



PRIME MINISTER

TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING, M.P. & THE TREASURER, THE HON. R WILLIS, M.P, PARLIAMENT HOUSE - CANBERRA, FRIDAY 25 MARCH, 1994

PM: Well, Mr Willis and I were going to give you a comment about the outcome of the Premiers' Conference and Loan Council meeting. I think we've seen move into place today a very substantial reform to Commonwealth-State financial relations. For the first time in at least 11 years we are seeing a formula for the Commonwealth dealing with the States which provides a basis of certainty and growth to Commonwealth payments to the States. We've given the States today, for the three years, in real terms, that is, a payment covering inflation, the existing base of Commonwealth payments to the States plus inflation. And we've built into that population growth.

So, it will be the existing base, plus inflation, plus population growth which is really the most certain stream of payments the States have had and one which can now grow along with national population growth. Now, of course, in that there will always be the within-state distribution and shifts in population which the Grants Commission measures because, as you know, people leaving Victoria and going to Queensland, all those sorts of things will come up in what is called the relativities, every year. But, the pool of funds from the Commonwealth to the States will now have that betterment factor of real terms plus per capita or population growth. Now, I think we've seen here a substantial reform and even though you won't get all the Premiers to say so I think they do, too. They certainly said that inside. And, it means, I think, that the cooperation we were able to get at the Council of Australian Governments in Hobart, we'll see again in the August meeting - as we now will not be having a discussion about the pool next year or the year later, that being settled today. Now, I would just invite the Treasurer to add his remarks to mine.

T: I think the Prime Minister has said it all. Essentially, this is a very good deal for the States. They are no worse off this year than they would have been had the old formula applied. By 1996-97 they start to kick

some real goals with the application of the real terms per capita coming through and giving them substantial increases by that time. And, in the years to come, of course, should the agreement continue as we expect it would, then the States would be very much in front. Over the course of a decade they'd be something in the order of \$6 billion dollars better off as a result of this formula applying, assuming that inflation remains steady for ten years; \$6 billion dollars better off than they would have been with the old formula. So, for the States this is a very, very substantial gain and one which should enable them to considerably improve their services over the next decade or so.

J: Prime Minister, if that's the case why haven't the States been happy as they've come out - only one seems to have supported it?

PM: Well, when we said, "If you want to leave it as the status quo, that is, as last year," not one of them wanted to leave behind a real terms guarantee and population growth. I mean, no one really was prepared to walk away with the status quo. And, I think that's the best test. The best test, really, is what they say around the table. And, what they said around the table is, look, this is the best thing to come our way, let's have it.

J: How would you describe your relationship with the States after today's meeting?

PM: Pretty good, really. Look, this is a federation, there is a huge pool of national funds here which is essentially divvied up and distributed in one day. Now, the effect of Grants Commission reports, a change in an old Capital Works Program with a very historic distribution going - all those things coming and going - some States are better off and some worse off. So, getting an outcome where most agree is a very difficult thing to get. But, we got that.

J: Is there any talk of improving the States shaky revenue base and if there wasn't do you think something should be done about it?

PM: Well, I think they'll pick up the revenue growth that comes with the recovery. So, if they're getting not just real terms maintenance of Commonwealth funding, but with population as well and on top of that they have the growth in their own revenues they're going to be in a pretty comfortable position.

J: Premier Fahey told us that over the next three years Commonwealth revenue is expected to rise by \$26 billion, how much of that will be given to the states now?

PM: Well, as the Treasurer said, a proportion of it will be given to them as a consequence of the formula. But, again, over the last three years we've added about \$25 billion to our national debt through the deficits

which the Commonwealth has to run in the national economy. And, so, now is the time for the nation to pay those deficits back. I know that some Premiers had this quaint line, 'they're not giving the money back to the people'. Well, the people are all the people and the nation, the people, must have a reduction in the budget deficit if we're to keep low interest rates, growth and jobs.

So, the Commonwealth provides a natural stabiliser for the economy. That is, it provides the cushioning whenever there is a recession and therefore it has got to have the financial capacity to take the debt out when the good times come back.

Now, to say, "Look, sorry, the States get full payments in the bad times and they also take all the joy in the good times," even I don't think they expect us to accept that.

J: Mr Kennett says the extra \$20 million for Victoria is disgraceful considering the extra revenue you would get as the economy grows.

PM: Victoria did very well out of this and they are all saying look, let's get population growth and the real terms guarantee - that's the real reform, let's grab hold of it. Now, they haven't been offered that in the past and they did grab hold of it and I think Mr Kennett was chief among them.

J: Are you saying you will continue real, per capita increases beyond 1996-97?

PM: I think that is our general intention.

T: The agreement is only for three years, but we would expect that that agreement would roll on provided we had a co-operative relationship with the States over that time. Now, we expect to get that in relation to micro economic reform. We have made that clear as an element of the proposal for the next three years and should that be forthcoming as we expect that it will be, then we would be prepared to maintain real terms per capita. So, that would roll on and the States would be very, very substantial beneficiaries.

PM: As I said this morning, there is a maturing here of this relationship in terms of the big micro reform agenda in COAG and in terms of funding under this formula so the States now know what they will be getting every year in terms of the Financial Assistance Grants pool. There will still be internecine interstate arguments about who gets what and what population shifts there are and whether the Grants Commission got the formula right, but that won't be about the pool; that will only be about the distribution amongst themselves.

- J: Would you prefer to see the maturity of the relationship reflected in the Premiers' public comments?
- PM: The more grist to the mill the better. I always think it is better for them to tell the public as it really is. And as it really is, is pretty good.
- J: What was the tone of the meeting compared to previous years. It seems to have been pretty quiet?
- PM: Compared with the 1980s... they were tough meetings. This was, what we would say, wearying, but not harrowing.
- J: Prime Minister, in terms of Cabinet reshuffles, have we seen the end now?
- PM: I think you are seeing a new stock of competent Labor people coming to ministries. One, a former Premier. You are seeing a new important contributor to the Government, John Faulkner, go into the Cabinet. I think the Labor party is very lucky that it can see people like Neal Blewett and John Dawkins and John Kerin leave the Parliament and see the kind of people who have replaced them.
- J: But is this the end of the shuffle?
- PM: It depends whether somebody resigns for some reason but I don't expect there will be anyone from this point on resign and, I think, probably you've seen the last change. But it is a good change and it is a very good ministerial line up.
- J: Why take science from Senator Schacht?
- PM: Science goes into the Cabinet with Senator Cook and Senator Schacht then will keep responsibility, amongst other things, for small business and also for the Co-operative Research Centres. So, he is going to maintain his link with that science faculty which we've built into the Co-operative Research Centres as well as being the Deputy Minister to Senator Cook who will have science in the Cabinet.
- J: Have you been concerned though about the problems that have been occurring in the science portfolio since Chris Schacht took it over?
- PM: I think the scientists are a pretty tough team to manage, really. I don't know that anyone can do it easily. Again, it is not a case of cheers and clapping from the side.
- J: Would you have preferred to have the free hand at this time that you had last time after the election rather than having to bow to some of the factional pressures?

PM: There was no bowing here. Let me assure you, the three people who were elected yesterday were elected unopposed and each of the three were three that I had suggested to people should be coming to the ministry. As it turned out, the Caucus agreed with me about that. We will now have something like about seventeen ministers. Sixteen ministers will have changed since the last election. That is a tremendous change for this country. Energy is the life blood of politics. Energy and ideas. To keep that energy coming through is terribly important for the national government.

J: Are you saying you didn't want Mr Elliott in your Cabinet?

PM: No. It is not a matter of making judgements about Mr Elliott or any other single person. It is just that in terms of seniority and contributions others have made, others had greater claims at this time.

J: Did Mr Brereton ask you for a change in portfolio?

PM: We are happy to provide you with some overview advice, but not open heart surgery.

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