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Treasurer

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Minister for Finance

TRANSCRIPT
QUESTIONS AND ANSWERS
NATIONAL PRESS CLUB

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E&OE.....

KAREN MIDDLETON, SBS:

The Coalition has long said that repealing the carbon tax is necessary because of its economic burn, particularly on business. But your documents today indicate that repealing it will cost taxpayers \$7.3 billion. How is that good policy when the budget is under such stress? Can I also ask you, your Government has committed to holding a referendum in the first term to recognise indigenous people in the Constitution. I am having trouble finding in your document where you funded that. Have you funded it? And if not, why not?

TREASURER:

Because his name is on the document, I will ask Mathias Cormann to deal with the second question, and then I will come back to the first one, if that is okay?

FINANCE MINISTER:

All of our commitments that we took to the last election are provided for in this Mid-Year Economic and Fiscal Outlook. A range of commitments - in fact most of the commitments - we have further detailed were as yet to be undertaken, are provided from the contingency reserve. Of course, once that detail is finalised we will be making further announcements.

TREASURER:

In relation to the carbon tax; as part of our election commitment our policies are fully funded, in line with what we went to the election with. The difference is made up by the tax cuts and the pension increases associated with compensation for the carbon tax. Our view was before the election and as it is after the election. To cancel those existing tax cuts and pension increases would have a negative impact on the economy at this particular time were absolutely right. So we are committed to those pension increases, committed to those tax cuts, without the carbon tax. Abolishing the carbon tax is going to increase economic growth. No doubt about it.

KAREN MIDDLETON, SBS:

[inaudible]

TREASURER:

No, it will not cost anything in the short term because it is fully offset with other savings.

MARK KENNY, SYDNEY MORNING HERALD & THE AGE:

You started off your address talking about being honest about the challenge and the transparency - talking about the virtues of that. I wonder if I can ask you about the Reserve Bank Reserve Fund? More than half of the roughly \$17 billion addition to the forecast deficit comes from the \$8.8 billion injection you made to the Reserve Bank Reserve Fund. Did the Governor of the Reserve Bank request that injection directly? If so, will you release that letter, that correspondence? And given that you slammed Wayne Swan for taking dividends out of the Reserve Bank will you guarantee that you won't be doing that later on in the budget cycle?

TREASURER:

A cracker. The Labor Party has wanted to argue process, I want to argue policy. No one has actually pointed out to me why it is bad policy to make sure that the Reserve Bank has all the ammunition it needs to deal with whatever challenge lies ahead. No one has argued that toss yet. As you can see from that document that has been presented to you today, the Reserve Bank Reserve Fund has got down to alarmingly low levels. I asked the Governor of the Reserve Bank whether he had all the money he needs to be able to meet the challenges that are going to potentially come before us. He said, after consulting the Reserve Bank Board, that they required 15% in the Reserve Bank Reserve Fund, an additional \$8.8 billion. I am very glad that we have done it because the Labor Party kept raiding the Reserve Bank for dividends when the Reserve Bank could not afford to pay the dividends. Now, we are replenishing the Reserve Bank Reserve Fund and giving the Reserve Bank all the ammunition it needs to do the job ahead. The Reserve Bank has traditionally always paid dividends. It was only when Labor took out a dividend in excess of \$5 billion that it started to go awry. What we want is to have a regular stream of money. By the way, the grants to the Reserve Bank are still part of the public sector. It is not like giving it to a car company or anyone else. It actually is part of the public sector. Hopefully it will pay dividends. I would expect and [inaudible] that it pays dividends. So the claims from the Opposition are complete bunkum.

DAVID UREN, THE AUSTRALIAN:

Treasurer, until about 10 days ago you were seeking a ceiling on your debts of \$500 billion. Are you confident that you can still keep government debt below that level given the forecasts contained today? Do you think that the budget repair task needed to lower the indebtedness can still be achieved without finding savings in health and education?

TREASURER:

There are two points in there. In relation to health and education; that does not mean we cannot spend money more efficiently. We can. But we committed to an envelope in relation to health, education, and defence. We remain committed to our election promises. That is hugely important, that we keep faith with the Australian people out of the commitments that came before the election. In relation to total debt; I hope we do not get to \$667 billion and we are going to do everything we can to make sure that we do not. But this is what we have inherited from Labor. I say directly to Bill Shorten today. Now is the time to apologise to the Australian people for what you have left behind. Now is the time for Bill Shorten to fess up for what Labor has left behind - \$123 billion of deficits and \$667 billion of debt unless action is taken by the Coalition Government. I tell you what - we are going to do it. They can resist and they can oppose and they can block but we have to do it.

MARK RILEY, SEVEN NETWORK:

If Labor's government spending growth of 3.5% over the past few years is spending like drunken sailors then surely the 4% growth rate in government spending under the Howard government meant that when you are last in Government you are spending like paralytic pirates.

TREASURER:

Paralytic pirates? That is pretty graphic.

MARK RILEY, SEVEN NETWORK:

Takes you back to your rugby days.

TREASURER:

I was never a pirate. Have I thrown you Mark?

MARK RILEY, SEVEN NETWORK:

No, no. I am just trying to see you with a patch over your eye. And a cockatoo. Quality spending and good policy - in light of what you revealed today, how is spending \$20 billion on a Paid Parental Leave Scheme either of those things?

FINANCE MINISTER:

If you want to go back to the record of the former Coalition Government. Under the former Coalition Government, the economy was growing strongly, employment was growing strongly, we were paying off \$96 billion worth of Labor debt. We were delivering income tax cut after income tax cut as well as delivering substantial tax reform to put the economy on a strong foundation for the future. Now, what we have inherited this time around is a budget that, of course, is again in massive deficit and debt heading for \$667 billion. Of course, moving forward our plan is to do what we have done in the past. We have been here before. We are again committed to building a stronger economy, to create more jobs. A stronger economy will lead to stronger revenue, which will of course help us prepare the Budget. On the expenditure side, we took \$42 billion worth of savings to the last election, all but one of them are reflected in this document. We have identified another \$1.1 billion worth of savings in MYEFO by not proceeding with some of the discretionary grant spending that was initiated by the former

government. But more importantly we set out trying to process through the Commission of Audit that will, in a strategic and structured way, give us advice and appropriate guidance on how best to achieve the savings required into the future. Our aim is to reduce the size, the scope, and improve the efficiency of government. To find ways to save moving forward that will still help with our agenda to strengthen the economy.

MARK RILEY, SEVEN NETWORK:

Sorry, paid parental leave?

FINANCE MINISTER:

I was going to get to that. The Paid Parental Leave Scheme is an important part of our agenda to build a stronger economy and create more jobs. As you would know from our election policy, it is an important economic reform which will help to boost productivity, which will help to boost participation in the workforce by women, which will help to boost population. If you would look back at our pre-election costings it actually left the budget better off, after you take the 1.5% levy into account and the various offsets, such as not proceeding with Labor's inferior scheme and various other offsets that were related to it.

TREASURER:

It is still the case that it pays for itself.

LAURA TINGLE, AUSTRALIAN FINANCIAL REVIEW:

You said in your speech that no options are off the table now. I notice that you have also conceded that more than half of the deterioration since the Pre-Election Fiscal Outlook is due to the economy softening, not due to spending decisions. That includes \$37 billion of deterioration in tax receipts and an \$11 billion increase in outlays like Family Tax Benefit, which is up \$1 billion dollars over four years. Childcare benefit which is actually \$2.6 billion over four years. I have got two questions, one of them is - in those circumstances, given what you said about tax cuts, what is the realistic position for the Coalition to have, or were the government to have, going up to the next election about promising further tax cuts? And two, is your suggestion about all options being on the table suggest that things like family tax benefits and childcare benefits, which have been blowing out, should only be under review for the next budget?

TREASURER:

We are not in a position to give ad hoc responses in relation to the individual measures that you have mentioned. We are going through in a methodical, careful process here. Every area of government expenditure is being examined, not just for its immediate impact, but for its sustainability as well. I think that is a key issue. What is sustainable expenditure? What is the level of sustainable expenditure for the Australian people in particular programs? That is part of the work of the Commission of Audit. The most alarming table there is the budget never gets back to surplus, even if there are no tax cuts for the next 10 years. That is the most telling table. The previous Government was just assuming that if you just ride the income tax wave with trend growth sooner or later the lines will cross and you would have more income than you do expenditure. I think the most telling aspect of this document is that when you look at the growth

in expenditure of 3.7% in the out years, no matter what changes you do to taxes, if they remain the same and you have bracket creep then you will never get back to surplus.

FINANCE MINISTER:

The next election is still a little while away. we have only just had one, so we will be releasing our next pre-election policies in good time before the next election.

TREASURER:

Well done, Mathias.

JESSICA IRVINE, NEWS CORPORATION:

I like big numbers and you have got a really big number in there, it is \$667 billion, which is \$1 billion more than the devil's number, and you can have that the free.

TREASURER:

It was \$666.66 billion I am told, but I am a little suspicious now.

JESSICA IRVINE:

You have spoken in Opposition about how unhappy you were with Treasury's forecasting record and you even talked about whether you might, in government, incorporate more conservative forecasts into the numbers. This is a substantial write-down in Treasury's forecasts for the economy, knocking half a percentage point of GDP next year and a full percentage point off nominal GDP. What I want to know is, are those the exact numbers the Treasury have presented you with or did they present you with a range and you thought we had better be prudent and better be conservative on those numbers? Are these Treasury's numbers or yours?

TREASURER:

They are always the Government's numbers. But I refer you to page 16 of the document that has the confidence intervals – which I applaud. Even there you have got a consensus approach where you have got information that relates to what appears to be private sector and others providing a consensus view about real GDP growth expectations, and as you can see, they have taken the middle line on what is the consensus view on growth. Also, you have got the middle line on the consensus view in relation to unemployment. That new technique - which to the great credit of Martin Parkinson and David Tune - they have actually put into the PEFO before the election. I think is a very good mechanism for properly identifying, that basically, of all the options – these are the more likely ones. That is why I think it has taken away the capacity to manipulate, if you like - which is what you might be insinuating - manipulate the parameters.

LATIKA BOURKE, ABC:

When will this government get back to surplus? You talked about sustainability in spending, can you still afford the National Disability Insurance Scheme as Labor proposed it? When this is all

over, Tony Abbott has talked about wanting to be known as an infrastructure Prime Minister, what type of Treasurer do you want to be known as?

TREASURER:

I will let others write that. Clearly Australia has a growth problem. We have got to grow the economy faster than what is currently forecast. Part of that will be in infrastructure package. Overwhelmingly, it is our overall productivity package, but part of it is the infrastructure package that is going to be a key part of our Budget. We need to retool the nation, but we need to do it on a on affordable basis in partnership with the private sector and we will have more to say about that in the Budget. In the interim, we need to deal with the massive growth in recurrent expenditure associated with a whole lot of programs the previous government left behind. We want to deliver the services, we really do, but we want to deliver them in a more affordable manner and that is exactly what we are looking at. How we can improve the way we deliver services so that we can get more bang for the taxpayers very precious buck.

FINANCE MINISTER:

In relation to the NDIS, we are committed to deliver it, but we are also committed to deliver it in the most cost-effective and efficient way possible. So there is some work being done now by the Assistant Minister responsible for this, Senator Fifield, and of course we are having conversations with the states and territories as well on how the efficiency and cost effectiveness of this very important commitment can be maximised.

TREASURER:

We want to get back to surplus as soon as we can. I am not going to make the mistake Wayne Swan made 350 times.

DAVID SPEERS, SKY NEWS:

Just want to follow up on Jessica's question about why these MYEFO forecasts are lower than some of those other recent forecasts on growth in particular, particularly when the range for nominal GDP growth has not changed much from the PEFO document at all - the range remains between 2% and 5% in both I think, and yet you have chosen a more conservative growth figure here. You used to say, often in Opposition, Treasury would give the Treasurer a range of numbers and the Treasurer would pick the one most convenient. Is that what has happened here or are you trying to be a bit more conservative here? Can I just ask a second one quickly - all options on the table, what does that mean for the GST?

TREASURER:

We stand by our commitment in relation to the GST. Two areas - and I refer you back to my National Press Club address after the Budget - where I identified two areas where I thought that the projections were not as realistic as they could be. Number one, was to go from an unemployment rate of 6.25% in 2014-2015, to what is known as a NAIRU. NAIRU is 6.5% - because you have the projections, obviously all the efforts were going into the forecasts. The projections were based on either trend or the previous NAIRU, which is the Non-Accelerating Inflation Rate of Unemployment, which was 5%, so there was a drop-off. Therefore the

numbers for the bottom line looked a lot better than what they were really going to be. So Treasury, to their great credit this year, said look, we believe this should continue 6.25% for unemployment for the two out years. The second one was the terms of trade, as I said in my speech more detailed information and greater forensic examination, means that we now have a more realistic assessment of what the changes in the terms of trade mean for the Budget. The terms of trade write-down is \$2 billion over the forward estimates. For example, with unemployment going 6.25% in the last two years, that is an increase in the unemployment benefit of \$3.7 billion in the cost to the budget over the forward estimates.

FINANCE MINISTER:

It is a matter of record that the previous government invariably overestimated revenue and underestimated expenditure. They kept promising surplus budgets and kept delivering more deficits. Our core commitment with this budget update is to draw a line in the sand as the Treasurer said and to provide a believable set of figures. Part of that is to base those estimates on more realistic assumptions than has previously been the case. That was what we said we would do before the election and that is what we are delivering on.

TREASURER:

We identified those two areas in particular.

LENORE TAYLOR, GUARDIAN AUSTRALIA:

You said quite clearly that all the detailed spending cuts that you are going to make will be announced in May, but you have also said that you are going to keep the funding envelope for health and education, so clearly, in net terms, they are not on the table. Are transfer payments like Family Tax Benefit and Child Care Rebate on the table? Are superannuation concessions on the table? And what principles will you bring to bear when you are making decisions about what is on the table and what isn't?

FINANCE MINISTER:

As you know, we have asked the Commission of Audit to look right across government with a view of making recommendations to us by the end of January on how the operations of government can be made as efficient as possible. We have not put any limitations on the work of the Commission. What we have said is that our response to the recommendations of the Commission of Audit will be consistent with the commitments we took to the last election. So the commitments in relation to health, education and defence spending are therefore - as the Treasurer said earlier - a commitment to the same funding envelope does not mean we cannot improve the quality of the spend with that envelope which we are committed to do. This is about going through a proper ordinary process. I do not suggest for one moment either that we have not yet implemented any savings. As I said earlier, we took \$42 billion worth of savings to the last election, which was a significant savings package, all but one of those measures is reflected in the MYEFO document before you today. But we will build on that in the lead up to the Budget in May.

TREASURER:

And \$20 billion of savings are sitting up there in the Senate being blocked by the Labor Party now. So if the Labor Party wants to reduce the debt, if the Labor Party really cares about the deficit that they have left, they can immediately pass \$20 billion of savings that are sitting in the Senate - \$5 billion of those savings they promised at the last election and now they oppose.

LENORE TAYLOR, GUARDIAN AUSTRALIA:

[inaudible]

TREASURER:

We have been very specific in what we offered before the election. We are keeping to our pre-election commitments. We are not changing that. I just want to emphasise that we are going through things methodically and carefully.

FINANCE MINISTER:

Just to pick up on a point the Treasurer just made, which is a critically important point. Labor, right now, is opposing \$5 billion worth of savings that they banked in their Budget before the last election. They banked those savings, they did not do the hard yards to implement those savings. It is down to us to implement the savings that they banked in their budget.

TREASURER:

They challenged us to back those savings, and we did before the election, we did. Now they are opposing them.

Jennifer Rajca, Macquarie Radio Network:

Just in terms of the decision to redirect the money from the trade training centres, why the decision to target those centres and can you therefore guarantee that students will still be able to up skill to face economic challenges ahead that you have outlined today?

FINANCE MINISTER:

The first point to make year is that just before the last election, Bill Shorten, then the Education Minister, ripped \$1.2 billion away from schools in Western Australia, Queensland and the Northern Territory. It was never sustainable for a national government forever and a day to discriminate against schoolchildren in those three jurisdictions compared to school children in other jurisdictions across Australia. National government has got to provide funding to the school system in a nationally fair and equitable manner, which is of course is what this government has done. That left us with a \$1.2 billion funding challenge. Given that the Labor Party ripped that money out of the budget. What we have done here simply is applied budget process operational rules, if you have to increase spending for a purpose like this then you have to find offsets elsewhere and the government has reprioritised the spending in the education portfolio in order to ensure that we can provide funding to schools across Australia and a fair and even way that that is nationally fair and equitable.

PAUL OSBORNE , AAP:

I noticed in MYEFO, there is no mention of the word Holden, but there are cuts to two manufacturing assistance programs and there is also the \$500 million cut to the automotive transformation scheme. Now, what is your plan for manufacturing? What is your plan for the non-resources sector, particularly the manufacturing part of that? And when will we see some incentive and so on for that industry?

TREASURER:

We have provision within the contingency reserve funds for the package the Prime Minister is currently working on in relation to the automotive sector and Holden in particular. So the money is there in the contingency reserve. It obviously depends on the shape of the package, but we provisioned for it. The best thing you can do to manufacturing today is get rid of the carbon tax and lower the cost of energy. That is the best thing you can do to help workers and families today. The Labor Party are opposed to it. They are blocking it. They were opposed to the carbon tax before the election and now they are the ones keeping it.

ANDREW PROBYN, THE WEST AUSTRALIAN:

Gentlemen, enjoyed the tag-team today. Can I ask you about the Clean Energy Finance Corporation? You booked a \$760 million saving over four years by scrapping it. Now the document we have here today shows that in fact it will cost your government \$439 million over the forwards to scrap it. Now would not an adult government in the face of this evidence say oh well, this is quite interesting. Maybe we could keep it. That it looks like direct action and you could still scrap the carbon tax and allow Jillian and co. to continue doing their work?

TREASURER:

The cost of funds are in the Budget. So the CEFC funding is not free. It is banked in the budget. With the abolition of the CEFC, the CEFC is a stand-alone entity lending out money, maybe it does make money but they do not have to account for the \$10 billion that goes into it in the first place and the cost of those funds which were all borrowed. Our view is you should not be borrowing money to lend money and that is exactly what is happening to the CEFC in my opinion.

FINANCE MINISTER:

Just an additional point, the CEFC has been operating since 1 July 2013 and I have seen various claims about the returns that they have been able to deliver. Let us just say that we ought to be very cautious about making judgements on the medium to long term performance of an organisation that has only just started writing loans. As the Treasurer just said the CEFC was funded by the previous Government from borrowed money. Now the CEFC does not have to separately account for the cost of those funds, but it is ultimately a cost to the taxpayer. Abolishing the CEFC the way we said would leave the taxpayer better off. Of course it was something that we transparently took to the last election [inaudible].

PHIL HUDSON, HERALD SUN:

are you worried that today's announcement of the doom and gloom budget outlook and mystery cuts ahead in May could be a risk to confidence on the eve of Christmas with only seven

shopping days to go, that people may restrain some of their spending? You repeatedly ridiculed Wayne Swan, saying he would never deliver a budget surplus, will you ever deliver a budget surplus?

TREASURER:

Depends how long I live. But I really hope I will live long enough and I hope it is not too far away. I am not going to get into the timetable because as you can see there is much work to be done. You damned if you do and you're damned if you don't. Of course I wanted MYEFO to be later rather than earlier so that consumer confidence and business confidence would not be interrupted before Christmas. I had no choice about this timing. I was goaded into not delivering it in January, in fact by all of you, complaining to me that it was going to interrupt your holidays. Maybe not you, Phil, but others. I wanted to wait for the National Accounts, the September National Accounts, and thank goodness I did. There has been a tendency to release it earlier, in fact, the previous government always tended to release it in November, even October and they did not have the latest data. So it meant that their forecasts were inevitably going to be riskier and less likely to be accurate. So I wanted the latest National Accounts, which I have said consistently. Getting the latest National Accounts, they have fed into the updated figures, so this is the latest data. That is the prudent way [inaudible] I want to keep doing it this way.

FINANCE MINISTER:

The very important part of the story of confidence is presenting a set of numbers that is believable. Part of what caused the deterioration in confidence under the previous government was that nobody could ever believe that the numbers that they put forward. They kept changing, deteriorating, from one budget to the budget update to the next budget. So our effort here is, as part of our effort to restore confidence, is to put forward a set of numbers that is believable.

MICHELLE GRATTAN, THE CONVERSATION

Just to take up that last point, clearly these numbers have been made worse than they would have otherwise by your changes in methodology.

FINANCE MINISTER:

Realistic assumptions.

MICHELLE GRATTAN, THE CONVERSATION:

You have had a couple of questions on this and Mr Hockey made the point that Treasury, to its credit, had made changes in relation to the unemployment methodology. I just wonder whether you could enlighten us just a little further, Mr Hockey, about the details of that conversation with Treasury. Was Treasury happy with these various changes in methodology? Do they accord with standard accounting or financial planning practice? Or was it in the end that these changes were imposed by the government on the Treasury?

TREASURER:

It is clearly, and I am not saying that Treasury previously using NAIRU as the projection methodology for unemployment was necessarily wrong. In PEFO they recognised, by offering

an alternative, in PEFO they recognised that it may be a little misleading. It is virtually impossible to see, and I refer you to the table on page 2 of the document, how, with real GDP at 2.5%, employment growth at 1.5%, how you can go from 6.25% unemployment rate one year to 5% the next. It defies logic. That is obvious. I said that at the National Press Club and Treasury agreed - Treasury recognised that. I do not think there's any dispute there. In relation to the terms of trade - to take a more forensic approach. I understand that. To be fair, forecasting three or four years out is damn hard, I have always said that. But having benign assumptions that lead to the misconception that the bottom line is going to be better than what it is, leads you to make a realistic assessment about the numbers. I fully support the numbers. These are the numbers given to me by Treasury, but most importantly, I refer you to page 16, consensus forecasts the table on page 16 identifies that this is in the middle of the range of whether there is a group of people at, not just Treasury, but others as well.

CHARLES CROUCHER, NINE NETWORK:

Both yourself and the Prime Minister have made quite a bit of hay this week by saying he will draw a line in the sand under Labor's debt and deficit. Given that line has now been drawn, can you guarantee us, moving forward, that any numbers will be your numbers and this blame shifting will stop?

TREASURER:

It is not blame shifting. This is the responsibility of the Labor Party. This is the true Labor budget. This is what they left behind. We stand ready to fix it. We stand ready to fix it. They are running around as if there was no six years of Labor government – well, there was. The legacy is \$123 billion of deficit and up to \$667 billion of debt and someone is going to have to pay that all back. Now, we stand ready to do the job. We knew that we would have a task before us. We knew that. We did not think it would be this significant, but we are not intimidated by the challenge. We relish the challenge - because we have done it before and we will do it again. We are not going to make ridiculous timetables, we are not going to make silly promises - we are going to get on with the job of fixing the budget and strengthening the economy. And that is what we owe to the Australian people.

STEVEN SCOTT, COURIER MAIL:

Can I just take you to the other half of how you are paying to your change of heart on school funding for Queensland, Western Australia and the Northern Territory. What is the reasoning behind getting rid of the building for stronger communities fund, which I gather pays for things around the country and you are thumbing that money into just three jurisdictions?

TREASURER:

We need the money. We need the money. It is as simple as that.

FINANCE MINISTER:

It is another reprioritisation of Government spending. As I said earlier, the Labor Party's decision to reap \$1.2 billion away from schools in Western Australia the Northern Territory in Queensland was never sustainable. It always had to be fixed. It would have been sustainable

under Labor, but you cannot just take \$1.2 billion from spending and not look for some offsets. This is an essentially a decision by the government to re-prioritise spending.

TREASURER:

Do you really think Labor would have proceeded in government cutting funding the schools in Western Australia, Queensland and the Northern Territory? Really? Does anyone really think that is the case? No. What we have done is we have said if we are going to make a promise we have to pay for it. If we are committing to any new expenditure, then we have to make the save.