



**PRIME MINISTER**

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING MP  
INTERVIEW WITH JOHN STANLEY, 2UE  
31 JANUARY 1995**

J: Good afternoon.

PM: How are you John?

J: Very good. This is the beginning of '95 for you. You have a new Opposition Leader, we'll discuss that in a moment, but this afternoon the Treasurer has confirmed you will be increasing taxes in the May Budget. Isn't that going to make your task of winning the election that much harder?

PM: What he confirmed is we will tighten policy and he said this for this reason. He's also published a set of forecasts and what they show is that in the Budget, at the time of the Budget last year, we forecast growth in the economy at four and a half per cent. We are now forecasting five and a half. We were forecasting business investment at fourteen and a half per cent, we are now forecasting twenty-four. We were forecasting two per cent inflation, we are forecasting two and a quarter, about the same, and on unemployment we were forecasting nine and a half, we are now forecasting eight and a half. So five and a half per cent for growth, twenty-four per cent for business investment and eight and a half per cent for unemployment and 450,000 jobs since the election. We want to keep that going.

J: What about the current account deficit?

PM: The current account deficit is rising because we are in a very strong investment phase. In any investment phase, Australia always imports producer goods. We don't make digitally operated machine tools. We don't make mainframe computers. These things come in at rises. But the thing is, this country is the fastest growing, western OECD style economy with low inflation. Five and a half per cent growth and two

per cent inflation we've never had any year that good, I don't think since the war.

- J: We haven't had a year with a current account deficit of 26 million...
- PM: The Government was re-elected to produce growth in employment. We've had now just on half a million jobs since the election. It must be the fastest rate of employment growth in the OECD area of the western world. Let me just say this. I think without a doubt the best economic year for Australia since the war. What we will do is keep that going. So what the Treasurer announced today is how we keep that going and that means we've got to make sure that that current account deficit you speak of comes from a paucity of our savings, so we want the public sector to save some more by getting the Budget back into surplus earlier.
- J: Yes, so you will be doing that in a couple of years' time, but will you be doing it by raising taxes?
- PM: Well, as in all Budgets, you can do it by changes in taxes, changes in outlays or changes in the asset position of the Commonwealth. We will be examining that in the way that the Government has done since 1983.
- J: So you are not ruling out any of those three - selling off Government assets, raising taxes and cutting Government spending?
- PM: No, but let me just make this point because I heard on your news service somebody saying, I think it was Mr Costello, well this is a big tax-munching Government. This is the lowest taxing Government in the western world. This is the lowest taxed country, outside of Turkey which is not as developed as this country is, this is the lowest taxed, developed country in the western world and we gave tax cuts as we promised in the election at the end of 1993. So I think people have got to understand and balance this off if they want to keep that job security when they see those job numbers coming out strongly and unemployment coming down. If they want to see the pick up in business profits and the general prosperity in the economy with huge rates of productivity growth and low inflation, you've got to run the place sensibly and I like to think we can do that.
- J: And running the place sensibly then means ratcheting up the tax rate a little bit from that...
- PM: Well I can't say what we will do precisely on tax, it's just too early, but the Budget will be down in May and the Government will consider its position between now and then.
- J: Can you rule out increases in personal income tax rates?

PM: Well I'm not ruling out anything except to say have a look at our record in these things and it's been pretty strong. I mean we've delivered on every tax commitment we've made since 1983. I had Mr Howard running around telling us about broken promises and how I can't be believed, when Treasurer in 1977 he introduced a tax cut, I don't think you can remember it John, ring up and find out...

J: I do remember it - the fistful of dollars - but then you...

PM: Just remember, ring up and find out how much your tax cut will be and then they took it away five months later.

J: And yet you said your tax cuts were L-A-W law.

PM: Yes, and they were, they were paid.

J: But you didn't deliver all of them did you? The second lot's still to come.

PM: We paid the first half early and we put the second half back.

J: So when are they going to come in?

PM: The Government will consider that as well in the Budget round.

J: But isn't that a credibility problem...

PM: No not at all.

J: ...possibility of increasing taxes, and you still haven't delivered that tax cut.

PM: No, we delivered the tax cuts in December 1993 as promised. In fact we delivered them earlier as I said and we've put the second round back. But again, we were forecasting the Budget at four and a half per cent growth. We're actually doing better, we're doing five and a half. Now, what all thinking Australians will say, well look we're doing now even better than we expected, what should we do now to preserve that? How do we keep that going? And that means that we have got to make sure that the demand and the savings equation the economy sets us up for the rest of the '90s so that all of us and all of our kids get a chance at a job and good strong growth.

J: Do you acknowledge that in the broad community today and possibly because of your efforts over the last decade, there's more of an understanding of the economy and people understand that if the budget deficit isn't cut back, if public spending isn't pared back, that they may have to pay higher interest rates?

- PM: Well I think we've seen three monetary adjustments last year, three interest rate adjustments last year, I think people have got to say this is a premium I pay for my job security, for the employment growth we're seeing, for the phenomenal rates of economic growth and for the pick up in company profits which is underpinning our big investment phase for the future. It's a bit like paying the insurance on your house. You can take the risk that it won't burn down, but you're awfully sorry after the event if it does and you're not insured.
- J: Could you expand on that because a few people I've heard on this station, on open line calls, they say, "Why is it good for the economy that we should have to pay say, sixty dollars a month more on our mortgage rate?" How is it directly helping them?
- PK: Let me say this, John, housing interest rates fell dramatically over the last, say, three years, by sixty or eighty dollars or more - in some cases, like for a \$60,000 or \$70,000 dollar mortgage, by \$120 a week. Those low interest rates reflected the low activity in the economy and the low premium in the interest rate market, if you like, of that low activity. Once the game started to get stronger and there was more demand out there, what that does is take away some of the spending capacity in the economy. If we don't take it away, we can't sustain the growth, we can't sustain the employment growth and so the certainty that people are looking for... I think Australians are very mature about these things - they say look, we re-hired the government in 1993 to give us growth back and strong employment. The government has done more than it could even reasonably be expected to do, with that. Now, they know that you just can't have that sort of strong growth and employment growth and have growth in the current account deficit etcetera, without some tempering of the pace. And, what the interest rates do is simply temper the pace.
- J: Well, you described it, I think, as a premium that they have to pay for all of these...
- PK: Well, for economic security, growth, employment....
- J: So, to get all of that people may have to pay higher interest rates and pay higher taxes in the short term?
- PK: Well, they've already paid some of the higher interest rates but, can I just say this, that the big fear 18 months ago was that your job was at risk, alternatively you might have been unemployed or, at best, your job was at risk. You've now got the security of knowing that that is not true, that your job is much more secure. And, this is part of the premium on that security.

J: So, those people, therefore, you're asking them, look you're going to have to pay, perhaps - is the word 'premium' perhaps a replacement for the old, 'you have to tighten your belt a bit more to gain the benefit'?

PK: Well, just look at the substantial growth in real incomes. When you get a wage increase, and we've seen wages running at about three and a half to four per cent this year - and in some cases, because of the previous year, six per cent - and you end up with two per cent inflation, you end up with three to four per cent real growth in income. Let me explain this to you... if you had wages at four per cent and inflation at four per cent your real income growth is zero. But, if you've got wages at four per cent and inflation at two per cent or inflation at one per cent or inflation at nearly zero - which is what we had for most of the last year - you've got a four per cent real increase in income. Couple that with the reduced interest rates over the last three years for housing, we had a huge increase in real income, for households. And, that has now reflected itself in a big splurge in spending.

J: So what you're saying is they've got to pull back a bit?

PK: Pull back a bit..

J: Through interest rates or tax rises?

PK: Whatever it is, but it pulls it back a bit. But, what is the purpose in pulling it back? The good purpose in pulling it back is to sustain it right through the nineties.

J: The bottom line, I could use a tabloid way of putting it, you're going to have to take a little bit of money out of people's pockets for the longer term benefit?

PK: Well, after having put a fair bit in. That's the point. Where did the income growth over the past couple of years come from? It came from a tremendous result in inflation which meant that the wages growth ended up being real wages growth. It wasn't eaten away by inflation. The second thing is it came from reduced interest rates and it came from the tax cuts of 1993. If you put the three of those things together you've got a lot of income. Now, the government has given a lot of additional income to the community in the last three years. What is happening now, to sustain this growth and employment growth and security some of that is coming back.

J: It is a hard message to put to people though, to say, look, your income has got to be pared back a bit.

- PK: But, how would they like to be living in Europe where the rates of growth are one and a half per cent, not five and a half; where there is not three per cent or three and a half per cent employment growth but three quarters of a per cent; where their job has the sword of Damocles hanging over it, perpetually? How would people like that alternative? And, by the way, that's the sort of alternative that the Liberal Party have got... Low growth, jack up the interest rates, hold down the growth, don't have a wages policy, don't talk to the unions... Labour market reform, cutting real wages, that's the alternative.
- J: The foreign debt though, \$180 billion dollars, we've got \$26 billion coming up in the next financial year, are we ever going to be able to even stabilise it, let alone?
- PK: There is only one way for us to get out of our foreign debt, that is, invest our way out by increasing the capital stock - that's plant and equipment, productive capacity - and saving more. But, why are Australian private savings relatively low? Why does the government have to increase the Budget surplus? The answer is, to make up for the paucity of private savings. And why are private savings low? Because two decades of double digit inflation taught people not to leave their money in the bank. And, John Howard who has now been anointed as the new Liberal leader is responsible for nearly one decade of that high inflation.
- J: But, you've been there for nearly 13 years...
- PK: Oh yes, but have a look at the inflation rate, it's two per cent.
- J: And, what about the savings, though, we've got foreign debt at \$180 billion dollars?
- PK: The thing is, we broke the back of inflation in 1989-90 after five or six years of wrestling with it and you can't say to a community of 18 million people, "Look all of your lifetime experience is that if you put your money in the bank it will go down in value - particularly in after tax terms - we've had, now, three years of really good inflation performance so change your saving habits". People take a while to change.
- J: So, when is it going to happen, when are we going to see the change in saving habits?
- PK: I think you will see it. You can see it now, you've got real income growth, you've got modest wage growth and you've got that becoming real wage growth because of low inflation.

J: OK, can I turn to Mr Howard and can I put it to you that there is no one who you would less like to hand over the Prime Ministership to than John Howard?

PK: Well, I spent ten years of my life cleaning up after him, ten years of cleaning up his mess. He left me as Treasurer and as Prime Minister, an industrial graveyard - closed factories, ten per cent unemployment, eleven per cent inflation, smashed profits, low employment. That was the legacy of John Howard.

J: If he was here, he'd hit back with your recession.

PK: No, no, let me just say about, if you put my recession, for a start, we are out of it and growing firmly. John Howard never had, at any time he was in government, growth at five and a half per cent and two per cent inflation. Never. Not ever. The best he could ever do was about two and a half per cent growth and ten per cent inflation. So, he was a weak Treasurer, and as Leader of the Opposition, when he got down to that 13% bottom approval rating he demonstrated - in losing the 1987 election - that he was a weak leader. Now, whatever you think about this country, it has changed completely as a result of this Government's tenure of office - this is an outward looking, confident, engaged, international, low inflation, high productivity competitive economy. What John Howard left behind was an inward looking, tariff enclosed, regulated, high unemployment, high inflation country.

J: But, you know that many of the policies that you undertook as Treasurer, he would have undertaken as Treasurer if he had still been there?

PM: Look, he couldn't beat time in the Cabinet room. John Hewson wrote those stories - this little myth goes around. This is a bloke who was Treasurer for 5 years, and who....let me give you an example, last night he said this on the 7.30 Report, about the republic, he said, "If you want to know how I would vote in 5 years time, ask me in 5 years time. If I can be persuaded, and the Australian community be persuaded that a republic would benefit Australia, that is something that deserves support". In other words, if muggins - me - if Keating gets out there and really leads and convinces me and the Australian community that we should be a republic, then maybe I will support it. Just like, if Keating floats the dollar, de-regulates the financial markets, knocks over the tariff wall, makes the leap into Asia, introduces best practice, lifts the participation rate in schools, then I might support him. I mean, this Government has done all the hard work, and if the public of this country want to continue the great change of Australia, well, they keep to the authors of the policy.

J: If you look at John Howard's record, that was 13 years ago - you would have to acknowledge.....

- PM: He left the leadership in 1989.
- J: You would have to acknowledge though, that he has been the driving force behind many of the changes to industrial relations in Australia?
- PM: And, what is his policy? What is his policy on Industrial Relations? What is his policy?
- J: A lot of his policies of 10 years ago are now adopted by your Government....
- PM: No, they're not. When he talks about wage flexibility, he is talking about cutting the wages of people under \$35,000. That is what it means. It is code for cutting the wages of the low paid and middle paid people. That is what it means. And, I will just remind you of what President Bill Clinton said in his State of the Union Address in the American Congress about a week ago - he said "There is an army of American working poor who haven't had a real wage increase in 17 years" - now, I just told you that in this country people have had a 4% real wage increase over the last year - that is (in America) because of the sort of policy that John Howard believes in, no adequate safety net, and you take the contract and go home, or you go home empty handed.
- J: And, yet, he said yesterday he believes in a safety-net, he outlines his policies....
- PM: He has opposed every wage increase since 1983. All those increases which came through the centralised wage system - he opposed. He says he believes in families, but he doesn't believe in family support. He doesn't believe in help for the unemployed - they thought the money that we spent in Working Nation on getting the unemployed....when I said that we won't leave the unemployed behind, we dragged them up behind us, we would include them in this huge growth and employment, when I introduced last year the Working Nation White Paper and Statement, the Liberal Party said it was an extravagance - we were spending money.
- J: But, isn't there a danger for you in looking at his past record, talking about what he has done in the past, instead of joining the battle now in the....
- PM: ....(inaudible)...but you asked me - John Howard is a known quantity. The Liberal Party - he is their 3rd preference. They had a chance, in this Parliament, to say "Look, John Hewson lost the election, so we will take John Howard back", and they said "no, no - we're not having Howard", so they gave it to Hewson. He fell over, and they said, "Well, Hewson has gone - maybe we should have Howard?", and they said,



"No, no - we are not having Howard, we're having Downer". As the Liberal Party's third choice - they want it to be the country's first choice....

J: But, are you going to sit here with a straight face, and look at me now, and tell me that you find Alexander Downer a more potent opponent than John Howard? John Howard is surely a more difficult opponent for you than Alexander Downer?

PM: Don't ask me what I think - why did the Liberal Party pass over him 3 times? I just say this to people: All this stuff about colour pictures of everyone in harmony on the front, this is the guy that said a couple of weeks ago he'd pole-axe his leader right at the last minute, he said you swear support for the leader and when he's dead you tell him you pole-axed him. I mean he did this to Downer...

J: But that doesn't that make him a more dangerous opponent...

PM: How long ago was it they brought us the dream team? Downer and Costello. The dream team. And before that the Messiah, Dr Hewson. You can't take that sort of media pab in, seriously.

J: I'm not asking the media, I'm asking one of the most experienced politicians in the country...

PM: I'm telling you...

J: Who's the tougher opponent out of Downer and Howard?

PM: John, I take them as they come. You see, remember all this debate about early elections? All this last year, ... Keating's going to have an early election. Keating was never having an early election.

J: All this tricky stuff he's going to slip in while Downer's in trouble.

PM: The public deserve an even break to make good judgements at elections and I didn't do anything tricky so I take them without manipulation, I take them as they come. Hewson, Downer, Howard... the media are now feeling a bit poorly about themselves because they thought they were a bit hard on Alex, has decided now they will give John a free ride. All leaders get a free ride for a while, but the thing about John Howard, he's a known quantity, and what we know is he was a weak Treasurer, he couldn't get anything through his Cabinet, he left us with a moribund inward-looking economy and he was a weak leader who lost an election and ended up at thirteen per cent.

J: This is the final question. He says he's made mistakes, you've made mistakes, he's prepared to admit his.

PM: I've admitted heaps of them, I've admitted to many mistakes.

J: Could we have a couple of them?

PM: Well, one was we tightened up too hard in 1988/89, I've said that plenty of times. But you see, John Howard wants the epitaph of "Honest John" yet he will always use a distortion every day of the week to suit himself.

J: We go back to '88/89, people said you tightened up too hard because you left tightening up too late. Isn't the concern now that you've done exactly the same thing...

PM: I think the charge against us at the moment has been we've tightened up too early but I think the numbers today reveal that that's not right. We've just about got this, I think, reasonably right. I mean the criticism last year was that the interest rate adjustments were too early. But I think if you look at today's forecasts, I think we've got them pretty right.

J: All right. Paul Keating, we've run out of time, thank you.

PM: Thank you John.

ends.