



PRIME MINISTER

TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING, MP
7.30 REPORT WITH PAUL LYNEHAM, CANBERRA
26 FEBRUARY 1992

E&OE PROOF COPY

PL: Well Prime Minister aren't you being too modest, you talk of \$2.3 billion but when you look at the revenue forgone and everything over the full four years it is \$16.6, surely?

PM: It is a cyclical kick to the economy, a stimulus the economy, which then basically is spent over \$2.3 billion over this financial year and next financial year and then tails off, and as the economy picks up as receipts grow, as employment grows, as business grows, as profits grows, as unemployment benefits recipients come off the Budget, as the Budget strengthens we pay tax cuts. And it is a four year program at the end of it we have the Budget back into surplus. We have tax cuts at 30 per cent without Dr Hewson's 15 per cent consumption tax. We have one of the biggest national infrastructure programs in our history, rebuilding the rail system.

PL: Which a few years ago, you were telling us all that we had to realise we were a poor country we couldn't afford all these flash infrastructure projects.

PM: In the '80s when private investment was running very, very strongly, the thing to do was to pull the public sector back, which we did, we produced these large Budget surpluses. But because we did all that hard work, we did what the Americans didn't do for instance, that is pull the big deficit into surplus in the good times. Now with a recession we are able to open them out to provide some of the stimulus that we need, and yet not leave it to lay there in the Budget, to see it wash out and see the Budget come back to surplus.

PL: Well let's separate this discussion a bit in terms of the short term kick-start things and the longer term things. I mean your most immediate thing is that \$317 million to families. Why did you decide a one-off gift like that?

PM: Well, because the infrastructure programs of rail, ports, roads, will start from now, but they will only build up really this year. So for most of this year we won't get a stimulus unless we can find a way of injecting one quickly into the economy. And the best way to inject it, is into people who can use it - families - including of course the unemployed, but all families, and there is particularly a long going program there for low income families. But that stimulus will lift the activity and spending, profile the economy before and during the time when we build the rail and road programs up.

PL: Is it a form of Paul Keating saying I am sorry for the recession?

PM: No, it is a sensible thing to do. But it is spending it on the right people. I mean, if it had of been Dr Hewson he would have thrown it to the top end tax payers, who would have thrown it to the big companies. We have given it to the people who can use it - families, tax payers with children.

PL: Alright, and the family car about \$800 cheaper as of tomorrow?

PM: Yes, I think we have been producing the same number of cars this year as we were twenty years ago. We have got a car fleet, which on average is 17 years old.

PL: Yours isn't too new is it, your old Mercedes?

PM: Well I am part of the same syndrome. So this is to encourage people to buy new cars, to give a fill-up to our biggest manufacturing industry and a change. Make travel safer, make the environment cleaner with lead free cars, and to kick that again, another sector of commerce along.

PL: What do you think it is going to do to car sales? You must have some ideas what it is going to do?

PM: Well obviously, it is a substantial saving, and it is permanent. It is a permanent change to the car industry.

PL: Is it going to produce sales though? Can you be sure of that?

PM: I am pretty sure. When the car industry executives put advice to us about a change in tax rates, that was their certain belief.

PL: Industry assistance and development, that's fairly modest isn't it? I mean \$31 million this year, \$125 million next year.

PM: The biggest industry assistance is the revolution to depreciation rates for business. We are changing the depreciation schedules so that a twenty year asset, can now be written off in seven and a half years, or a forty year asset in fifteen years.

PL: Which encourages me as a factory owner or company director to go out now and buy that new lathe?

PM: Well, you will have the benefit of greater cash flows earlier because of the faster write-off, and it is the major change in the Statement for business. But of course as you say there are many others. I mean, we are going to produce by a tax change, private provision of public infrastructure. We are producing equity development funds for small and medium business that can't get equity, they can get debt, but they can't get equity, they can't get it on the stock market and they can't get it anywhere else. We have got a quite novel concessionary change in the tax system for that, and also for big projects. So, this is a partnership proposition. Government and business, moving forward cooperatively, discursively, cooperatively to produce a recovery and change Australia.

PL: And we end up in '92-'93 with an \$8 billion deficit, in '95-'96 we are suddenly \$2 billion in surplus. How do you perform this?

PM: Because as the economy grows, the receipts are very sensitive to pick up in growth profits and employment. If GDP kicks so do Budget receipts. And we expect GDP to change from zero, that's growth in the economy, to change from zero this year to 4 3/4 next year, and to on-go. So we are running at that sort of rate through the early '90s. Those estimates are put together by the Treasury, the Reserve Bank.

PL: The team that brought us the Budget estimates for the last five years.

PM: Well look in the 1990s we had huge growth, it was all forecast. The Budget is very sensitive to growth. If you get the growth, the revenue ... that's why this is a responsible package, it is a cyclical, it is a cycle to stimulate the economy, which then drops away and the Budget comes back into surplus.

PL: But I mean we look at these forecasts you have got in here going up to '95-'96, I mean surely they are so a wish and a prayer by then that we should take them with an enormous grain of salt?

PM: Well did you take Dr Hewson's with a grain of salt, which were not done by the Treasury, or the Reserve Bank, or the Department of Finance? I mean the fact is it is possible to give a reasonable indication of activity levels that far out.

PL: I wish they had been that good in the last few years, Mr Keating.

PM: Well they were good in the main on growth, but the boom of course of '88-'89 was simply too great.

PL: And wages and inflation? What's the ingredients here?

PM: Well as the Party which broke the back of inflation from 10 per cent for nearly twenty years, to now 1 1/2 per cent, we're not going to be letting that particular genie out of the bottle again. So unlike the Liberal Party, unlike the confrontation of Fightback, unlike the accountancy of the GST switch, we are not going to try to abolish trade unions, we're sitting down and we have a commitment from the trade unions that they won't claim, that their wage claims will be consistent with keeping our inflation rate and our trading partners average.

PL: You got that commitment a few days ago, did you?

PM: I did. And we had it through the '80s.

PL: Is this you on the phone to Bill Kelty?

PM: No, this is a meeting with the Wages Committee, with the whole 40 of them. As it always was, and that's why we have got a 1 1/2 per cent inflation rate. It is worth remembering, Paul, out of the last recession when Mr Howard was Treasurer and Dr Hewson was his adviser, inflation rate was 10 per cent on the way out. On the way out this time it is 1 1/2 per cent. The reason for that is the Accord and the trade unions and we will do it again. But this time part of that sympathetic environment is tax cuts for low to middle income tax payers, that 30 per cent tax rate, as I say without taxing the food you put in your mouth, or the shirt you put on your back, or your dry cleaning or anything else.

PM: You reckon this will win you two elections on the trot?

PL: Well what this will do, this is a policy where we have sat back and said what's best for Australia? Dr Hewson has sat back and said how can I be different to Labor? I will have a consumption tax. That's not what we have done, we have sat back and said what's best for Australia? How can we induce a recovery? How can we look after the Budget? How can we invest in the long term? How can we re-modernise the railroad, the roads, the ports, the airlines, how can we do all these things, and give Australia a long term productive focus? That's what this is about.

PL: Prime Minister thanks very much. I know you have got a lot of other commitments so we will let you go now.

PM: Thank you Paul.

ENDS