". You also

said, "In 1992 we need recovery and we need jobs." After nine months how many of the fundamental assumptions of One Nation remain true?

PM: The principal thing. That is, that there is a role for Government, that it is not the Government's job to withdraw from the problem, that it won't solve itself by a policy of withdrawal which was largely, for instance, what President Bush was putting in the United States, and which Governor Clinton campaigned against and secured a mandate. Now, in the very same way in Australia we are saying, in respect of One Nation, that there was a job for the Government to do, there was not only a job for the Government to do, but in the large areas of the public infrastructure, some of which long forgotten and underspent in the '80s, that this was a time to renew public infrastructure and that the two very nicely coincided with the needs of the economy in the short and medium term.

KOB: But what you came through with, loud and clear, with One Nation was a ring of confidence. And it was a confidence that you were trying to sell to the nation, which I suppose was part of the strategy, really, to get the economy going. You have built just about everything on the corner stone of growth, haven't you? In February, the One Nation growth forecast was 4.75 per cent, in June that forecast was adjusted down to 4 per cent, by the August Budget it was down to 3 per cent, and now it is about to drop again. That is three wrong estimates in 9 months. What does that do to the integrity of One Nation, given what else has been built around it?

PM: I don't think in terms of One Nation as a package, that the growth forecast worry its integrity. Its integrity is about whether we need in Australia at the moment an expansionary stance of policy. That is, whether we need an expansionary stance of fiscal and monetary policy. Now the Government believes we do, the Opposition believes we do not. They say take \$7 billion out of the Budget deficit, 2 per cent of GDP, we say that will put Australia back into recession, we also say you should have an expansionary stance, and the things you should do should be substantial. That's what One Nation was about. The forecasts were important in signalling to the country what we thought the growth trajectory would be like, but not integral to One Nation, to the sense and purpose of One Nation.

KOB: Maybe not to the sense and purpose but to the reality of One Nation. The things that were built around it, jobs for example. You built jobs predicated on growth, and let's look at jobs. You said in a television interview, the night after One Nation, that of the 800, 000 new jobs to be created over the next 4 years and I quote, "we would have about the first 150,000 to 200,000 jobs in the first year". So, how many jobs has One Nation created so far?

PM: It is very hard to say without actually threading through the spending and seeing exactly where it has come from.

KOB: But you would be keeping a very tight monitor on that wouldn't you, given the critical nature of the whole thing?

PM: But it was never a case of month by month employment off the One Nation spending, it is the whole impact on the economy and how employment has responded to that. But I think the most important thing though, Kerry, is that if you look at the 1980s experience, the cast of policy which the Labor Government adopted in '83-4 and '85 induced a recovery. What we are arguing is the same will induce a recovery now, and has. We are now growing in the last six months or so at about 2 per cent a year, or that order. We are back into a recovery phase.

KOB: It is still well behind what you are projecting.

PM: I know, but a few things have happened since then. Growth in the world has got much softer, there is no one tugging Australia along or putting any impetus into our economy from external growth and we are going through a very enhanced recovery. A very enhanced recovery a productivity, there is a big blow out in productivity - productivity is running at about 2.6 per cent a year and that is shorthand for saying we are getting the same or more output from fewer people employed in the process.

KOB: But you would have understood the productivity equation when you went into One Nation.

PM: I think you can only, with those things, see what the economy's experience is and what employers themselves think of the economy, its prospects and what they are prepared to do in terms of productivity change.

KOB: But fundamental to everything is jobs. You have said that yourself, you have preached growth for most of this year, you have preached jobs for most of this year. But according to the latest Bureau of Statistics trend estimates, I think the most reliable measure available, 30,000 new jobs have been created from February to October and that includes a big period before One Nation would have even begun to bite. And at the same time another 65,000 people have become unemployment statistics. In other words, for every new job created two have been lost. Now that is not exactly a winning battle, is it?

PM: Well Kerry, if you look at the last few months we think that employment growth is on track with the Budget forecast for employment growth. So, you can make a commentary over a year.

KOB: How can it be on track when your growth estimates are running at almost half what you originally predicated your job growth forecasts on?

PM: No, not on the Budget. Are you talking about One Nation or the Budget?

KOB: Yes, One Nation.

PM: No, I am saying if you look at the Budget forecast.

KOB: Which was a fair re-writing of One Nation.

PM: I think the key point is this, Kerry, this party, this Government produced a record amount of employment growth in the 1980s. That's what we committed ourselves to, that's what we are best at, that's our long suit. The recession put us off that game, we are simply going back to it.

KOB: But it is much tougher this time, much tougher, much slower.

PM: But you can make a point of discussion about what quarter it is happening in, where the ping picks up. But pick up it will because the Government's cast of policy is for growth and employment. The Opposition's isn't, that's the key point. So what the levels are or the rates, the fact is we had through the '80s phenomenal employment growth, two or three times the OECD average. It was our long suit, is our long suit, will remain our long suit.

KOB: Bernie Fraser, last Thursday or Friday in New York, said that unemployment would stay around 10 to 11 per cent for some time to come. That doesn't sit with your unemployment projections which I think in One Nation said, page 120 of One Nation, you projected an average rate of unemployment for 1992-93 of 10 per cent and to around 9.5 per cent by mid 1993, that's by the middle of next year. What Bernie Fraser says puts the lie to that.

PM: Well that's One Nation, we adjusted all of that in the Budget. You can't put me through the same discussion twice. We had all that at Budget time.

KOB: You sold One Nation very hard at the time, are you saying One Nation no longer applies?

PM: The key question is which party is going to induce a recovery in Australia? That's the key question.

KOB: Alright. I will keep playing on with One Nation at this stage.

PM: But there is only one, isn't there? It's only the Government because we are saying that economic policy should be committed to growth and employment growth, we shouldn't be holding back.

KOB: Let's look at your detailed credibility. One Nation spending on infrastructure, \$283 million I think you allocated for railways this financial year. You have now had to divert \$150 million of that to other short term job creation because you can't get the railway programs up on time.

PM: But what's incredible about that? The question is ..

KOB: But what do we believe about what you project?

PM: The question is will the One Nation package of funds be spent by 30 June 1993?
Answer, yes.

KOB: But it won't be spent on infrastructure to the degree that you had planned, which is all about micro reform quite apart from job creation.

PM: In the main it will. But you see, in the rail systems we had courtesy of 30 years of indolent Conservative Government, these dinosaur ..

KOB: But didn't you ...

PM: Hang on, don't be too zealous now. These dinosaur public authorities for which we presumed, and they said, they had engineering design plans ready to spend these monies. In fact, these outfits were so run down they didn't have engineering planning together, and because the Commonwealth was never in the railway business outside of AN, there is no Commonwealth bureaucracy that has any specialisation in the NSW or Victorian rail systems. So, what will happen is those changes will be made, they will be made in the following financial year, but the expenditure ...

KOB: So it is delayed for a year, regardless of why, pardon the pun, it has gone off the rails?

PM: Not the stimulus, the whole point of the thing was the stimulus.

KOB: Well part of the point.

PM: The point was to stimulate the economy with a set level of spending over 1 per cent of GDP. That we will have done, we will have spent it.

KOB: OK. Let's look at One Nation's promise to return to Budget surplus in 4 years. In February you projected a starting point for this year's Budget deficit of \$8 billion, in May you revised that to \$10.5 billion, the Budget in August calculated \$13.4 billion. Now the ABS, the Bureau of Statistics says it is up to \$14.5 billion. Given all the evidence can you honestly stand by the Budget forecast with any confidence at all as far as the deficit is concerned?

PM: We had in about a month between June and July a decline in collections of about \$5 billion upon what was expected in the last financial year and coming into this financial year. Now that reflects just realities in the economy, that is the actual

result. So what is the point of us saying this is not in line with what we thought. All you have got to do is adjust the cost accordingly.

KOB: I suppose what I am asking is, how can you in all of the instabilities and uncertainties about this economy, given the Government's, the Treasury's, the Reserve Bank's, everybody's incapacity to properly forecast trends, how can you possibly project anything for 4 years ahead with any confidence?

PM: Kerry, you are becoming a forecasting nutter. I am just making this point to you, the key point, I make it again, is the cast of policy. That is, interest rates ..

KOB: But what do we evaluate your cast of policy on? What do we judge it on? Results.

PM: Interest rates, fiscal policy, the recovery which is already under way in the economy clearly from National Accounts data. I mean actual results. If the revenue collections are under forecast for this year and they have been dealt with in subsequent years, so what. The main point is are we going to recover, I say we will recover under a Labor Government because Labor Governments are about growth and expansion and the Liberal Party is about contraction.

KOB: Alright. But can you still say with any credibility, with any certainty that you will return to surplus in 4 years? Yes or no?

PM: What did we say in the Budget? We said that we had a short fall which we needed to address.

KOB: But you would still be targetting for the surplus?

PM: The Treasurer addresssed that, but we probably will be nearer surplus.

KOB: Nearer surplus, probably?

PM: But so what? Look, Kerry, let me tell this to you old boy. I was the first Treasurer in Commonwealth history to post a surplus.

KOB: Alright, I will grant you that, I will grant you that, but that is history now.

PM: Four massive surpluses.

KOB: That is the past we are now looking about the present and the future.

PM: But since when do we have to go back to surpluses? Since when are they holy writ? None of you ever heard of a surplus, the media could barely spell surplus before this Government produced them.

KOB: Because the markets now regard them as holy writ. Because the value of the dollar, for one thing, is predicated on issues like that.

PM: Let's say, this is not a forecast projection, it has no intelligence to it, but let's say we were \$2 billion short of balance.

KOB: But you made your reputation on those policies in the '80s. You made your reputation on the achievements of things like surplus.

PM: Half a per cent of GDP, so what?

KOB: So what is your reputation going to be on the first half of the '90s on that score? Changed circumstances mean ...

PM: No Western Government has a tighter fiscal policy than the Labor Government of the '80s. We put away in the savings account of the nation about \$20-25 billion of surplus funds. That is why now we can use them to expand the economy. That is why the United States can't expand the economy.

KOB: But you're not using surplus funds to expand the economy, you're in deficit to somewhere between \$13-14.5 billion.

PM: But we ran down Commonwealth debt to GDP from about 25 per cent to about 14 per cent by putting surpluses away, we are now running it out to 18 per cent. So, we have got one of the smallest Government debt to GDP ratios in the world, at 18 per cent of GDP we are now using deficits for a slow economy by virtue of the fact that we put away surpluses in a strong economy.

KOB: And foreign debt is getting up close to 40 per cent of GDP.

PM: And here's our Liberal Party friends, the slowest learners in the business, wanting to say to us, oh no, let's cut \$7 billion or 2 per cent of GDP out of spending. Let's push us right back into recession so we can have a surplus. Surplus at the wrong time.

KOB: OK. Let's look at tax cuts. Speaking of the right time and the wrong time, the promised tax cuts from One Nation. Those tax cuts were calculated on growth, inflation and bracket creep. Since most of that has gone out the window I am sure inflation is good news as a component of that, but that effects bracket creep, since most of that has gone out the window you have had to try to anticipate funding in advance with other tax increases. The thing is in all the circumstances how can you possibly justify those massive tax cuts this far out for anything other than straight political purposes, winning the next election?

PM: Because I don't think the incidence of tax should rise. I don't think that we ought to be having surplus fetishes years from now and try to cover them with tax

collections brought about by a higher incidence of taxation. I just don't think we need.

KOB: But you have acknowledged for example the need for infrastructure spending. There are some who would say the need for infrastructure spending is even much greater than you're anticipating. There is a limited purse within which to do that, but you are promising with a very uncertain economy, very uncertain recovery, very uncertain international economy, you are promising a massive tax cut, two years from now, three years from now, four years from now.

PM: To maintain the tax to GDP ratios we roughly have at the moment. In other words, what I'm promising is not to put up tax.

KOB: It's got nothing to do with the Opposition's tax cut promises, nothing to do with a desire to go to the next election campaign with a tax cut.

PM: It makes a very interesting political point that we reduce the 38 rate, at the range of \$20,500 of income from 38 to 30 without a consumption tax and that is the point that the Liberals are now pondering. That is all the tax cuts that Australians were likely to get from Dr Hewson's Fightback package under a consumption tax, they will get from the Labor Government and we are legislating them now - from 38 to 30, no consumption tax.

KOB: OK let's come back to a final word about 'One Nation' a final measure of what 'One Nation' was supposed to achieve, what it has achieved, what it may achieve and the extent to which it has been revised. Growth forecasts badly wrong, unemployment forecasts wrong, job growth wrong, deficit forecast looking sick, infrastructure spending revised, tax cuts as many would say barely credible. Surely that all says that 'One Nation' ...

PM: Legislated.

KOB: Legislated, but barely credible in terms of the original basis on which they were predicated, strong growth amongst other things and in the end surely you've got to say that 'One Nation' today has become a very shaky, if not discredited document.

PM: No, cut it out Kerry, cut it out. 'One Nation' was a psychological boost for the country.

KOB: It was a blueprint.

PM: No, hang on it said let's go and expand fiscal policy when it needs expansion, let's do it in all the things that need doing - rebuilding the rail highway, accelerating the road highways and the ring roads, the electricity grid, the spending for the National Training Authority for vocational education - all going ahead.

KOB: OK it was designed to boost confidence apart from anything else.

PM: That's right.

KOB: How many business people, business leaders in this community today do you believe could stand up, would be prepared to stand up tomorrow and say 'One Nation' has the answers, 'One Nation' has the capacity to deliver the goods?

PM: 'One Nation' was designed not as a panacea for all the nation's problems.

KOB: No, build confidence. How many business leaders today would still have confidence in 'One Nation'?

PM: But to say there was a role for Government in kick starting the economy and getting it cracking.

KOB: But it hasn't.

PM: We are growing at 2 per cent a year, what do you mean?

KOB: You were going to grow much more than that.

PM: But how do you say it hasn't? We are not in recession, we are growing.

KOB: How many business leaders in Australia today would stand up and endorse 'One Nation' as a document that still inspires confidence?

PM: Well, how many would stand up and say it has not had a significant influence on activity? And remember at the time, we had the chief executive officers of a number of major companies supporting its stance and do today.

KOB: At the time, in February. How many would do it today?

PM: We can't go on spending Kerry, you can't go on and have another one and another one. The 'One Nation' expenditure will be spent by 30 June 1993, it will do the macro economic task it's called for and most of its spending will go as it was planned to go. Sure the railways were underspent, but they will be spent in the following year and we will spend that money by diverting it to other purposes this year.

KOB: OK let's look now at some of the other elements that are going on in the community. We are running up to Christmas, the biggest period for the retail trade; retail trade are running scared aren't they in the lead up to Christmas in the main? The HIA, the Housing Industry Association, the Master Builders Association are saying that the housing recovery has peaked or near peaked, the Bureau of Statistics says the recovery in new home approvals has ended, bleak

prospects for the international economy, zero growth projected for Germany for the next twelve months, we did a program on the state of the British economy a couple of weeks ago where senior and respected economists were saying 14 per cent unemployment quite possible in Britain over the next couple of years, Japan, their plan for recovery stalled because of problems in the Japanese administration, the United States economy, they are talking about stimulating but an unknown quantity. I suppose in the end where are the signs for optimism? Commodity prices, Max Walsh's column the other day, commodity prices he says are nearly down as low as they were across the board in 1986 when they were a disaster for this economy.

PM: The thing is it is a tough world out there.

KOB: Sure is.

PM: The world is in a very slow phase of growth and it is true commodity prices are down, it's tough going for Australia. All the more reason why the growth we are seeing and the structural changes is taking place and the links into Asia and the productivity shift and the shift down inflation and the competitive exchange rate are all ball points for Australia. I think all that commentary of yours as just said, is how hard it is to govern these days and to engineer a recovery.

KOB: And how hard it's going to be for you to go to an election at some point in the first half of next year with unemployment somewhere between 10.5 and 11 per cent or higher.

PM: It's a lot easier than going and saying I will actually push the economy back into recession, I'll contract fiscal policy, I'll put interest rates ...

KOB: You'll be saying that though, it's not what John Hewson says.

PM: No, yes he is, let's be clear about this. He says we should cut 7 billion out of outlays, 2 per cent of GDP.

KOB: Yes, but he's also saying other things, he's talking about \$20 billion to build business confidence.

PM: No, that \$20 billion is passed onto consumers, if it's not you have a massive inflation surge. Look Kerry ...

KOB: You've got all of these elements, you've got a shaky dollar, you're on an absolute knife edge.

PM: Kerry, I heard the question the first time, I'm just making this point to you that it's only this Government's policy of expansion and of seeing growth of our positioning of monetary policy, the general expansionary phase and the pick up we

are seeing now we've seen right through the last year in exports. The fact that the economy is growing and that there are things in our domestic economy which give us cause to believe that that growth will continue.

KOB: Bill Kelty has said twice in the last twelve months, he is a man you respect.

PM: Very much so.

KOB: A friend of yours, he said twice in the past twelve months that Labor could not win the next election with unemployment over 10 per cent. You are going to have to go to the election with unemployment over 10 per cent, there is no two ways about that.

PM: We say the alternative will push unemployment much higher, that the Liberals will basically grind the place into the dust and in the middle of it have an industrial war a la Kennett and Victoria. Which ever way you look at it Kerry, Labor has been the growth party, it's been the employment growth party, sure we've been off our game with the recession, but we are back on our game at the point.

KOB: Yes, you said in the Parliament that you would honour the electorates mandate on the GST Hewson wins the next election. Will you honour a similar mandate on their industrial relations policies? Provided they stick to the policies they've outlined.

PM: They don't even know what their policy is to stick too. They don't know what their policy is to stick to, they are shift and shimmer around every day about it. They are saying Kennett is right 100 per cent one day then he's on he's 70 per cent the next.

KOB: Forget Kennett, if they stick to the policies they have outlined and continue to outline, do you acknowledge that they will have a mandate on industrial relations as they will on the GST?

PM: Kerry let me just make this clear to you, I may be old fashioned in this, but the power of the House of Representatives is a money power, the money bills, the budget bills, the big tax bills and the GST is over half the income tax, it's half the Budget, it's a tax shift of \$50 billion, it's half the Budget.

KOB: But it's not just money bills Paul?

PM: If a Coalition Government were to secure a very clear mandate for that, what group of Opposition parties could with any integrity or any strength sit in Senate and say oh no, we won't have that.

KOB: But it's not just money bills. You've said again quote, quite clearly "I don't believe it is legitimate for an Opposition in the Senate to deny the principal element of

what is a clearly articulated mandate". Now, if they stick to the policies they have articulated on industrial relations ...

PM: Hang on, let me tell you this, John Howard said he would produce the legislation, then he said last week no he wouldn't because he couldn't get it drafted properly. I offered him the services of the Parliament Counsel to draft it.

KOB: I bet you did.

PM: I did, he's now running backwards being very tricky because he says now he doesn't believe the Opposition should show the electorate the colour of the legislation. They are going to be all over the shop on industrial relations ...

KOB: Just like you've been all over the place on 'One Nation'.

PM: ... and trying to secure from me any support for that absolute grab bag of that hodge podge of intellectual quackery and ideology is asking too much.

KOB: But you can't rely again, for the next election there is no way that you are going to be able to rely totally on a negative campaign against the Opposition to win that election.

PM: We don't need to.

KOB: Well what would you describe here as the fundamental elements of Paul Keating's agenda for your first full term as Prime Minister, for Labor's fifth term in office? An agenda that will persuade Australians that you are not a tired government, you are a rejuvenated government, you've got the energy and the vision to do it, despite the fact that the economy is going to allow you very little room.

PM: Kerry, this is the Government that has made the big change in Australia, the big change from basically an inward looking society and economy to an outward looking society and economy. This is the Government that has made the big trading switch, we are now exporting 25 per cent of all we produce. This is the Government which is making now the tightest fit into the Asia-Pacific of any government in our history, that's what is going to save Australia.

KOB: So more of the same?

PM: It will never be more of the same, it will always be changing. The great micro reform agenda which we are still working on, most of it completed - telecommunications, ports and wharves.

KOB: Most of it completed?

PM: Telecommunications, ports and wharves, the labour market, airlines, what else do you want me to do?

KOB: The Metal Trades Industry Association which has been an employer organisation that your government has time after time, counted as a friend, you've identified them as friends in effect, you've called them up to back your case on more than one occasion, the MTIA ...

PM: They believe in a co-operative structure.

KOB: OK, the MTIA has just released a survey of 140 of their member companies across 19 sectors of industry and they say that they have yet to receive across the board, they say they are yet to receive the benefits of your micro reform package, where are the benefits, when are they going to start to flow? You've been doing this, you've been endeavouring to implement your micro reform package since 1987 and you say you've virtually completed it.

PM: Kerry, we are going to have a telecommunications operator, the price of phone calls has fallen by what, half for long distance calls. Look it's happened in airfares and travel around Australia with the deregulation of the airline industry. We are going to set up a free market for electricity in the eastern states of Australia. The waterfront, waterfront productivity has risen 50 per cent this year. What do you want me to do? Put it on a black board.

KOB: We did a program on the waterfront the other night where the bulk of the users of the waterfront are saying that they haven't got any benefits of it either.

PM: OK, the users have got to put some pressure on the stevedoring companies, do they want us to do out their business for them? We can set the change up, what do they want us to do? Actually make the orders for them? Look Kerry, this place was an industrial museum ten years ago, it is now a country locked into the fastest growing part of the world, open, it's set the tariff wall largely down, removed exchange controls, a floating exchange rate, a free financial market, a better tax system, a relatively small public sector, we are off and running, all we've got to do is get that recovery phase moving and Australia's position in the '90s from a low inflationary base is going to be a very, very attractive one.

KOB: I image that there is one reason well beyond any other that you have not called a pre-Christmas election and that is that up until this time you don't believe that you'd get across the line in that election. The public polls say you would, presumably your own private polling and your own political instincts tell you that its not yet, you're not yet there.

PM: I think the more time we have to articulate our policy position, our general philosophic position, the more time we have to articulate our belief about the Coalition's, the more time we have to see the economy run on the better.

KOB: Well then that says a May election.

PM: No, it says that any election after Christmas is basically full time.

KOB: But if you want maximum time to expose their policies.

PM: Look, I've been in this Parliament now for 23 years, I think the average length of Australian Parliaments is about 27-28 months, it's 36 months in March so let's say this, it's on the starting blocks any time in the new year because as far as I'm concerned any time between then and the technical end of the Parliament is the end of the Parliament.

KOB: And the average length of Lateline interviews is much shorter than this one, we'll have to end it there. Paul Keating thanks for joining us tonight.

PM: Good on you Kerry, have a good Christmas.

KOB: You too.

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