

Prime Minister of Australia

Interview

Transcript of Joint Press Conference with Treasurer Wayne Swan and Finance Minister Lindsay Tanner Main Committee Room, Parliament House Canberra

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Subject(s): Nation Building and Jobs plan

E&OE

PM: Because Australia is facing an unfolding national and international economic emergency, the Government of Australia is today launching an unprecedented \$42 billion Nation Building and Jobs Plan to support jobs and to invest in Australia's long term economic future.

Australia faces a very stark choice. That is whether government acts, seeks to intervene to reduce the impact of this unfolding global economic recession, or the alternative which is for government simply to fold its arms and to allow the free market to let rip.

Well this government has charted its course of action and is resolved to act, and it will continue to act. The government cannot reverse of course the impacts of a global recession, but this government will move heaven and earth to reduce the impact of that global recession on Australia.

Nearly three quarters of this \$42 billion plan is directed towards nation building and support for business. First and foremost within this nation building plan, is the single largest school modernisation program in Australia's history. This investment in every one of the nation's seven and a half thousand primary schools is designed to build the primary schools we need for the 21st century. It's building the education revolution. Each one of the nation's 7,500 primary schools will be funded to invest in either a 21st century library or a multipurpose hall or classroom modernisation.

Added to the investment we will make in secondary schools, a further billion dollar program where secondary schools can apply for funding for new science wings and new language laboratories to the tune of \$1 billion and an additional school maintenance program to assist with those things which P&C's and P&F's need now. This is a massive education, a massive investment into the nation's school education system.

Second, the government some time ago said that we were committed to halving homelessness. If you look at the census data, we have around the nation according to the census data some 100 thousand people who are homeless. Our advice is that given the concentration of households represented within that, represented something like a 80 thousand deficiency in the total national housing, social housing stock.

Therefore applying our previous policy commitment by 2020 to halve homelessness, that would mean adding an additional 40 thousand to the social housing stock of the nation. In this program over the next two to three years we're going to get half way there by building 20 thousand additional units of social housing, and through an associated maintenance package of some \$400 million, bring also on stream some 2,500 units of social housing stock which is simply at present not up to scratch. This again is a concrete measure, some \$6 billion worth, aimed at providing stimulus to the economy and contribute to the long term policy goals of the Government.

And third is this: what do we do in terms of the practical challenges of energy efficiency to reduce greenhouse gas emissions to deal with the long term challenge of climate change. The Government's advice has been that the single most effective measure in terms of household energy efficiency is insulation.

We're also advised that more than two million households across the country, houses across the country, owner occupied dwellings, do not have insulation. The Government's objective through this program is to have all owner occupied houses in the country insulated. The greenhouse gas emission impact of that will be to reduce total greenhouse gas emissions by some 49 million tonnes of carbon equivalent. That's the equivalent of taking one million cars off the road. This is a very useful thing for the planet, for greenhouse gas emissions, but beyond that as well, stimulus in the economy.

These are three very practical nation building measures. We spent a lot of time working our way through these because the practical challenge we faced is this: how do you mesh intensive investments in nation building measures now to provide the necessary additional stimulus to the economy and jobs now, in order to make a difference now. By which we mean, in the next year or two. And hence you will see the concentration of those construction programs are made within that overall timeframe.

Also you will see outlined in the document our commitment to a further significant direct assistance to small business and to business. Now you have a temporary investment allowance of some 30 per cent, and for it to be applicable in the case of small businesses for any capital acquisition, north of \$1000.

The objective is to make it possible, more possible for small businesses to make those capital purchases that they need to keep their businesses running, but to do so with confidence looking ahead about what their cash flow will be as a result of making those purchases. And this sits on top of the existing announcement of last December about a 10 per cent special investment allowance for a more extended period of time.

Finally, there are also measures here which are outlined in the document to support households and to support households under budgetary pressure and households' necessary role in consumption. I know there's been a lot of criticism about consumption measures. I'd suggest strongly that support for households in consumption is important in the overall mix of measures in underpinning economic activity in the immediate period ahead.

Again in summary, about three quarters of the measures here are about nation building, are about support for business, and something a little more than a quarter of them are support for households. Taken together, they are designed to provide necessary support and stimulus for the economy.

The economic rationale for this package of measures is again outlined in the document. If you looked carefully at the Treasury prognosis for the period ahead, minus this stimulus package, it would be quite clear that the economy would run a grave risk of generating negative growth, most particularly in the 09/10 financial year. Therefore the challenge that we have faced is, what measures assist in providing necessary fiscal stimulus to give us a much greater prospect of generating positive growth in that period. That's why we have embraced the measures we had in the magnitude that we have and in the construction that we have put to maximise the flow through of investment in the year ahead, and just beyond.

On unemployment, the document also is clear that this package of measures is designed to support up to 90,000 jobs in '09 and '10. The document is equally clear that unemployment by Treasury is estimated to rise from where it is now at 4.5 per cent to 7 per cent. 4.5 per cent unemployment now is some 500,000. 7 per cent would mean an additional 300,000. Treasury further estimate that one third of that 300,000 would be made up of individuals losing their jobs, two thirds made up of individuals unable to access the labour market.

The impact of the measures that we have put forward, as I said, represent support for 90,000 jobs. I indicated also in my remarks to you yesterday that the Government will take further measures in relation to labour market programs which will be relevant to our overall meeting of the challenge of the jobless matter for all Australians.

Finally, on the question of the deficit itself. Nobody likes being in deficit and I don't like being in deficit at all. This is not a question of choice. This is what we're required to do. The key question is our exit strategy from deficit in the medium term.

The clear policy articulated in the Government's statement today provides a policy framework for explaining how we will return the budget to surplus over time.

One, as I indicated to you yesterday, that when economic growth resumes at trend or above, action will then be taken to restore the budget to surplus. Two, taxation revenues, additional taxation revenues which then flow at a time when economic growth has returned to trend and above, would then be dedicated to restoring the surplus. And three, future discretionary expenditure would be limited to two per cent per year into the future. This is the doctrine that we embrace here formally for returning the budget to surplus.

Nobody knows how long and deep this part of the economic cycle will be, what I have articulated to you over is our strategy for returning the budget to surplus once trend and above trend growth resumes.

Finally, this plan is part of our strategy to see Australia through this economic crisis, a crisis not of Australia's making. We believe it is a strategy in which the nation can have confidence. There is much lack of confidence across the world and our own country today because of the avalanche of bad news on people's television sets, in their radio stations, in their newspapers.

This strategy, this plan today as part of a broad strategy on which we have embarked last year, provides a basis to see Australia through this economic crisis. It is a strategy in which the nation can have confidence and as I have said before it is a strategy to which we will add in the future as is necessary.

The Government remains determined to take whatever further measures are necessary to continue to support growth and

jobs and the stability of financial markets into the future.

There is no silver bullet with any of this. I have not the slightest intention of misleading the Australian people on this. This represents a strategy on our part and a plan on our part to reduce the impact of this global economic recession on the Australian economy, on growth and on jobs and on household incomes.

It does not represent the removal of the problem. It is our best effort to reduce the problem but we remain resolved to take whatever further action is necessary in the future.

JOURNALIST: [inaudible] When you announced the ESS you were talking about the \$10 billion in Government spending creating jobs. Today you are talking about spending supporting jobs, can you explain the difference between those two terms?

PM: Well when you're supporting jobs you're doing either of two things. You're either creating additional direct jobs through public sector activity or supporting the retention of jobs which currently exist within firms or elsewhere in the economy. That is simply a broader concept and it just describes the reality.

By the way in terms of the ESS and its capacity to generate jobs, I would just draw your attention to what Westfield has released today as well. Spending in the month of December in 2008 was up 2.5 per cent from the previous year. This is in contrast to their overseas sales which was down 14 per cent in the United States and 7 per cent in New Zealand. And that is one part of a complex picture, one part of an overall plan, of which a further instalment is revealed today.

JOURNALIST: In terms of the exit strategy, when you say that those, the new [inaudible] when growth returns to trend. What exactly does that mean?

PM: Well it is when trend growth returns. Trend growth is normally defined at around three. When trend growth to the economy resumes at that or above, that's when the, this doctrine applies and the principles that we've articulated. And I think that's a responsible course of action.

It puts a necessary doctrinal constraint on the future public finance behaviour of the Government and it's entirely consistent with the doctrine of financial constraint we imposed upon ourselves prior to being elected, which is to support a budget surplus across the economic cycle.

JOURNALIST: Mr Rudd, the document mentions the need for the states to sort of follow your lead in this area and it notes that if they don't you'll look at it through COAG. To what extent have your meetings in the last week or so, with state premiers created a pact so that they won't be doing things in their budgets that run counter to your aims and policies and doctrine?

PM: This Government will adopt a zero tolerance approach to any State Government whatever its political complexion, to any substitution of effort, let's be very clear about that.

The whole purpose of this extraordinary package, designed for these extraordinary times is through public demand, to offset the contraction in private demand within the economy, so that we minimise the overall effect on households and jobs.

Therefore it makes no sense whatsoever for us to up our effort and for the States then to withdraw theirs in order to repair their bottom line or whatever.

We will take an absolute hard line on this with the following consequences. First, when we engage the states on the implementation of each arm of this plan, this \$42 billion plan, on the implementation, we through Treasury officials will exchange in detail, what is in the state governments' budgets forward estimates for their capital works for the entire forward estimates period: in social housing, in school construction and in any other relevant area.

Secondly, if we through those Treasury processes detect, observe any withdrawal of effort against that benchmark: A, I will make that public myself. Secondly, an equivalent amount of money will be withdrawn from those states' future general revenue grants. We are hardline on this.

Furthermore we'll be speaking with the states directly about the implementation timetable for each of the public investment programs involved in this \$42 billion plan. Particularly the school modernisation plan as well as the social housing plan which I referred to before.

JOURNALIST: Prime Minister, I know you've quoted some comments from Woolworths on this but to what extent is the speed of this recession, has the speed of this recession forced you to craft a \$42 billion package? In particular the \$12.7 billion or whatever it is in quick payments.

Has forced you to craft that package without really having anything like the data, you would like to know whether the first package did the job it was supposed to do. You're working in the blind here to an extent, aren't you?

PM: When we had this debate last year about how or whether the Government could respond to the unfolding economic crisis, the debate devolved down to essentially two sets of arguments. One was, wait for all the data to come in, by which stage it is usually too late to have an effect. Or two, act now, knowing that there are still uncertainties into the future.

Secondly, therefore, what the Government has done is saying, here is a global recession. here is the further deterioration in the global economy, reflected in the data over the last several months.

Here therefore, based on Treasury advice, is the likely further gap in growth, in the Australian national accounts, and therefore, what do we need to do by way of investment to seek to fill that gap.

Then it is a question of what can you do most quickly and most productively to fill that gap. And to do two things: one, provide the necessary stimulus now in the shorter term and secondly, wherever possible, mesh that with long term infrastructure which the nation needs.

Our schools will be great beneficiaries from what will be the biggest school modernisation program in the nation's history. Every primary school in Australia is going to become a centre of economic activity, every one of them. Every one of them.

And that is what we intend to do. 7500 centres of economic activity. And you know something, rolling this out is going to take a feat of national organisation and planning, we haven't seen since the '40's.

JOURNALIST: (inaudible) labour market programs, if we are looking at 7 per cent unemployment, shouldn't the labour market programs be included in today's statement? Is there a reason why they are not and what kind of labour market programs do you have in mind?

PM: I may have said this yesterday, but this is intensely complex work to make sure that labour market programs are tailored not just to emerging national data, but are regionally and locally applicable as well. We are determined to get this as right as possible.

It is going to take a bit more time. We know the dimensions of the challenge. Remember, I referred here already to Treasury's advice that some 200,000 people, based on the projections out to 2010, under current circumstances, would not be able to enter the labour market.

Our challenge therefore, is to meet that huge challenge, that huge task.

It is complex, it is hard, it is detailed. And we are working our way through it. And I would much rather we got it as right as possible, rather than produce a press release, which doesn't have the necessary implementation machinery behind it. We haven't done this sort of work, at the Commonwealth level, for a long, long time.

JOURNALIST: Mr Rudd are you limited about what you can do on the labour market programs because there are tenders out for the Job Network at the moment? Is there, are you compromised by that process or could you do something additionally?

PM: Well labour market programs as a concept are broader than what the Job Network itself does. And in terms of the intrinsic of what happens to be in the current tender arrangements for the Job Network, I am sure the Minister is well apprised and well capable of juggling these two realities.

JOURNALIST: Mr Rudd the timing of this package on the day that the Reserve Bank is expected to cut rates again - was that designed to increase the confidence factor?

PM: Our judgement as a Government was that as soon as the new data, and you saw some of it globally through the IMF report the other day, began to become absolutely clear about the next level of challenge that we faced, was to hop to it and do it.

We have been chugging away at this over the summer. And a lot of work has been put in on this and you would have seen a fairly intense level of activity at the relevant committee of the cabinet in the last several weeks as well.

It is ready to roll and that is why we have done it today. At the end of the day, Government action through fiscal policy, accompanied by what we have seen is reductions in interest rates, have one objective, and that is to stimulate the economy.

JOURNALIST: (inaudible) the document mentions global recession which you are referring to now, as intensifying the risk of recession in Australia. Do you think that recession in Australia is inevitable and how confident are you that the budget

deficit in the future will peak at \$35 billion.

PM: On the first part of your question Dennis, this Government will never haul up the white flag on the inevitability of a recession as I notice the Liberal party has. We will throw everything at this. There is no guarantee of success but we will throw everything at this because we believe it is important for confidence and for jobs that we do so. That is the first point.

The second is, in terms of the exit strategy from deficit, I have nothing really to add other than to do doctrinal statement, if you like, I made before in response to the question from over here.

And of course the trigger for that is a return to growth at the point at which, we have returned to above trend growth.

JOURNALIST: Given Treasury's prognosis and the scale of the economic downturn, do you nonetheless concede we will be in deficit for years and do we now stop calling it temporary?

PM: The Government is, if you look at the structure of the Government's stimulus package, it is both temporary and targeted. It is like this. That is what it is about, and therefore it is designed to provide, as I said before, and ability to partly fill the gap left by this temporary contraction in private demand.

As the general economy and the global economy recovers, our requirement to do that will lessen. The economic statement today is absolutely upfront about the impact on the bottom line, going forward. And absolutely upfront about the fact that we will have to borrow for it, that is the bottom line.

There is no point sort of pretending that black is white and white is black. That is just the truth of it. As I said before, nobody likes being in deficit, neither do I. But the alternative would be to throw another 100,000 Australians into unemployment.

I don't intend to do that, I intend to everything possible to reduce the burden.

JOURNALIST: (inaudible) what is your message to the banks today about passing on any interest rate rise and also longer term with 300,000 people either not having access to the labour market or losing their jobs? What attitude would you like to see the banks take towards people who become under mortgage stress and face the real possibility of losing their homes (inaudible)

PM: First of all, on the question of the banks, there should be a full pass through of any further interest rate reductions as rapidly as possible. Secondly, I would say this to the banks: the banks have benefitted from various things the Government has done for them, not least of which are the two sets of guarantees which are the subject of some debate here, last year: that for depositors and most critically for interbank lending.

Therefore I would say to the banks, given what the Government has done to support the continued strength of our banks and that is important in the financial system, I would strongly urge the banks to take an open hearted and compassionate approach to people and to small businesses who find themselves in strife, for which those people are not to blame.

Can I just add one further thing on the benefit of what we have done for banks. The guarantee which the Government has provided to bank, to interbank lending, has been of enormous consequence in successful capital raisings by the banks offshore, in the last period of time.

Were it not for that intervention which we undertook last year, again amidst considerable controversy, the banks, the ability of the banks to raise the billions of dollars that they have in the last month and a half, would have been fundamentally undermined.

JOURNALIST: Mr Rudd, the prospect of deficits of \$35 billion in each of the next two years leaves scope for further discretionary spending in the May budget?

PM: Our attitude to discretionary spending as a matter of general principle prior to the point of economic recovery is that it should be offset by savings elsewhere through appropriate reprioritisation. That's our general approach and it has been. We maintain the same fiscal discipline on that approach as we've always embraced. The challenge that we face, given these extraordinary circumstances, is to define and implement a clear cut strategy for exit from deficit at the earliest opportunity. And we intend to do so.

JOURNALIST: Mr Rudd, has the revised economic outlook given the Government any (inaudible) to reconsider what you're doing in terms of workplace legislation and also the Carbon Pollution Reduction Scheme?

PM: You know something, the free market fundamentalists out there who said we should have no regulation of capital markets, basically the ones who also say we should have no effective regulation in labour markets. The one thing that's been spectacularly proven in recent times, I believe they are wrong on both counts, absolutely wrong on both counts,

there's a clear role for Government regulation and effective regulation in both. That has been demonstrated hands down when it comes to financial markets.

And when it comes to labour markets, particularly at a time when people are concerned about the future of their jobs, let me say, the attitude of families is, they want decent protections in the labour market. They don't want things stripped away from them, which is what the AWA revolution, the deregulation revolution, the let it rip revolution, of our Liberal predecessors prescribed.

Neoliberals as I've said in stuff I've written recently, you know, it's basically an anti-regulation agenda across the board. Don't want regulation in financial markets, don't want regulation in labour markets, and if they can possibly get away with it, look at the history, they'd prefer to turn health into a private market as well. First the assault by the front door by trying to get rid of Medicare, then by the back door by defunding the public hospital system.

Given the time of day, and Question Time, I've got to zip.

[ends]