

Interview

Peter Costello and Karl Stefanovic

2GB Drive

7 July 2015

KARL STEFANOVIC:

Mean time the economic crisis in Greece is no closer to finding a sustainable solution after the country soundly rejected the latest international bail-out. In the referendum on Sunday 61 per cent of voters said no to the deal instead opting to send the Government back to creditors and ask for better terms. The real problem of course – Greece has run out of money. The country can't pay back its debts and without being able to pay off its debts no one wants to lend the Greek Government more money. And while I personally can't claim to have any experience running the financial affairs of an entire country I know someone who has. Peter Costello, former Federal Treasurer, joins me on the line. Peter good afternoon.

PETER COSTELLO:

Karl good to be with you.

KARL STEFANOVIC:

Let us start, thank you for being with us, let us start with interest rates on hold today. No surprises there?

PETER COSTELLO:

No surprises. Interest rates in Australia are quite low. That is consistent with an economy which is not growing as fast as trend – as the long term averages would suggest. And so the Bank hasn't moved interest rates today and it will see what will happen. Maybe in the future it will give a bit more stimulus.

KARL STEFANOVIC:

You think maybe around November? They seem to be holding something handy don't they.

PETER COSTELLO:

Well I don't think the next move is going to be up Karl. So we will sit and see what happens in the months to come.

KARL STEFANOVIC:

I found it fascinating your article this morning in News Limited papers. You have been watching all of this unfold with Greece. So how does it even begin to dig itself out of this mess?

PETER COSTELLO:

I think there are two points here Karl. The first is what terms will Greece agree to with its creditors, its lenders. The second is how does it fix its economy? Greece is now in the position where no one will lend to it except the European Union and the European Central Bank. And they have set the terms on which they will lend. Greece says: "we don't like them". Well Greece's problem is it can't go to anyone else. If you and I don't like the interest rates that Westpac is offering us we might go to the National Australia Bank. If Greece doesn't like these terms and conditions there's no one else to go to because no one else is going to lend to them. So it said it doesn't like those terms well whoopee that's great. But the real question now is what terms will it agree to if it's to get any money at all. And the banks as you know aren't paying out the deposits in Greece. You can get 60 Euro a day and even at that rate the banks will probably run out of money in the not too distant

future. So that's the first question. The second question is what are the Greeks going to do to get their economy on a sustainable basis where they can borrow and where they can pay for all of their spending. And to me that's an even bigger question and one of the things they will think about, should be thinking about, of course is dropping out of the Euro altogether. Because that may well be the last chance they have to get competitive.

KARL STEFANOVIC:

So effectively if they go back to the Drachma then hopefully that will lead to more investment because people are buying more when they go into that country investment wise and tourism wise.

PETER COSTELLO:

Well if you went back to the Drachma you could have a very large devaluation which would mean that Greek exports would do better, tourists would flock in, money would come into the country. It's just that nobody has ever dropped out of the Euro before. That's never been done. That would involve quite a lot of technical questions. But you have had countries that have dropped out of currency arrangements before and managed to pick themselves up. Argentina was one of those countries in the 2000s. And I think that's got to be one of the options that Greece looks at. The first will be of course to try and get better terms. But this is the threat they hold over Europe really, if we can't get better terms we may go it alone. And Europe might say at some point, fair enough.

KARL STEFANOVIC:

Pete, it's still in Germany's interest, Germany's interest that Greece is in the Eurozone isn't it? Greece's inclusion keeps the value of the currency down and helps German exporters doesn't it?

PETER COSTELLO:

Yes, the one thing that Greece actually does for Europe by being inside the Euro, is that it keeps the Euro lower than it would otherwise be. Because there is all this uncertainty, because of Greece about the Euro, people are a bit nervous about the Euro, the Euro has sunk in value as a response. That actually helps the strong countries in Europe, particularly Germany, which is the strongest country in Europe. It is the world's largest exporter and by having a lower currency that actually helps Germany's export industry. So people think, quite rightly, oh well here's Germany bailing out Greece again. Germany does get something from it. It gets a lower exchange rate which helps its economy.

KARL STEFANOVIC:

Greece's Finance Minister Yanis Varoufakis, he resigned yesterday as you would know, saying that by leaving he hoped he would help the Prime Minister in the meetings with the other European countries. He spent a lot of time in Australia, what do you make of him and what do you make of his departure?

PETER COSTELLO:

Well I think his departure will help. I think he had been quite inflammatory. And at the end, you know, accusing the Europeans of being terrorists. Let's boil this down here Karl. Here's a country that no one will lend to, that's running out of money. And the only people who are willing to risk lending to it are the Europeans. And the bloke that's trying to borrow the money calls them terrorists. Let's suppose you're in trouble with your bank, you probably wouldn't begin with your Manager by calling him a terrorist would you? I would say, please give us a couple of million or something. Ah, so I think he has been a bit inflammatory. I think if there are some people who can handle the negotiations a bit better, it is in Greece's interest. At the end of the day, they've got to get this money. Their only alternative as I said, to getting this money will be to drop out of the Euro. That will create some real big dislocation short term.

KARL STEFANOVIC:

Given what's happening in Greece, it makes it all important for Australia to pay back it's debt doesn't it?

PETER COSTELLO:

Well, this is the point. You know, Greece sat around, for probably the best part of twenty or thirty years borrowing money. It had no trouble borrowing money. It paid itself wages that it couldn't afford. And you know, borrowing money and living off credit is all very well, and it works all very well right up until the day somebody says to you they won't lend to you any more. And that's when you're in trouble. And this is a point for Australia. We've got no trouble borrowing money in Australia. Our Government is in a much better condition than Greece. But these things they creep up on you. And this is why you should always be careful about debt. The time to worry about debt is when you can pay it back. Because when you can't pay it back it's too late to worry about it then.

KARL STEFANOVIC:

We doing enough?

PETER COSTELLO:

We got to keep working on it. We've got to keep bringing our deficits down. We've got to keep making sure that we're not spending money that we can save. And we got to keep our economy rolling.

KARL STEFANOVIC:

Interesting over the last twenty four hours, economists are indicating with the falling commodity prices and a thirty per cent plunge in the Chinese stock market in the last two weeks. The Chinese economy is weaker than it once was obviously. Any problems with China will obviously impact in a greater way on Australia than the Greece crisis. How worried are you about China?

PETER COSTELLO:

Look, China, you said it, Greece is a country in Europe and it will affect Europe. And Europe will have some effect on Australia. But China is our biggest trading partner. It buys more of our exports than any other country. It sells us more imports than any other country. It's in our region. It's either the biggest or the second biggest economy in the world. You know, if China sneezes, we are going to catch a cold. There's no doubt about that. And China has been a big part of our strength for the last ten years. And now China looks like its cooling. So, this is a very immediate and direct effect in Australia. Chinese authorities have moved over the weekend to try and stabilise stock market prices. And even though they're down a lot in recent weeks, they're still up, well up over the years. So it's something to watch. Let's not get panicked or anything like that. But it is something that we have to watch.

KARL STEFANOVIC:

We're coming up to a quarter to five. You're listening to former Treasurer Peter Costello on 2GB. It's good to talk to him. How may that manifest itself Peter? There will be people driving around Sydney at the moment, at home in Sydney worried about the economy, worried about their future. When you say, go at ease with all of this, what should they be looking out for? What will they see as economy as signs of things perhaps not going great.

PETER COSTELLO:

Well the first thing that will happen as a result of China is your resource stocks will go down as they have - companies like BHP and Rio. That will mean that your superannuation which will be invested in some of that stock will come down. You'll see the dollar come down, which we have seen. So that

if you're thinking of travelling overseas, you probably won't be able to afford it or afford it as much as you used to be able to. If you're buying goods from overseas instead of them falling in price, they'll start going up in price. And that means you'll have to spend a bit more of your income on those sorts of things. And your savings will be a bit slighter than they used to be. And you know, as people are driving around know, if your income or your assets come off and your expenses go up things just get a little bit tighter.

KARL STEFANOVIC:

I'm going to let you go in just a minute, but before you go. Now you made several appearances on the 'Q&A' program. Several memorable appearances if my recollection is correct. Should the Prime Minister have been ordering a boycott by all the frontbenchers?

PETER COSTELLO:

Well, that's up to him. I tell you this one thing, Karl, I used to go on it. I used to quite enjoy it but, you know I haven't been on it for some time. It got very predictable, I thought. You know, same old questions, same old audience, same old predictability. And the only thing I would say to them is that ought to take a leaf out of your book. They ought to get more interesting on that program.

KARL STEFANOVIC:

Now I know you're making stuff up. You should just go on there anyway. Just to mix it up, eh. What are they afraid of that frontbench?

PETER COSTELLO:

Well, you know what you're going to be asked. You get a question about climate change. You get a question about refugees. It's very predictable. They ought to have some new topics I think.

KARL STEFANOVIC:

Always good to talk to you. And might i just say, your young fella Seb Costello, who works for the Nine Network, is doing an incredible job. He's a great tribute to you and your family. He's fantastic.

PETER COSTELLO:

Oh he's my connection with fame these days.

KARL STEFANOVIC:

Always good to talk to you my friend.

PETER COSTELLO:

Good on you Karl. Thanks Karl.

KARL STEFANOVIC:

Peter Costello, former Treasurer. We miss him a little bit don't we. He's a great character and also a great intellect and led this country and the Treasury very well. And probably could have led the country very well as well.