



PRIME MINISTER

TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING MP
INTERVIEW WITH JOHN LAWS, RADIO 2UE, SYDNEY, 10 MAY 1995

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JL: Prime Minister, good morning and welcome.

PM: Thank you, John, good to be here.

JL: Are you happy with the response to the Budget?

PM: Well, I think we've had a round of editorials as good as I can remember for a while and I think that's because that the key aim of the Budget was to keep the growth we've had for the last three years going and I think it becomes apparent to any reader of it that the rate of growth we've got now is sustainable, it's slowed as we wanted it to, it's sustainable, we've got low inflation, we've got the Budget back into surplus and we've got a major change in there on superannuation and long term savings and retirement incomes.

JL: Well, maybe you've been looking at different editorials. I've looked at a couple and some of them are reasonably scathing, I suppose, would be a way to describe them. Geoff Kitney in the *Sydney Morning Herald* says, let me quote it, "If Mr Keating gets away with this, he'll have pulled off one of the greatest political escape acts".

PM: Yes, but that's not editorial, that's a comment from a journalist. Well, but I think he in his article also pays credit for the change here. I mean, what we've gone is from a Budget deficit last year of \$12.9 billion to a surplus of \$700 million. Next year we'll have surplus there without reliance on any one-off effects, that's a recurrent surplus, and the following year we end up with a surplus - next year we end up with a surplus of \$3.4 billion, the following year \$4.5 billion. Now, what that means, John, is this - it means that the public sector of Australia is not out there bidding for Australian savings. Therefore we are not putting pressure on overseas savings in the current account deficit. That's the linkage. In other words, if the Commonwealth Government isn't out

there in deficit bidding for Australian savings, we are not therefore putting pressure on to bid for foreign savings through the current account deficit.

JL: But when Ralph Willis announced a surplus last night, you could hear an audible intake of breath - not just from the Parliamentary chamber, but from around the nation. The best prediction has been for a deficit of what, \$2-3 billion, I think?

PM: Yes, and without the - I mean, what you've got here is basically, we want to make the point that the Budget was in surplus virtually forthwith. That is, we are not out there bidding for savings right now because we think while we've got a medium term focus on the current account and our national debt and we've got the remedy in there on the Budget change and superannuation to meet it in the medium term. We also want to do it quickly.

JL: The surplus is brought about really, I mean, if you look at the fine print, to achieve this you've flogged off the family silver as they say, in particular selling the Commonwealth Bank. Without the asset sales, what would the deficit have been, because it would have been a deficit?

PM: If you took the Commonwealth Bank out of it, we'd have a deficit of around about probably two and three quarters to three billion dollars, but next year we would have a surplus without any asset sales. So in other words, see, in this Budget...

JL: But you won't have any assets.

PM: Oh yes, oh yes there is.

JL: Well, I mean Qantas...

PM: No, no - we are only putting half the Commonwealth Bank in this year, half next year.

JL: But you've only got half the Commonwealth Bank, first half's gone.

PM: We're putting a quarter, well we're putting half of what we have left in this year and half next year.

JL: Okay, so you've already sold half the Commonwealth Bank, but that means you've got a remaining half...

PM: We've got half to sell worth about \$4.5 billion - we'll put \$2 billion in this year and \$2 billion next year.

JL: Okay, so that last half, in other words the remaining quarter, will then be sold when?

PM: That would be sold in the year 1996-97 Budget.

JL: Well, what happens when they're gone and there's no more assets to flog?

PM: Well, that's what I told you. When they're gone we are still in surplus without them. Next year, in 1996-97, the Commonwealth Budget on a recurrent basis is in surplus without the asset sales.

JL: Is the sale of the Commonwealth Bank anathema to you? It was in 1986 - I think you used an expression, or Bob Hawke did, either one, that Ben Chifley would spin in his grave if he knew that the Commonwealth Bank was going to be....was that you or Bob?

PM: No, I didn't say that. No, the thing is, look, the Commonwealth Bank was always a sort of show flying on one wing. It was the old, essentially the old State Savings Bank of New South Wales which the Commonwealth Bank, then a fledgling bank, took over in the Depression and the preponderance of its assets was in New South Wales. In the late 1980s, it bought the State Savings Bank of Victoria and it was then flying on two wings in the two most populous States. At that point, it turned into a real major institution. We then floated off a quarter of it, we've since floated another quarter off and in an institution which we began with being worth \$3 billion, is now going to be worth \$7 billion and it's working now as a completely commercial bank and there's no policy reason why we should keep it.

JL: Why didn't you sell it in 1986?

PM: Because it wasn't, as I said, it was only flying on one wing - it was essentially, what Europeans call, a post office bank and it's not that today. It's a full commercial bank and therefore we decided to sell it. But, John, leave the Bank to one side because it's already priced and in the market. The shares are in the market and everyone knows what the price of them is.

JL: Well, what about Qantas?

PM: Well, Qantas again - Qantas has a great opportunity to be the premier airline in South East Asia, but it needs capital which the Government can't give it. I mean, we can't take money away from pensions payments to families to put capital into Qantas. So, what we've done is merged Australian Airlines into Qantas and we are now selling the merged airline Qantas and when it goes to the market - when it needs capital for aircraft or for on ground facilities or route expansions

around South East Asia - it will be able to go to the Australian stock market and get the capital.

JL: Okay, well you've talked about selling Qantas before, how many times can you claim a return from the sale of Qantas - is this going to be the last time?

PM: Well, we're not selling things out of cycle - we won't sell them when the stock market is bad, we won't sell them when the profits of the company are low. We wanted to get Qantas' profitability up and time it. You've got to take some advice from the underwriters and we've let that now go into this financial year rather than last financial year. But, the key point, John, is there's a \$3,000 million recurrent change in the Budget. That is, a net \$700 million from cuts in Government spending and \$2.3 billion on the receipt side. So, there's a \$3 billion change in the Budget on a recurrent basis. That's what brings the Budget into surplus next year. So, if I give you this point - the current account deficit problem is about two percentage points of GDP, and that's around \$10 billion. The Budget will change, the Budget balance will change, by 4 per cent of GDP in the next couple of years. That is, from a deficit of around \$2.5 billion to one of surplus of around 1.5 per cent of GDP. So, we've got a fix in there for the current account problem through the Budget. The other fix we've got in there is this enormous change on superannuation. For the first time ever, every Australian working person will have a 15 per cent superannuation contribution coming into their account. That's 9 per cent from the arrangements the Government's already put into place, the Superannuation Guarantee Charge, and last night what we announced is a further 6 per cent - 3 per cent from people themselves and 3 per cent from the *One Nation* tax cuts...

JL: Yes, well that seems to mostly be getting applause. That's where the tax cuts that were L-A-W went?

PM: They're going to go to people's superannuation account and as a consequence, for the first time ever, you're going to - let me just give you the figures because this is the first comprehensive private savings plan...

JL: Okay, don't make the figures too big or too complicated.

PM: No, no, but let's make this point: this is the first Government that's ever given Australia, all Australians, a comprehensive private savings plan or scheme. What this does is, what it will mean is, that every Australian working person will be able to build up for their retirement a level of income which will be roughly double the pension. So, I will give you an example of personal average weekly earnings: a person on average weekly earnings, which is around \$33,000, will end up with a benefit of \$461,000 if they joined the scheme today and were in it for

40 years. Or, if they take it as an annual annuity, it's worth \$30,000 a year to them. So, you take a person on \$33,000, they build up a bank of \$461,000 in today's dollars - today's dollars - and they go out with \$30,000 a year. Now, that could only happen with a big national scheme like this, and let me say this John, it would only come from a Labor Government.

JL: Why didn't you do it before?

PM: We did. We started in the ACTU, and the Government under the Accord Mark V in 1985-86, that was the first 3 per cent. Then we went to 5 per cent, then we went to the Superannuation Guarantee Charge to go to 9 per cent, and now we're adding another 6 per cent - 3 and 3.

JL: Well, as I say, that certainly is...

PM: Can I just add to the point?

JL: Sure.

PM: This is where, I mean, we get all these criticisms from our opponents, but could you imagine the Liberal Party sitting down thinking of an arrangement, talking to the workforce, getting them to agree to put income away to save it and that working from 1985 to 1995 and then under the arrangements to 2000, to come from nothing to 15 per cent for every person in the country. Now, what that will do, not only will it lift their retirement income, but it lifts our national savings. In 1985, we had \$40 billion in super funds. This year, we'll have \$186 billion. In the year 2020, we reckon we'll have \$2,000 billion - \$2 trillion. And you notice in today's *Financial Review* on the front page, it's a \$2tr bonanza. That's the first time I've ever seen that expression on an Australian newspaper - tr means trillions - \$2,000 billion. Now, what's our national debt? \$160 billion. So, the Government last night put the seal on a savings scheme that will put for the nation \$2,000 billion compared to a national debt of \$160 billion.

JL: Martin Ferguson, speaking of the ACTU, said it was a tough Budget - a bit better than saying it wasn't his job to defend the indefensible which he said a couple of years ago - but, tough. Where's the pain for Martin Ferguson in there?

PM: Well, it's a Budget which, there's cuts in Government spending...

JL: Not too many.

PM: Well, yes, they're there...

JL: By .6 of a per cent...?

PM: No, the Budget is around about, outlays are I think about \$120 billion...

JL: And you've cut it by \$700 million.

PM: And we've cut it by, we cut it in gross terms by \$1,500 million this year, \$2,800 million next year, \$2,000 million the year after and just on \$2,000 million the year after that. But with the various new policy, that's new policy and unavoidable new policy, the net change this year is \$700 million. In other words, we've saved \$1,500 million gross, the net saving is \$700 million.

JL: Yes, it must seem strange to people, and maybe Martin Ferguson meant it was tough when he sees things, not that he minds the left wing too much, but when he sees things like a quarter of a billion dollars suddenly being found for Brian Howe's pet project, this Better Cities program. I mean, if you were really being tough, programs like that would have gone under the razor, they wouldn't be getting extra funding?

PM: No, that's not right, John. Look, let's take one of the projects it's doing. The railway, we are funding in part the railway from Brisbane to Robina on the Gold Coast. This is the fastest growing area of Australia. It's an area of enormous development of sub-divisions, there's enormous traffic build-up and blockages and that whole Gold Coast area, that whole Gold Coast corridor is a real problem for Brisbane.

JL: Yes, but isn't that a Queensland problem?

PM: Queensland is not going to be able to afford to do it by itself. So, we are doing that. We're doing similar things - I opened the interchange recently in Melbourne at Maribyrnong which is giving a rail and bus interchange for the new rail service out beyond Dandenong, and without the Commonwealth money it just wouldn't happen. So, in other words, there are parts of the country in, if you like, in public infrastructure where the State and the municipal governments can't afford it. I mean, but the key point is this, John, Australia's spending, Australia's government spending is the second lowest in the world. Now, I've got the table here in front of me - let me tell you what it is.

JL: How do we manage to have the second lowest in the world when we have far more politicians per head of population than any other country?

PM: Well, let me politicians....

JL: Well, it's pretty important to us, we're paying.

PM: Yes, I know, but it's a major diversion, Let me just say this, look, the United States has got 33.6 per cent of its GDP in Government spending - all sectors. Australia has 35.7 per cent. Now let me go down the others: Germany 48.9; France 55; Italy 56; UK 43; Canada 48; Austria 52 et cetera and it rises up to 56 per cent. Australia is at, this is the Commonwealth and the States, is at 35 per cent of GDP. In other words, and the Commonwealth is at 24 per cent. So John, we're delivering an efficient, effective public sector including great schemes like Medicare, for 24 per cent of the nation's output.

JL: Well, imagine what we could do if we didn't have all those unnecessary politicians?

PM: But, the thing is this, you can't in a country like this, you can't have roads, rail, health services of this quality, at less than 24 per cent. All these people, you'll have John Howard on the program later, he'll tell you, "oh we haven't cut Government spending". But the thing is every time you say to these characters, "well do you want to cut into pensions? Do you want to cut into payments to families?" Because that's what you have to do to go any lower than this. So, what the Government did was a tough, reappraisal of the spending over 10 weeks, a 10 week meeting of the Expenditure Review Committee, and as a consequence of all that, we have changed the Budget balance on a recurrent basis by \$3,000 million. And we've done it, I think, fairly and while we've done that we've at the same time developed within the Budget that wonderful change on superannuation, you know, which, I mean, countries just don't get breaks like this. There are not many national governments around the world setting up for their community anything like a 15 per cent contribution to private savings.

JL: Would it not have been possible to cut Government spending more?

PM: No, I don't believe so and Ralph Willis very eloquently, I think, took his critics on in the Budget lock-up yesterday for those people to say we ought to cut Government spending. We've got Government spending back at where it was before the Whitlam Government came to office in 1972. Now, you know, we've had 1.3 per cent population growth on average, we've had an enormous change in participation in schools. I mean three kids in ten were completely secondary school in the early 1980s - it's now nearly nine in ten. We've got this massive throughput into universities, into TAFE. We've got the major sophistication over 20 years in the health scheme and we're still delivering Commonwealth Government spending at around those early 1970s levels.

JL: Yes, I know you're not terribly interested in discussing the number of politicians we have in the country because you see it as not being important, but when you talk about our good record which is, according to the figures you've given me, a terrific record, the amount that we are able to do with the spending that we make, the Government spending

we make, imagine what we could do if we didn't have the excessive number of politicians that we've got who must have bureaucracies...

PM: But that's not a Budget debate, John, that's a debate about the States and the Federation and everything else, and I've only got 40 minutes with you so I want to keep it - can I make this point to you: what the Treasury said last night was this, it said the economy is now growing at a sustainable rate and it is expected to remain in a growth phase over the forward estimates period - that's three years. Now, we've had 3 and a half years of growth since the recession, the Treasury is now saying we've got 3 more years coming up. That gives the lie to John Howard's cynical opportunist line that there were five minutes of sunshine. I mean, what does he say now when we've had 4.5 per cent growth for this last year and we've got 3.75 per cent coming up and the Treasury is forecasting three more future years of low inflationary growth. I mean, that's what the Government was re-elected for in 1993, to keep growth going and to keep employment going. What we've done is make that growth sustainable and that's turning up here in the forecasts. We've adjusted the Budget to keep it going, to keep the pressure off interest rates so we don't need to grab the monetary lever.

JL: Can you think of a Budget in the last ten years that's been brought down by you or your Government or somebody else that hasn't been applauded the way that you people applaud your own Budgets? That hasn't been coloured to be the perfect solution to the problems of Australia the day after the Budget's been...

PM: But I don't think they're perfect, but they work. Look, let me just say this, here's Mr Fischer, the Leader of the National Party, last year - there's his last year's press statement, I'll leave it with you - it said, "The Government won't get it's 4.5 per cent growth if it doesn't get it's forecast 14.5 per cent growth in business investment." What was the outcome for the year? 4.75 per cent growth and investment was 25 per cent, not 14 per cent. He said, "and no-one, including Treasury, believes that investment growth number", - we nearly doubled the number.

JL: Yes, but that's what I'm saying. All the Budgets that you've been associated with, all the Budgets that have been brought down, have been going to be the solution to the problems that the country has, that people still believe that the country has problems. So what's going to be different about this one?

PM: Well, John, we've been growing, we've been having this sort of unreality debate, you know, that the country's got troubles. Well, it's been growing at 4-5 per cent with 2 per cent inflation.

JL: Why do people perceive it has troubles?

PM: Well, just record this fact. It's been growing at 4-5 per cent - when Europe is growing at 1 per cent - with 2 per cent inflation and 4 per cent employment growth. I mean, that's the sort of trouble that about another 100 countries out there would like to have. I mean, that's the sort of benefits that have come from the Government's policies over the last couple of years. I mean, we've never been in a position of that sort of growth with low inflation since the middle 1960s.

JL: Yes, I'm aware of this. But the question I put to you is why do people perceive, because I hear it constantly, that this country has problems? Why is it all doom and gloom?

PM: Well, I don't think it is all doom and gloom, but they saw the monetary adjustments, the interest rate adjustments last year and they thought, hello, here goes again, but in fact, what was happening was we were slowing the growth down - not killing it off - slowing it down. That's what the Budget forecast and the out-turn for the year, I think, establishes that we have successfully slowed it down. And the doom merchants, I mean, take John Howard - he's been running around now, I mean, cynically, opportunistically saying, "oh look we've had five minutes of sunshine." In fact, we've had three years of growth at about four times the rate of Europe. Japan is growing at half a percentage point. We're growing at around 4 percentage points, four times as much, well nearly four times as much, and the Treasury is telling us we're going to be growing now on a sustainable basis for three more years. So, I mean, when you've got characters like Howard wandering around saying, oh look don't worry, the sky's falling in, the sky's falling in - doing this Chicken Little number all around the country.

JL: But why do people believe it?

PM: Well, I don't think they do, John. I don't think they do, I mean, the culture of criticism in the media today has become of, sort of, epidemic proportions. I mean, nobody is prepared - that's why I think that programs like this are valuable because people can actually hear what the policy-makers are saying, what the institutions like the Treasury or the Reserve Bank are saying and they can make their own judgement. They can hear what the unions have to say, they can hear what business have to say - better they hear that than these noisy, voluble, opinionated comment pieces from people in the media.

JL: Now, tell me...

PM: Because they're a dime a dozen.

JL: Do you people hear them, however?

- PM: Do I hear the people? That's all I listen for. I mean, one has got to listen through the screen of comment, the sort of culture of criticism, to listen to what your conscientious Australian person is saying and thinking.
- JL: Are you aware, I understand you're a terribly busy man, but are you aware of what people say generally on program like this, are you aware of what the Australian feeling is?
- PM: Oh yes, because I try and listen to them wherever I'm travelling around and the other thing is, you see, when I go to things people sidle up to you and they say, listen Paul, I'll tell you this - and I always listen, you've got to be a good listener in public life. I always listen because, say over a couple of weeks, I do many functions, I see many people. And each one, you pick up a little bit at each one, and you put it together and you get a fair idea of what public opinion is and what concerns people and what their aspirations are. Now, you know, I can only say this to you John, I mean, this Government is listening all the time and here we are last night, we've been in office 12 going on 13 years, this is a Budget from a Government that could have been in office 12 months. I mean, it's got all the freshness in the world about it.
- JL: It's being called by some an election Budget, but that's not necessarily criticism is it?
- PM: Well, that's a great compliment. I mean, if they want to say they thought the Budget was so good it was an election Budget, though it is a serious Budget, a serious Budget to deal with taking the pressure off interest rates and the current account, if they want to pay us a compliment of saying it's so good it's an election Budget, well I'll take the compliment and thank them for it. But the truth is the Government sat down seriously to relieve the burden of higher interest rates on this country by putting the burden onto the Budget's policy and giving us, filling that savings pothole we've got out there around the late 1990s and the year 2000, and the thing we got for that is the Budget surplus and superannuation.
- JL: Last year's Budget said that the deficit would be about \$18 billion. It turned out to be \$27 billion. They're the sorts of things that I think concern the public. They say, but oh but last year he said it was going to be \$18 billion and it blew out to \$27 billion. What happened there?
- PM: No, that was the current account deficit. Yes, well what happened there was we had the drought which lost us a heap of agricultural revenue and the investment, I already read Mr Fischer's comment, the forecast in the Budget for investment was 14.5 per cent. It turned out to be 25 per cent. Whenever you have a big investment bubble, the investment goods, the producer goods, you know, the digitally

operated machines, mainframe computers, which we do not make here, all come in at once. So, if you look at, a couple of things happening - we've got a big investment bubble and we had the drought. So that threw the current account out. But the main thing is, John, not last year's current account or this, John, the main thing is the trend.

JL: That's right, but it doesn't alter the fact that people are going to leap on to a that the current account deficit is tipped to be

PM: I know, but let's go back, you and I had these discussions in the election campaign of 1993. It's just over two years ago. At that stage unemployment was 10.5 per cent. It was all about employment and jobs. I was elected as head of this Government and this Government was re-elected principally to deal with growth and employment. That is what we have faithfully done. Unemployment is now down to 8.7 per cent from 10.5 per cent and we've got it going to 8 per cent in this Budget. So in the space of three years, we'll have taken unemployment from 10.5 per cent to 8 per cent and falling. And we've done that with a high growth, low inflation economy. You know, it's as if people don't want to hear that these good things are happening. When we introduced *Working Nation* last year, that was to deal with the long term unemployed. Do you know this year, John, we've had 100,000 long term unemployed people - that's people unemployed more than 12 months - 100,000 back to work. I mean that's a fantastic thing for this society.

JL: Yes, I agree and it's difficult to argue with that. Just quickly, the lift in the company tax rate is as you say to cash in on the increasing profitability of Australian companies - but when you drop that company tax rate, that was because you wanted to give the same sort of tax regime for companies here that they could get in Asia. Does this mean you're no longer worried about losing business, moving it offshore to take advantage of lower tax regimes?

PM: Well, I think we worry about these things but again, you can only do it - years ago when I became Treasurer, when John Howard left me the Treasury job, the company rate was 46 per cent. We reduced it to 39 per cent and we gave the shareholders full dividend imputation - that's no double tax on dividends - which the Liberal Party never gave them. Then we reduced the rate from 39 per cent in one go to 33 per cent. This is when John Hewson was campaigning on taking it up from 39 per cent to 42 per cent. In the 1993 election, the Liberal Party's policy, John Howard's policy, Hewson's policy, was to take it from 39 to 42 per cent. We took it from 39 to 33 per cent and we're now putting it back to 36 per cent because the Budget does need more revenue and the big package we gave business in that tax cut plus two investment allowances plus accelerated depreciation cost us \$3 billion a year. Now that the company profit share, the profit share in the economy, is

a record high again, we think it's reasonable that companies should tip some money in. And what are we asking them for? \$300 million this year and \$1,500 million next year.

JL: Okay, but if that...

PM: Which is pretty reasonable.

JL: If that tax increase comes from companies, what's in this Budget for jobs? I mean, the revenue is coming from companies so obviously they're not going to be in the position to employ perhaps as many as they could have been.

PM: Oh no, I mean, all those changes are taken into account when we make the forecast. The forecast we have, the Treasury forecast for 1995-96, is for 3 per cent employment growth.

JL: Yes, now, a lot of parts of the forecast last year were terrific but there were a lot of parts of the forecast last year and the year before that weren't too terrific, so...

PM: Not many, not many. I mean, the only thing that went astray on us is the current account deficit. The rest of it, in fact, we did better than the forecast. We did much better on growth, we did better on inflation.

JL: We did too well then in some areas and had to increase interest rates.

PM: Well, I mean, better too well than not good enough. I mean...

JL: Tell the people who are paying the mortgages.

PM: Yes, but I mean, also understand this, John, this was when we had interest rates down to, we had mortgage rates down to 8 per cent. They had an enormous increase in disposable income when mortgages went from 15 per cent down to 8 per cent. They've gone from 8 up to 10 per cent. I mean, and the job now is to stabilise that.

JL: Do you believe that....

PM: And do you know this, in the last week you've seen two banks reducing their fixed housing mortgage rates - the National Australia Bank and I think Westpac - have reduced their fixed housing interest rates. So I think there's a very good trend, there's some very good signs there.

JL: Why the increased tax on building materials?

PM: Simply because the tax base has been declining on us. You see, when we, let me explain this, for very good policy reasons, the Government has taken down the tariff wall. But the tariff wall was

expressed in Customs Duty which you paid on imports. That's now costing the Budget, that policy change which is a tremendous change, it's completely changed the nature of Australian industry for the better, but that policy change is costing the Budget this year \$6 billion and every year \$6 billion. The company tax changes I mentioned to you cost us \$3 billion a year. So just those two things have cost us \$9 billion. We've got to get some of it back somewhere. So what we've done is put what I think is a sensible expansion into the Wholesale Sales Tax base into some hardware and building products.

JL: But why building products? I would have thought that...

PM: Because most other things, most other electrical goods and whitegoods and those things, are covered. But it covers things like nails and taps and...

JL: Yes, it's going to increase the cost of a house.

PM: Yes, I know, but it's not on bricks, it's not on concrete, it's not on tiles, it's not on timber, it's not on the basic building, it's just on the bits and pieces that go into it.

JL: Okay, well I appreciate your time very much. Maybe somebody in your office could list off some goodies for us about Australia that we could offer. I mean, I hear you deliver these figures and I know that the figures that you're delivering are accurate and they are also interesting - maybe it would be an idea if we reminded people every now and again, and surely the Opposition would agree to the odd reminder every now and again, that there are areas that Australia in fact leads the world and we should perhaps have a better opinion of our own country.

PM: Well, we are, John. You know I was in Germany recently and I met the Premier of Lower Saxony and that's in Hanover. And in Hanover, near Hanover is the city of Wolfsburg which is the basis of the Volkswagon plant, the Volkswagon city of Germany, and he said to me, you know Mr Keating, he said, we've got great community spirit here, he said, we've all agreed to work a four day week because we've got to put people off at Wolfsburg to get the productivity up. And I said, but why aren't they getting other jobs? He said, because there isn't enough employment. They have three quarters of 1 per cent employment growth in Germany, in that part of Germany.

JL: Three quarters of 1 per cent?

PM: And you know what we had last year? 4 percentage points. In other words, we had five or six times as much employment as that country. Now, how would I be talking on your radio program saying well, John, I'll tell you what we want people to do, we want everyone to work a four

day week. I mean, many Australians should understand that the Australian economy has been one of the best performing in the world in the last three years with high growth and low inflation and high employment. And when you get around Europe and you look at 30 per cent youth unemployment in France, long term, massive long term unemployment, declining rates of economic and employment growth and see what this Labor Government has since we introduced the *One Nation* statement in 1992 to kick start the economy, and got ourselves re-elected in 1993 with complete fidelity to reduce unemployment and lift growth and now to put in a long term savings plan for the country forever, that's the sort of policies you get from a Government that's listening and thinking.

JL: You say that payments to the States will be rationalised - does that mean cut?

PM: No, it just means that we have these disparate indexes for how we pay what is called Specific Purpose Payments and the Commonwealth-owned payments.

JL: Are they going to get more or less?

PM: No, they are going to be less and they are going to be less because some of the indexes - for instance, the CPI, when we pay, a lot of these programs are simply, the costs are simply labour costs, the labour costs elements of them are much lower real costs to the States and to the Commonwealth than say a CPI adjustment which will have in it fresh fruit and vegetables, mortgage interest rates - all the things that don't apply to States or Commonwealth delivery of programs. So, in other words, we've put indexes in there which are better tailored for the sort of programs that we actually spend.

JL: Would you think that the State Premiers are going to have to do something about their own tax levels?

PM: Oh no, I think the States, we're running into a very good cycle at the moment. I notice that Victoria has got it's Budget back into surplus, Queensland is into surplus, Bob Carr, I'm sure, will grab hold of the New South Wales' budget. As I said to you before, John, when I read you those numbers earlier, that was for the whole of the nation's public sector, the Commonwealth Government and all of the States and Territories and we are the second lowest spending country in the world - that's all of us together. So, I mean, I think the happy news out of last night and the round of State Budgets is that Australia's public fiscal position is now going to be in surplus and this is a great thing for the country at this stage of the cycle.

JL: Okay, Prime Minister, again thank you very much for your time. Good to see, I'm sure you're in great demand today.

PM: Thank you, John, I appreciate the opportunity and the opportunity, can I say, particularly to talk directly to people and not have it sort of filtered, cut, you know, shredded to opinion...

JL: Well, it will be by the time it gets on television tonight.

PM: You know, by the sort of sub-editors and the rest. The fact of the matter is, on your program, as you say, dial-in democracy...

JL: You like that, don't you?

PM: I like that line, dial-in democracy, it's also dial-out conversation about the things that really matter. And I hope your listeners have found it valuable as I have. Thanks John.

JL: Okay, let's see if we can organise for you to come in in the not too distant future and perhaps take some of these calls from some of these listeners and speak directly to them. Is that possible?

PM: Glad to do it.

JL: Okay, well we will talk about that in the not too distant future. Prime Minister of Australia, Paul Keating.

PM: Thank you.

Ends