From: jeffrey epstein [jeevacation@gmail.com]
Sent: 10/28/2011 4:32:02 PM
To: Katherine Keating [redacted]
Subject: Re: Keating Interview

Importance: High

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Sorry for all the typos .Sent from my iPhone

On Oct 28, 2011, at 12:36 AM, Katherine Keating <[redacted]> wrote:

Paul Keating explains as never before

- BY:PAUL KELLY, EDITOR-AT-LARGE
- **From:The Australian**
- October 22, 2011 12:00AM

http://www.theaustralian.com.au/news/features/paul-keating-explains-as-never-before/story-e6frg6z6-1226173493029&ct=ga&cad=CAcQAhgAIAAoATAAOABAkPKI9QRlAVAAWABiBWVuLVVT&cd=JW8oAOivUQM&usg=AFQjCNHd0mUbAjc-2liiig3_exEbZmRt2w

WITH his panoramic view of world affairs sharper than ever, Paul Keating blames the current global crisis on blunders by European and US leaders and warns that Australia must rediscover the keys to national success.

Interviewed in his Sydney office, furnished in a style he calls "the last gasp of revolutionary classicism", Keating's new 600-plus page book sits atop his desk, an insight into his intellectual, aesthetic and political obsessions.

What has Keating been doing since he left office in 1996? He has been travelling, speaking and analysing the world and Australia with undiminished intensity suggesting a man operating as prime minister-in-exile.

His idea of leadership is more philosophical than ever, more distant from Bob Hawke or John Howard. His focus is the synthesis between beauty and reason and his book encompasses China's currency, the world malaise, Mahler's Symphony No2 and breaking the republic with the Queen.

DURING THE INTERVIEW KEATING TALKS, AS NEVER BEFORE, ABOUT HIS LEADERSHIP CONCEPT. BUT HE IS DOING SOMETHING ELSE: EXPLAINING HIMSELF TO A STILL PUZZLED NATION.RECOMMENDED COVERAGE

Creativity is central to our endeavours

"The great changes in civilisation and society have been wrought by deeply held beliefs and passion rather than by a process of rational deduction," Keating tells me. In retirement, his political inspiration comes from music and beauty, not opinion polls.

There are signs he has mellowed. While ruthless with his judgments Keating is keen to support a struggling Labor Party while addressing the source of its strategic demise.

"The failure of the Rudd and Gillard administrations is the lack of an over-arching story, the lack of a compelling story," he says when interviewed last week.

"I'm happy that Labor took us through this dreadful financial crisis so competently. But they are not in the business of teaching. And governments, to succeed with change, must be in the business of educating the community.

"Our Labor governments have failed to conceptualise the changes. We need a framework.

"What is the framework? It is 'Australia in Transition' strategically and economically. That's the story we have to present.

"I think the Australian people are very conscientious. During the 1980s and 1990s we proved they will respond conscientiously to necessary reforms. They mightn't like them but they'll accept them. But reforms have to be presented in a digestible format.

"I know that in the age of the internet, opinion and perpetual static it is difficult to get the message over. I accept that. But the big messages have their own momentum. If we get the story of transition right then other things will find their place.

"Our problem is what I call shooting-star policies. We have a policy on carbon pricing, on minerals, on boatpeople, but they are not connected up to the big picture about Australia's direction and its transition."

Pressed on whether he thinks the Australian Labor Party is in permanent decline, Keating defends Labor, insists it doesn't have to decline but highlights the problem. "Labor must recognise what it has created," he says, invoking the Hawke-Keating era. "It has a created a new society and it has to be the party of the new society.

"It can't be the party of part of the old society. Labor must be the party of those people who gained from the pro-market growth economy that we created. Labor must be open to the influences of this middle class, to people on higher incomes. And I don't think it is."

It is, perhaps, the clearest statement of Labor's problem. The party, in an act of strategic folly, abandoned the path of its previous success. It turned inwards on itself, away from the community.

"At the operating level it's become the party of insiders," Keating says. "The problem is that members get too caught up in the gift of faction managers and they get caught up in the false construct of popularity, the false god."

Fixated by the nature of political leadership, Keating's book After Words shouts out: "The great curse of modern political life is incrementalism."

Leaning across the table he says to me that briefing notes and economic texts aren't enough: the leader must locate his own source of higher command and inner belief. He laments the efforts of US President Barak Obama and German Chancellor Angela Merkel in the teeth of contemporary challenges.

"There is nothing preordained about American decline any more than the European project is destined to fail," he writes.

"But the portents are not good. Despite the rhetoric, President Obama conducts himself as an arbitrator or mediator between the competing strands of American economic and political ideology. He repeatedly eschews striking out, snatching the naked flame and hanging on. But the cost of this strategy is not simply a cost to him; it is a cost to the whole world.

"On the other hand, Chancellor Merkel is the archetypal worry-wart. She does not lead; she assesses.

"You really wonder why leaders want these jobs when they really do not want to lead. And what is their risk? That Barack Obama will not get a second term? Or that Angela Merkel's coalition might finally end up on the rocks? If they actually made the leap they might astound themselves. Because, in the end, everyone in political life gets carried out - the only relevant question is whether the pallbearers will be crying."

For Keating, the 20th-century leader exerting most influence on the coming century is China's Deng Xiaoping.

"If you look at the other figures of the century, Roosevelt, Churchill, Stalin and Mao, none will leave the legacy in terms of the 21st century that Deng leaves," he says. "He walked away from the ideology of the Communist Party just as effectively as Mikhail Gorbachev walked away from the essence of the Soviet Union."

By 2050 Keating sees a world order with nations in terms of gross domestic product in this hierarchy: (1) China, (2) US, (3) India, (4) Japan, (5) Brazil, (6) Russia, (7) Britain, (8) Germany, (9) France and (10) Italy.

The key, however, is that Japan lags a distant fourth behind the top three.

On America, Keating is dismayed by the pivotal change in its outlook after the end of the Cold War. "When the Berlin Wall came down the Americans cried victory and walked off the field," he says.

"Yet the end of the Cold War offered the chance for America to develop a new world order. It didn't know what to do with its victory. This at the moment the US should have begun exploiting the opportunity of establishing a new world order to embrace open regionalism and the inclusion of great states like China, India and the then loitering Russia.

"Well, frankly, the US didn't have the wisdom. It just wanted to celebrate its peace dividend. The two Clinton terms and the two George W. Bush terms, that's four presidential terms, have cost US mightily."

For Keating, the malaise in US politics is the problem. He says: "The most compelling thing I've seen in years is that in the great burst of American productivity between 1990 and 2008, of that massive increment to national income, none of it went to wages. By contrast, in Australia real wages over the same period had risen by 30 per cent." Keating sees this "as the breakdown of America's national compact", the shattering of its prosperity deal. He says American conservatives abandoned the middle ground represented by Republican presidents such as Dwight D. Eisenhower, Richard Nixon and Bush Sr and became radicals. The derailment, he argues, began under Ronald Reagan and reached its zenith under George W. Bush.

With the goodwill gone the US "is not able to produce a medium-term credible fiscal trajectory or get agreement on rebuilding its infrastructure". This paralysis "is significant not just for the US but for the world."

Keating links the collapse of this "prosperity compact" to the financial crisis. Too many Americans were unable to sustain themselves from wages and salaries.

How did they get by? They used the easy credit of the banking system, thereby feeding the frenzy that ended in bad loans and meltdown.

Keating's book has an abiding message for Australia: in the transformed world we "will find ourselves increasingly on our own" having to master our own destiny.

The job is to rediscover the productivity and savings agenda of the 1990s. Why did Australia survive the 2008 financial crisis? "Because of the flexibility of the economy," Keating says. "Flexibility which came from the reform of Australia's financial, product and labour markets that began 25 years ago. This has given us one of the most flexible economies in the world - arguably the most flexible. But further structural changes are ahead of us."

He lists them. It is a mix of the new and old Keating agenda: a shift in resources to the extractive industries; a lift in capital inflow driving a high current account deficit putting a premium on savings; recognition that competitiveness will lie "in the creativity of our people as much as it does in our oil and gas"; a renewed emphasis on the value of hi-tech and education; and above all, a cultural change that integrates Australia more into East Asia. "Cultural transformation is the key for us," Keating says. He rates it as more important than economic reform.

"There is less interest now in being part of East Asia than there was in the 1990s," he laments.

Keating wants this idea revived. And he ties it to the republic arguing that to succeed in Asia we must become a republic, a proposition Howard always dismissed.

On China, Keating is an optimist yet alive to the daunting economic challenge China now confronts. "What is happening in China knows no precedence in world economic history," he says. "Never before have 1.25 billion people dragged themselves from poverty at such a pace. China is now half the GDP of the US and incomes have risen by a factor of 10." He argues, however, that the origin of the 2008 financial crisis lies in the global imbalances - China has built huge foreign exchange reserves by exporting too much and America, in turn, is saving too little.

Keating says: "China must shift the basis of growth from net exports and investment to domestic consumption. Will they achieve this? Probably. Will there be strains along the way? There have to be."

Unlike many Australian leaders, Keating is a Europhile. "I think the European project is the most significant project since the second world war," he says. But he sees two huge blunders made in Europe.

From the euro's inception, Keating said it should constitute only Germany, France and the Benelux nations, not the peripheral countries around the Mediterranean, and "Greece should never have been allowed in".

Why were the weaker economies given entry?

Keating says: "It's because president Mitterrand and the French wanted it. They weren't ready to sit beside the German unified state without some friends."

So the eurozone was flawed from the outset, a structure awaiting internal assault: "The problem is we have a single currency without a political union and without a fiscal union."

The second blunder was the 1990s expansion of NATO to the Russian border. For Keating, this was recklessness for which the world may yet pay.

"Sensible policy would have included a place for Russia in the new world order," he says. "But that didn't happen. So Russian liberals were pushed to one side by Russian nationalists. In a sense the US has created Vladimir Putin."

Who is responsible? He points the finger at Bill Clinton.

On the 2008 financial crisis, he says former US Federal Reserve chief Alan Greenspan must bear "a fair amount of responsibility".

"Greenspan is someone I know and like," Keating says. "But if you are so naive to believe that institutions with a balance sheet with assets geared at 45 to one is not an accident waiting to happen then you don't deserve to be chairman of the Federal Reserve."

He praises Obama for seeking a return to the "liberal internationalism" that, in Keating's view, made the US great in the post-World War II age. This is the US he loves but it is still in retreat.

Asked about the nature of leadership, Keating reveals what lies within his heart: "I believe there is a poetic strand to life that doesn't exist in an economics textbook.

"This is not to say that rationalism isn't important and good. It is. But left to itself without the guidance of higher meaning and a higher concept, rationalism can be mean and incomplete. I say if you simply live on rational policy and briefing notes you are not sufficiently informed.

"You need a higher calling or some inner system of belief - here I mention Kant and the inner command that tells you what is true, what is right, what is good. The inner command must be the divining construct in what you do.

"Music has always been a large part of what makes me tick. You listen to a great work . . . you hear the majesty of these works and your head and soul gets caught up in them. When that happens you are in for bigger things and you will strike out to be better.

"When I was listening to music I would always have the pad out to write the ideas down."