



PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P.J. KEATING MP
INTERVIEW WITH FRAN KELLY, ABC "AM", WEDNESDAY, 10 MAY 1995**

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FK: Prime Minister, politically clever, but economically thin is the comment your Budget is drawing today. What is your response to that?

PM: I don't think that is true and why would it be so. We have got a Budget surplus there. It means that the public sector is not calling on savings of Australians, therefore it is relieving the pressure on the current account deficit and the call on overseas borrowing's. That was the very point of it and next year we will have a Budget surplus which will be arrived at free of any asset sales or redemptions in debt and we go on then to produce huge surpluses into the future. So, it is a massive change. This year a surplus of \$718 million. Last year it was a deficit of \$12.9 billion and next year that surplus will grow to \$3.4 billion and the following year to \$4500 million. So in other words, there will be a huge contribution from the Commonwealth Budget to the task of national savings which is taking the pressure of interest rates and lowering the prospects of our borrowing as heavily into the future on the current account deficit.

FK: What about your go for growth strategy though Prime Minister. Growth is forecast to come down to 3.75 per cent. The markets think that is even a bit optimistic. It is not a fantastic rate of sustainable growth is it?

PM: Well, if you go to Europe where the growth rate in these last few years has been half of one per cent or one, or in Japan where it is .25 of a per cent, they would be shouting yippee at nearly 4 per cent wouldn't they? Just bear in mind we have just cleaned up nearly five per cent over the course of this year and let me just read what the Treasury say about this, he said '... the economy is now growing at a sustainable rate - and that three and three quarters is a very sustainable number - now growing at a sustainable rate and expected to remain in a growth

phase over the forward estimates period ...'. That is the next three years.

FK: But, isn't the rate of that growth phase what is important. You have been talking about jobs, jobs, jobs now for the last 12 months.

PM: Yes and we have had jobs, jobs, jobs.

FK: But, isn't it generally accepted that growth needs to be up around four per cent before unemployment comes down?

PM: But it is, it is three and three quarters. We have had three and a half years of growth and what the Treasury is telling us, we are having another three years of growth. That is six and a half years of growth and that, of course, gives the lie to that opportunist line of Mr Howard's about five minutes of sunshine. I mean, we are going to have six years of sunshine. We have had three and a half years of it already, three and three quarter per cent coming up in this year and as the Treasury say over the forward estimates period, that is three years, sustainable rates of growth with low inflation. Now, that is what the very essence of the Budget was about. It was about sustaining this recovery into the balance of the 1990s. Having it sustainable, affordable, taking the pressure of the current account deficit, taking the pressure of wages and inflation and giving us a sustainable rate. Now, the economy has picked up from when the Government introduced it's policies in 1992 and it has grown ever since and last year we had the largest fall in unemployment in our history.

FK: Yes, but this year the fall that you are forecasting is only .7 per cent down to eight per cent. Is that good enough?

PM: Fran, the election was on in 1993. It is just two years ago. Unemployment was over 10 per cent - 10.5 per cent - it is an amazing fall in unemployment to be talking about eight per cent.

FK: That's right, but

PM: An absolutely amazing fall.

FK: But now you are talking about falling only from 8.7 per cent to 8 per cent in one year. Is that good enough?

PM: Absolutely because it is sustainable. It is sustainable. The point the Treasurer and I have been making since late last year when the September quarter accounts came out showing the economy growing at 6.5 per cent for the year, that 6.5 per cent was unsustainable. That is why the Government introduced those three monetary adjustments quickly into the latter part of last year which has had the desired effect of slowing the economy down. And now we have not only got the economy slowing, we have taken all the pressure off interest rates that

come from the public sector and deficits by getting the Budget back into surplus.

FK: So, you think it is good enough to go to an election with an unemployment rate of around eight per cent. In fact, you think it is so good that you are able to cut programs for the unemployed?

PM: Fran, let me make this point. Last year, that is the last financial year the one we are in, is the biggest fall in unemployment since we have been keeping the statistics, since we have been keeping the series. I mean, what more can I say.

FK: Yes, but why not keep that rate going?

PM: Because you can't keep rates of unemployment dropping at that pace with employment growth at that pace unless you are growing at around five or six per cent which is not sustainable on inflation or wages. When we introduced Working Nation last year, it's aim was to get to an unemployment rate of five per cent by the year 2000. We have gone from 10.5 per cent now towards eight per cent and we are on our way to five per cent. Now, we have just seen the French elections, you followed some of that debate?

FK: Yes.

PM: There is 30 per cent youth unemployment in France. I mean, there is huge long term unemployment in those societies and the reason is because they have got one and two per cent national growth rates. We have been growing here around four to five per cent and what these estimates are telling you is that we are going to have another year of three and three quarter per cent growth.

FK: Well Prime Minister, predictably the Opposition doesn't think much of your Budget. John Howard says it is a pick-pocket budget because you are snatching ... he says you are snatching things away from people that were promised like the L.A.W. law tax cuts. Don't you feel bad letting people down on that promise?

PM: What are you talking about? We have already delivered the first half of the tax cuts.

FK: There is a second half to come, people are not going to get it.

PM: \$20 a week. They were paid at the end of 1993. The second half we are paying into superannuation accounts. This is the first time the nation has had a comprehensive private savings plan. The first time ever and it could only come from a Labor government and it will come now by building on the nine percentage points we have under the superannuation guarantee charge, by three percentage points of wages coming from the employee and three percentage points coming

from the One Nation tax cuts paid into their superannuation account. So, every person in the country will have a 15 per cent superannuation income over the long run. In other words, so if you say to people 'what is more useful, a hand full of cash now which will disappear or something that goes in forever?' Let me just give you some figures Fran, because I think it is important that you know this and this is from the Treasury paper 'Saving for Our Future', someone on 100 per cent of average weekly overtime earnings, if they join the labour market and were in it for 40 years would, in today's dollars, pick up \$461,000. This is someone on average weekly earnings, \$461,000 or if we express it as annual annuity \$30,500 a year. Let's take someone on one-and-a-half times average weekly earnings, this is someone on about \$40,000 a year. They would have an accumulation of \$674,000, these are people that had nothing to look forward to in the past but the pension.

FK: That's true, Prime Minister.

PM: What do you mean it's true? It is fantastic. What do you mean it is true?

FK: Well, it may be fantastic, but isn't there also an element in there for people who are expecting something that you promised them which was a tax cut that would mean more disposable income for them now and you are asking them to trade it off for something in the future. That is a change in the promise isn't it?

PM: Fran, do your street corner poll and say what would you prefer? \$460,000 at the end of your working life or an annual annuity of \$30,000 a year or \$10 or \$15 in your hand now? I know what they would say to you and let me just say this about the Opposition Fran. They were like stung mullets last night. Poor old John Howard, he had the giggles, he had a sort of plastic smile glued onto his face. They must have picked up and read the first five lines of the Budget speech and nearly died. Because what could they say? Here is the Budget back in surplus. The second line in Mr Willis' speech was surplus next year without asset sales and then those huge surpluses going on to the future, \$3.4 billion, \$4.5 billion and in 1998 \$7 billion. And on top of that the biggest, most comprehensive savings change in our history.

FK: But to be fair Prime Minister, the Opposition are not the only ones with some criticisms of this Budget. There was concern last night from the Democrats, the unions and others that, for instance, the massive boost to superannuation funds that will come from this superannuation strategy of yours with no guarantee that those funds will be used productively and responsibly to invest here in Australia. What will you do about that?

PM: I think we are going to build now a massive ... look, these figures, I think, are worth going through too, this is the size of the savings and I

think there is a genuine issue about how this money is spent and how the superannuation industry manage it.

FK: And you develop a strategy for that?

PM: Let me just go through the numbers. In 1983 we had \$40 billion in superannuation funds. At the last count we had \$186 billion. Now remember this, the national debt is \$160 billion. We have got, already, \$186 billion at the latest count. By the year 2020 on the Treasury estimates, we will have \$2000 billion. It was on the front page of the Financial Review today - \$2tr. That is the first time I have ever seen in an Australian newspaper the expression '2tr' that means \$2 trillion.

FK: But how are you going to make sure ...

PM: ... \$2000 billion and our national debt is \$160 ...

FK: But how will you make sure all that money, all those riches are used productively here in Australia?

PM: Fran, let me just make this point. Could you imagine the Liberal party thinking of a thing like this. Could you imagine them having the wit pack in 1985/6 to start off on superannuation to build it up to three per cent then to five per cent then to six per cent then to nine per cent and then to add this six per cent last night, three from the employees and three from the Government via the tax cuts. Could you imagine that bunch having the wit, the imagination, the courage, the sense, the conscientious to build a thing like this?

FK: Well Prime Minister, if we can turn to the Budget more generally. A lot of the bottom line you have achieved is reached by asset sales, in particular selling of the peoples bank, the Commonwealth Bank, that was last minute decision ...

PM: We are into hyper-bole this morning aren't we. The hyperboles are rolling. The peoples bank!

FK: That was a last minute decision, I understand. Why did you make that decision at the last moment?

PM: I didn't. I saw the Managing Director and the Chairman of the Commonwealth Bank over Christmas and I had discussions with them and I had discussions at the same time with the Treasurer, we had discussions perpetually over the period and also with Kim Beazley, the Minister for Finance, and we decided having sold 49 per cent of the Commonwealth Bank that particularly when it picked up the State Savings Bank of Victoria for the first time we have created a major national institution. The Commonwealth Bank was formerly the old State Savings Bank of NSW which went down in the Depression. It was always flying on one wing the Commonwealth Bank. We gave it

two wings when it picked up the State Savings Bank of Victoria. We built a national institution then. At that time when I was Treasurer, we sold half of it off or a quarter of it off and we sold the balance a year or so ago. There is now a chance, a very good opportunity of making this a full commercial bank which is what it is. So, there is no policy reason why it should remain a publicly owned institution and every good financial policy reason in building another firm, strong financial institution out there. So, we have decided to sell the other half of it in two tranches over a couple of years. The reason it didn't go through the Cabinet because we were speaking until late in the piece, is because we were speaking to the bank's management and its board and once the board make a decision they are bound to notify the stock market and they made a decision yesterday and I think you will find they have notified the stock market today.

FK: Prime Minister, the markets haven't reacted very favourably to this Budget, one of their concerns is that the current account deficit remains high in your Budget, it remains at \$27 billion. You have identified the current account as the number one economic problem for Australia, yet you leave it at that level, does that mean that this Budget is not achieving what it is meant to?

PM: What the Treasury say in their commentary statement too, they say in the 1970s the current account was running at about 2.5 per cent of GDP. Since then, on average it is running at about 4.5 per cent. In other words we have a problem of two percentage points of GDP in size. In the Budget, we have changed the Budget balance in the next year or so by two percentage points of GDP. We have gone from 2.8 per cent of GDP to a surplus of \$700 million on this occasion. The change in the Budget balance will be about two percentage points of GDP. So, if you just leave superannuation to one side we already have as a consequence of last night's Budget a change to the public sector coming through in the next couple of years of around two percentage of GDP, the size of the problem. Mr Willis and I always talked about this being a medium term problem and it is a medium term problem. Can I just say, those savings that I have just read out to you, \$186 billion and can I say from the superannuation paper what the Treasury say is that the addition to savings by the year 2000 coming from superannuation will be two percentage points of GDP and by 2020, four percentage points of GDP. So, if we have got a two percentage point problem on the current account how have we got it covered? We have got two percentage points coming through on the Budget and we have got two percentage points coming through on superannuation.

FK: Prime Minister, just finally this will be the last Budget before an election. If interest rates stay down, as you are confident they will, will you consider ...

PM: I think this goes a long way to keeping the pressure off interest rates, that is the very big shift in the Budget balance. Remember there is a discretionary tightening in here of increases in revenue and cuts to government spending of \$3000 million in this Budget last night. That will rise to \$4500 million next year, free of any asset sales or anything else.

FK: So, rates will stay down?

PM: I think with the economy at three and three quarter per cent and inflation where we have it, I think, the prospects of rates staying down are very strong indeed.

FK: Will you then consider going to an election before the end of the year?

PM: I keep getting asked that, but I always like squeezing the value out of these election wins. They are too hard to win without giving half of it away. John Hewson said I was going to have an early election when he was leader then Alexander Downer said it and then John Howard thinks it, everytime he thinks it, of course, he goes white. But the fact is, no we will have an election in the cycle, in the proper time in the cycle, but can I say Fran ...

FK: Is that a no though to the end of the year?

PM: Only the most silliest of Prime Minister's would ever paint themselves into a corner when they don't have to and I'm not that silly. Can I just make this point to you, much of the commentary says some of it talks about election budgets and the rest, this is a Budget designed to deal with the sustenance, the sustaining of economic growth in Australia which it does and to relieve the pressure on the current account. It is a very serious Budget indeed. But the fact that it is such a good Budget, let me say, I am going to accept the complement. If the leader writers think it is good enough for an election all I say to them is thank you.

FK: Prime Minister, thank you.

PM: Thank you indeed.

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