



PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING, MP
INTERVIEW WITH JOHN SHOVELAN, ABC 'AM' PROGRAM
18 AUGUST 1993**

E&OE PROOF COPY

JS: Prime Minister, thanks for your valuable time. The President of the ACTU, Martin Ferguson, has said of the Budget, don't ask me to defend the indefensible. Do you think you have got it all wrong?

PM: Well, I can't understand. Are you sure you are not quoting him out of context? You are not talking about one measure, maybe? That is an inexplicable comment to me about a Budget which delivers to his constituency in the area of \$20, 000 to \$50,00 primary tax cuts worth \$3.8 billion in a full year, starting in November, 11 weeks from now.

JS: Well he went on to say that there was elation in the Labor movement on 13 March, but not the same sense after this Budget.

PM: Well that's, I think, a remark he can't defend. This Budget is a sound Budget in economic terms, it is a sound Budget in social terms, it gives expression to all the Government's election commitments on things such as, the home-child care allowance, which is a payment to women with dependent children to women, mainly; the seniors health card; a generalised rebate for child-care; enormous increase in the expansion of our labour market programs to half a million -that's half a million people will be touched, those who are unemployed, under the labour market programs. By which measure would you say this is not something which is Labor to the bootstraps?

JS: Well, I dare say the first thing that people would point to would be the increase in petrol taxes.

PM: The increase in petrol taxes are there, but they are there because the indirect tax base has been falling to pieces over the last few years, with customs duty coming down, with Bass Strait running down, but what's there - let me just make this clear - the tax cuts pay back \$3.8 billion in the full year, this revenue in any of these years when it is fully up and running raised \$3 billion. So, by any measure this Budget is

returning tax revenue, particularly to those people who the ACTU would claim to represent.

JS: Well what about the lowest income earners who will win the \$100 rebate, is that sufficient, do you think, to compensate them fully for the increases in direct taxes and the petrol excise?

PM: It is the equivalent to the tax cut someone would get on \$23, 000.

JS: So they wouldn't be any worse off?

PM: We are taking the \$23,000 tax cut, and we are running it back through those lower deciles. But remember this, John, all through the '80s when I was Treasurer and I negotiated wage - tax agreements with the ACTU, they were always pushed below \$20,000. That was, the tax cuts when I first became Treasurer in 1983, the bottom rate of tax was 30 per cent, it is now 20 per cent. And the tax free threshold was \$4,700, it is now \$5,400. As well as that we have supplementary payments for low paid workers, we had the family allowance supplement, all, in the main, chopping in way under \$20,000. The key to this Budget is, to give the people who have not had that kind of success in Budget rounds in the past. And that is middle Australia, between \$20,000 and \$50, 000. So, what we need to do here was to cover off the kind of tax cut that someone would receive at \$23,000 and spread that down with a rebate under \$23,000, but then provide the tax relief from \$20,500 up to \$50,000. And that is \$8.00 to \$10.00 a week for someone around average weekly earnings.

JS: Well you are going to have to deal with the Democrats to get this Budget through. Now, Cheryl Kernot, last night said that she thought the \$100.00 rebate was totally inadequate for low income earners.

PM: Well, let me just say this. Let's get some perspective on this. This Government has been in office now 10, going on 11, years. In 10 of those 11 years we have focussed most of these tax cuts below average weekly earnings. The Family Allowance Supplement, below average weekly earnings. Most of these supporting measures ... people are not entitled to look at this in terms of one year and anyone who does, it is a commentary on their lack of experience or understanding in what has preceded it in the earlier years.

JS: What about, though, the fact that you ... with the petrol tax, it is the low income earners who drives around in the old car, in the old bomb, they are the ones who can't afford to buy the new car, aren't they getting it through the neck here? Firstly, their car is going to be worth less from tonight, and it is going to cost them an awful lot more at the bowser.

PM: But look, the point is that we have got one of the lowest petrol prices, we are the third lowest petrol price in the world. And even with these increases we will still be the third lowest petrol price in the world, and

we are giving people substantial tax cuts to meet these things. To more than meet them, that's the point.

JS: There's not much difference between what you are giving them, and what you are taking away.

PM: What is paid in tax cuts goes often to a different group of people that are paying some of the other taxes, because business is picking up some of the other taxation.

JS: So you maintain despite the increase in the wholesales tax and petrol excise, that you have kept faith with the electorate?

PM: Absolutely. Because at their full year effects the tax cuts cost \$3.8 billion and the revenue costs \$3 billion, at their full year effects. And on top of that all the Governments election commitments - 100 of them, listed in the booklet which is attached as part of the Budget papers - in the things that I mentioned to you, like the seniors health card, the labour market programs, the home-child care allowance, the generalised child-care rebate, all of these things are fully implemented.

JS: Last night's Budget offers no real relief for the unemployed, does it? I mean, there is no suggestion at all that the unemployment rate is going to come down, in fact it is going to increase slightly in the next year.

PM: It is not going to increase. It is coming off an average unemployment rate of 11 to 10 3/4.

JS: But last week it was 10.7 and now we are looking at 10.75.

PM: That is only a week, though, that is only a month. I mean, we have been looking at 11, 11.4, 11.3 and we have got in here 10 3/4. But we have also got in there further expenditure on labour market programs, which as I said earlier will touch about half a million of those unemployed. That is, give them training and get them back to work, and as well as that we have got the discussion paper we hope leads to a white paper on employment and unemployment to see if we can devise even more novel ways of reaching those people who are long-term unemployed. But the key to employment, John, is growth. We have got a conservative forecast here. The growth for the year to the last quarter was 3.3 per cent. For the coming year we have got 2.75 per cent.

JS: So, you think you will get that easy?

PM: I think we will get that easily.

JS: And does that mean then that the 10 3/4 unemployment rate is higher than ..?

PM: And what it may mean, as that growth picks up, then the prospects for employment will of course be better, but the forecasts are our best estimates, and 10 3/4 is what we have in. But the key to employment is growth, and the economy is now growing and the key point about the tax cuts is that there is an extra \$2 billion stimulus in there to keep there to keep the economy moving. You remember in the 'One Nation' package I introduced in February 1992 - most of that spending has occurred in the last six months. That is now playing a very substantial role in kicking growth along, that is part of that 3.3 we saw last week. You add to that another \$2 billion stimulus from the tax cuts and we hope then the economy will start to really roll and we will start to see the growth. In other words the tax cuts are doing two things - they are giving justice to middle Australia by cutting that middle rate from 38 cents to 34 cents and they are providing a necessary stimulus at the right time to keep economic growth going.

JS: Prime Minister, the hard headed financial markets are likely to be disappointed with the amount of cuts from outlays. Does this Budget show a shift in the Government's thinking, like away from cutting outlays and possibly increasing taxes, are we looking at a change?

PM: If you wash the unemployment benefits out of the outlays - in other words if you take the cyclical component of the outlays and look at this underlying structure, structural outlays - they are at early 1970 levels. Anybody who says we should be cutting our outlays further is an extremist. I say that advisedly, an extremist. This is one of the lowest spending governments in the world and next month, as the Treasurer has said, when the OECD figures are released it will show Australia as the lowest taxed country in the western world - Australia has the lowest rate of revenue to GDP, the lowest taxed country in the western world and our outlays are similar. All these highly paid characters on newspapers who wander around and want to slip into people's pensions and supporting parents benefit and Medicare so that they can argue that we should be cutting outlays back to pre-Whitlam government levels in structural terms are extremist and not to be taken notice of.

JS: Mr Keating, you were one of the people that heard the inflation stick snap first ...

PM: I wasn't one of the first people to hear it, I snapped it. I carried the burden for the recession and the high interest rates. The government, when I was Treasurer, walked off with the accolade of breaking the back of Australian inflation after two decades and that is why we have now got interest rates, overnight cash rates at the Reserve Bank, at 4.75 per cent - the lowest interest rates in twenty years.

JS: Aren't these tax increases going to rebuild that stick though? We are looking at an inflation rate of 3 - 3.5 per cent next year.

- PM: No, but an underlying rate with a two in front of it, that is the key point John.
- JS: But it does not take much to kick Australia off on an inflation binge does it, and never has?
- PM: There has been a lot of asset deflation around. People, I think, have learned their lesson and there is a lot of productivity around protecting the inflation rate. Can I just say as a matter of digression, one of the things in the media we have had over the years, people have said and particularly years ago in the late 1980s, when we had a lot of growth and a lot of employment and I used to say look at the employment - we have 90,000 a month or 105,000, and they would say oh yeah, yeah Treasurer, but tell us about inflation and the current account. Now we are telling them about inflation, it is one of the lowest in the world as a result of this Governments policies - the Accord, the tax cuts, holding wages in the boom and then the natural deflation which has come out of the recession. Remember this: in the 1982-83 recession we had a recession then, we came out of that with inflation at 11 per cent, we are coming out of this recession with inflation at 2-3 per cent.
- JS: When the Business Council says it is worried about the delicate balance of inflation after last night's Budget. Is it that we should be worried?
- PM: Let them start, in the first instance, restraining some executive salaries to show they really mean it.
- JS: Mr Keating, just before I let you go, the National Farmers Federation said that as far as the increases in petrol go that the burden of tax will fall most heavily in regional Australia where there is no lead problem. It is hard to argue against that isn't it?
- PM: Most farm implements are diesel and the off-road rebate for diesel still applies, but for petrol, our petrol price was the third lowest in the world and even with this increase, it will be the third lowest in the world. There is a problem with leaded cars. We haven't replaced leaded cars as rapidly as perhaps we should have. This has been a burden for the motor industry, but it has mostly been a burden for the health of Australians and it is most obvious in places like western Sydney.
- JS: On a number of occasions over the last six months or so you have asked business not to shed any more labour. Are you shedding any labour in the Budget?
- PM: There will be some in the reforms which have taken place in Telecom because of the competition now with Optus over the last few years and in some of the other GBEs.
- JS: But yet you still want private enterprise to ...

PM: Again, it is a matter of a balance in these things. Let me just say one of the commitments which we have adopted since the election is we have cut the company tax rates from 39 per cent to 33 per cent, we have introduced a further investment allowance, in 'One Nation' we had another investment allowance of 10 per cent for projects over \$50 million. In 'One Nation' we had massively accelerated depreciation. Australian business have got these things: a 33 per cent company rate, massively accelerated depreciation, two investment allowances, a profit share as high as the 1960s and going higher and full dividend imputation. You have got to say - what else? Is there any other claim? The business claims of the last forty years have been met for the first time in these last two years in these statistics.

JS: Maybe that takes us back to where we started and maybe that is why Martin Ferguson is saying, I won't defend the indefensible, because business has got ... everything seems to be going in one direction.

PM: No, this has been something we have done over a period of eight or ten years - the business changes. First we took the corporate rate from 49 down to 39 and now to 33 per cent. The ACTU argued for the investment allowances and a rapid acceleration, they argued for those things as well. There is no basis, in equity, why the ACTU would not regard this as a good Budget, it is doing for that group of their constituency between \$20 - 50,000 that which they have asked us to do for some time - that is provide tax relief to cut the 38 rate which chops in at \$20,500 down to 34 per cent.

JS: Just finally Mr Keating, how do you think financial markets are going to see this Budget?

PM: It meets one of the Government's key election commitments, it will take the trajectory of the deficit down to just 1.1 per cent of GDP by 1996-97. There will be no other western government that will do that, I am sure. Most of them will still be by 1996-97 at 2 or 3 per cent or maybe higher. I think you will find by 1996-97, many other OECD countries will have a deficit with a 3 in front of them as a per cent of GDP and we will have a 1. If the markets say this is not good enough, I tell you this John, take no notice of them.

JS: Prime Minister, thanks.

PM: Good John.

ends