



PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING MP
INTERVIEW WITH ANNA REYNOLDS , RADIO 4QR, 11 MAY 1995**

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AR: The Prime Minister Paul Keating joins us from Canberra this morning. Good morning - welcome to the program.

PM: Good morning Anna.

AR: Before we get to the actual nitty gritty, how do you think the budget has been received? You have had a day or so to talk to people about it now.

PM: Very well, I think. The main point of it, of course, was to sustain the growth through the rest of the 90s. And to do that, we had to - essentially - take some off the pressure of interest rates, and reduce the demand by the public sector - or by the Commonwealth Government - on the savings of the country. And we have done that by changing quite dramatically - in fact, it's the largest Budget change we have ever recorded - the Budget balance into surplus, which reduces that call on savings, which leaves more savings for investment, which means there will be more investment and more jobs. Therefore, the recovery continues on into the 90s. We had John Howard running around talking about 5 minutes of sunshine - we have now had 3 years of growth, we have been growing faster than any other western economy. And now the Treasury is saying that in the forecast period, we will have sustainable economic growth - and the forecast period is in the next 3 years. So, we will have had 3 years of growth - 3.5 years of growth - and 3 coming. It gives the lie to that cynical line.

AR: Are you satisfied that the pressure is significantly off interest rates now?

- PM: As I say, it's a dramatic turnaround in the Budget - the turnaround is \$12.9 billion. In other words, from the deficit we were running last year, to the surplus this year - we had a deficit last year of \$12.2 billion, and we are going to be running a surplus of \$0.7 billion - so there is a \$12.9 billion...
- AR: Yes, but the Democrats are saying, of course though, that it depends on which figure you look at, and whether you actually take the underlying figure excluding asset sales. Now, I mean, do you understand the point they are making there, and their need - their indication - that they want some sort of clarification with this inquiry in the Senate?
- PM: No. Look, that's all....everyone tries to get their little tuppence worth into a Budget debate. As for the Democrats, the first thing they always think of is an inquiry about anything. So, what they don't think about is the time and the waste in the Senate, and the public expense. The fact is, the Commonwealth buys assets and sells assets all the time. For instance, in Queensland, one of the things we are building at the moment is - in partnership with the Queensland Government - the railways of Robena on the Gold Coast. Now, that's an expenditure on the Budget. So, if we sell an asset, it's a sale on the Budget, and the Budget is built on a cash basis, and always has been. These things are only said by the likes of John Howard to try to diminish the results. There was someone on from Moody's in New York this morning on Australian radio saying "look, we don't care how the Budget surplus is arrived at - what it means is there will be a massive reduction in the bond selling program in Australia this year". See, if the Budget has shifted by \$12.9 billion, it reduces dramatically the bond selling program - the number of Commonwealth bonds the Government will be selling - and that takes the pressure off interest rates.
- AR: Are you comfortable, though, with the way that sells the position of the Australian economy to the Australian people - I mean, the Democrats are essentially saying you are being less than honest by including the asset sales in that figure.
- PM: They are being completely dishonest in making that sort of reference. I mean, you saw also the Secretary of the Treasury publish a statement the other day saying that these numbers are all basically put together...I mean, the policies are put together by the Government, and the collation of the numbers is put together by the Treasury. Economic policies are all about the degree of change one year over the last year, and the degree of change here is a \$12.9 billion turnaround. And what that means is that we will be reducing - very dramatically - out there in that marketplace every day, when the Commonwealth is selling their tender - Commonwealth bonds - to finance the Budget deficit, this year we will be selling vastly less, and that will make...that's why bond yields - you will notice in the last

week, the long-term bond yields have dropped by almost a percentage point, and that has been confirmed now. In other words, yesterday they stayed...they dropped even further, so now we have seen - because the market thought the Budget was going to be good, they have dropped long bond yields by 1%, and that is a terrific sign for interest rates in Australia. Can I just make this point: the short-term interest rates...the influence of the short term interest rates comes from the markets and also the overnight cash and call rates set by the Reserve Bank, but then the long rates are set just exclusively in the market place - they are all about sentiment - about inflation, growth, sustainability, Budget deficits, the works. What we have had there is a one percentage point reduction in the last week in the long term bond rate, and that has been confirmed yesterday with a further small drop. So, that's the judgement that matters.

AR: So you would think that would...

PM: Not the Democrats and a silly inquiry in the Senate.

AR: Speaking of a silly inquiry - I mean, presumably they will get it through, and then they will call on Government people to actually give evidence, that sort of thing - will there be co-operation?

PM: You have got to understand that this is all part of the trivia and nonsense of Australian politics now. I mean, when I became Treasurer all those years ago - when I was left that absolute cess-pool of problems by John Howard - at that stage, the Coalition published one forward-out year estimate of outlays. When they produced a Budget, they would show you what the next year's outlays figure would be in projection - what we show, is the 2 years outlays figures - 3 years outlays figures - in projections, and 3 years of receipts. In other words, we publish 3 forward estimates of the deficit or the surplus 3 years out, and the Budget documents all have graphically illustrated trend changes in all of the spending programs. It's the Rolls Royce of Budget documents world-wide - there is no country that produces Budget documents in the OECD like Australia.

AR: Nonetheless, you do have to live with the Senate - there is not much choice about that, and it looks like they will be making some noises. And noises, too, from the Green Senators about the increase in the corporate tax, and saying particularly, worried about the effect on small business. I mean, can you understand their concern there?

PM: The Green Senators?

AR: Yes.

PM: These are the people who actually wanted to bang tax rates up for high income earners, who wanted to push the company tax rates up, who want a fixed 20% flat company tax for all companies. I mean, it

wears a bit thin for them to be taking a point about the impact of small business. We have made...

AR: I'm just wondering how you think that tax is going to impact on some small businesses, who certainly in Queensland, are really feeling the pinch at the moment?

PM: If they're feeling the pinch, they are feeling it in the highest growth economy we have ever had. We have been growing at 5% to 6% with 2% inflation, so if they are feeling the pinch, they ought to say "small business is not for me", because it is never going to get any better. This is as good as it ever gets. To have an economy growing at 5% with 2% inflation is as good as it ever gets, so if they are feeling the pinch, they have got to say "I had better go back to PAYE employment".

AR: I mean, there are different sectors, obviously, performing differently - in the housing industry in Queensland, starts have been low, and particularly in the growth areas where there has been a boom over the last 6 months or so - small businesses are worried about the increase in the tax on some building materials. Do you think that could bite there, or do you think that impact is being overestimated?

PM: The whole point of the policy has been to slow the economy down. I mean, the Government...you have got to do some tough things to do kind things.

AR: So people have to suffer in that process?

PM: No. Not suffer. Just understand this point - we increased interest rates by 3 percentage points last November, quickly and sharply. And that did have the effect of slowing the economy down. By now introducing a Budget with such a huge change as this - a turnaround of nearly \$13 billion, taking the pressure off interest rates - what that means is that your average householder, and your average home-buyer, won't be now in the position of fearing a sort of cascading interest rate rises because of the decisions that the Government has taken sensibly, correctly, timely, to change that spending profile in the economy, and now to adjust the policy weights back on to Budget policy away from interest rates. That is what is going to matter to the building industry - the building industry got to the point where we couldn't keep the resources up to it - that's material or labour. And what happens then is the price of houses starts rocketing away with price inflation. So, it slowed down - yes, it has slowed down, it will affect some builders, it may affect many builders - but in the longer run, it will pick up to a better growth trajectory, and that will happen because of the policy decisions made in October/November last year by the Government, and by the Government in the Budget on Tuesday night.

- AR: I noticed one of the responses this morning from the Bankers Association to the increase in corporate tax is that they say the extra taxes they are going to have to pay will be passed on to consumers in terms of higher fees - I mean, is that the sort of outcome you were actually predicting?
- PM: That's just a bit of nonsense for the media. Their profits are at such extraordinary levels, they will just take the hit on their profits, as they should. In other words, they have got a licence from the Government....you see, those big banks - ANZ, the Commonwealth, Westpac - have got a licence from the Government to operate as a bank, and they have got a great monopoly position, and because of that, they have these very high profits. Now, what we are saying is that they can share some of those profits with the public.
- AR: So you don't think they should have to pass on that extra cost they they will have to bear by increasing fees to consumers?
- PM: They are already on the nose with people through increasing fees. People are moving to smaller banking institutions because they don't like the way - the indifferent way - they are treated by the major banks. And if they want to - after a Budget - poke their tongue out at people and say "we'll pass some more charges onto you", more people will vote with their feet and leave them - go to the smaller institutions. Their profits are so strong, that they will take this ??? and say it's a mere bagatelle for them.
- AR: Thinking about the overall way the Budget has been received - there has been a fair bit of emphasis here in Queensland on the way it will affect certain industries, and people talking about not being able to buy a new car, increased car prices, this that and the other - I mean, what do you think is in it for the average person?
- PM: The biggest thing in it for the average person is the superannuation change. What we have put into it is that the 9% under the superannuation guarantee charge - which the Government put into the Budget in 1991 from the changes which were negotiated with the Trade Unions under the Accord in 1986 - we started 3% in 1986, then we moved it to 5% on a voluntary basis under awards, then to the superannuation guarantee charge where it became compulsory, to 6% on 1 July this year. That rises to 9% at the end of this decade. To that, on Tuesday night, the Government has added 3% by way of employee contributions, and 3% by way of the *One Nation* tax cuts paid into their superannuation accounts. So, as a consequence of Tuesday night, we will be adding 6 percentage points to the 9% already available under the superannuation guarantee. So that means that every person in the country - every wage and salary earner - will have 15% of their wages and salaries going into a national superannuation scheme, and what that will mean - I gave the example yesterday of someone on average weekly earnings - it

will mean that someone who was on say \$33,000 a year, at the end of their working life, will pick up a pension of \$30,000 a year, coming from a lump sum of just on \$0.5 million. So a person on \$33,000 a year, will end up putting away a kitty of \$0.5 million, and that will then equal an annuity over the rest of their lives of \$30,000 a year. Now,....

AR: It's a long-term, type of benefit for people, though, isn't it - are you confident you will be able to get the message through, or do you think it will be hard to sell in the run-up to an election?

PM: You have got understand this, Anna, that the time my generation - I'm 50, 51 - the time my generation is 65, this is the post- baby boom boomers, so called baby-boomers - there will be twice as many retired age people as there is today. The pressure on the pension is going to be so inordinately high, that this scheme we put in Tuesday night is going to protect the income in retirement of not just all the baby-boomers, but all of their children. And, even some of the people older than the baby-boomers. In other words, this scheme is already going to be at 9% by the year 2000 - that's only 5 years away. And it will go on, but let me make this point to you - could you imagine the Liberal party having the courage, the wit, the imagination to sit down with a workforce over a 10 year period, and piece together a national savings and retirement income scheme?

AR: All right, we will take that up with them at a later date. Mr Keating, we will have to leave it - we're out of time. Thank you very much for joining us.

PM: Thank you very much indeed, Anna.

AR: Prime Minister, Paul Keating.

ends.