



The Hon. Scott Morrison MP
Treasurer

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Subjects: Budget 2016; Turnbull Government's quality reforms needed to get all Australian students ahead; Turnbull Government says no to Labor's housing tax; Turnbull Government's actions on Multinational Tax Avoidance; Labor's decision to vote against the Turnbull Government's Combating Multinational Tax Avoidance legislation; future submarine program.

LAURIE OAKES: Treasurer, welcome to the traditional pre-budget interview.

TREASURER: Great to be here with you, Laurie.

OAKES: There's a lot riding on this Budget. People say in fact the election result could ride on it. Are you nervous?

TREASURER: What is riding on it is the successful transition of our economy from the mining investment boom through to a more broad, diversified, stronger new economy. That is what the Budget needs to address. It needs to have an economic plan to manage that transition successfully and we are managing it successfully. I mean, we have got 3 per cent growth from last year, around 300,000 jobs. So the Budget is actually about the economy. It is about jobs and it is about growth. There will be plenty of talk about politics and all of that sort of thing, but for me, it's about us ensuring that we can manage that transition and continue to do it well.

OAKES: Within a week of this Budget speech, Malcolm Turnbull will go to the Governor-General, both Houses dissolved so they can have a July 2 election. Isn't this effectively the Coalition's election manifesto?

TREASURER: What it is is the Government's national economic plan for jobs and growth and a strong new economy. That is what it is. That is what we will be saying to the Australian people is needed to ensure that we can continue to do well. There is a lot riding on ensuring that we get this plan right. And that we stick to this plan, as we will, and we get an endorsement for this plan because that is what is going to be there to support the jobs and the growth in the future. We will do that by not spending more than we save. We are going to do it by ensuring that we don't increase the tax burden on the Australian economy at this very critical time over and above what the current projections are. These are things that you have to get right and that is the plan that we are putting to the Australian people.

OAKES: Ok but it is still the start of an election campaign. Will you have money for election sweeteners, election goodies?

TREASURER: This is not a Budget and not a time for Governments to be throwing money around or for others to be throwing money around. What you have to do is you have to spend wisely and you have to spend carefully. You have to spend in a very targeted way. And you don't spend more than

you save and you don't increase your spending based on a higher and higher tax burden on the Australian economy. Our economic plan is all about ensuring that we live within our means. Australians are living within their means. They are living within their means in their business. They are ensuring that they're spending goes further with what they are doing. And the Government has to do the same and that's what this Budget will do.

OAKES: Are you saying this will be the first budget in living memory that won't have election sweeteners in it? Your first re-election Budget?

TREASURER: This Budget is about an economic plan. It is not a typical Budget, Laurie. I'm really up-front about that. It is not a typical Budget. It is a Budget that has to be responsible and focussed on the economic plan that the country needs.

OAKES: What about yesterday's leak about tax cuts for people earning \$80,000 and above starting the day after the election, that will certainly be seen as an attempt to win votes, won't it?

TREASURER: Well, I'm not going to comment on the speculation in the papers. The announcements will be made on Tuesday night.

OAKES: Christopher Pyne virtually confirmed it yesterday.

TREASURER: I'm not going to comment on that speculation other than to say this - we have to clear the way for people in this economy. The people are actually making this economy work at the moment Laurie, the ones that are successively making this transition work are small and medium sized businesses. They are people out there earning average wages. We need to ensure that we are clearing the way for them to continue to do that because they are the hope of the side. They are the ones that actually will see all of us, the whole economy, go through this transition. So, in focussing on those who we think you need to absolutely back in to make the economy work, well, that's a good plan.

OAKES: Ok, you are playing down the suggestion of election sweeteners. What about nasties? Will there be much in this Budget that will alienate voters?

TREASURER: We will continue to ensure Government expenditure as a share of the economy reduces. It must. The way that you fix your Budget, the way that you fix the problems in the Budget and return the Budget to balance is by getting your expenditure under control and by growing the economy so revenues can lift with that growing economy. Now, that is how you get back to a sustainable Budget balance. You don't get there by whacking up a massive tax burden on the Australian economy. Not only is that not a sustainable position to be in for the long-term but it is just hurting the Australian economy at the most sensitive time in this transition. Taxing and just throwing money around to try to spend all of those taxes is not a good plan for jobs and growth.

OAKES: But will there be big cuts in this Budget?

TREASURER: There will be continued discipline. Continued discipline, Laurie.

OAKES: Is that a yes?

TREASURER: It is continued discipline which we have been showing. There are always difficult decisions in all Budgets because, for example, in health and education, we have got commitments in this Budget. We have already outlined the commitments on health of \$2.9 billion and I can confirm also the \$1.2 billion additional that will be in the Budget and Forward Estimates which gives, I think, families assurances about critical things. But we pay for those additional commitments through real targeting of our expenditure in other areas and that is how you make these commitments. That is

why our commitments in health and education are affordable. We are not spending money we don't have. We are not spending money we haven't saved. We are not increasing the deficit to do it. We are not increasing taxes to do it. It's affordable. It's real money. Unlike what we saw from the Gillard Government throwing money around, making promises on health and education, and the ultimate outcome of that is people are either left disappointed or they pay more tax for it.

OAKES: You mentioned the \$1.2 billion that we read this morning will be in the Budget for disadvantaged schools...

TREASURER: More than that, \$1.2 billion for schools funding and that would mean that over the Budget and Forward Estimates...

OAKES: Not just disadvantaged.

TREASURER: That's right. I can tell you today that in addition to that \$1.2 billion, there will be \$118 million over two years, particularly to support disabled children in schools. That's another important program and that's on top of the \$1.2 billion. But it's all paid for. It's all real money. It's all money that Australian families can rely on because we have done the work to be able to pay for it.

OAKES: Now, there are tight conditions on this \$1.2 billion. What are they?

TREASURER: That's right. Those conditions, well, Minister Birmingham and the Prime Minister will make further announcements about this but when you are spending money, you've got to make sure it goes further in this economy. Families understand that. Businesses understand that. So you just don't throw money around. You make sure that there are real conditions and outcomes that we want from this. So we do want our children to be able to be doing better in math and in English and in their reading and all the basics. We want to make sure they are doing that and we also want to make sure that it is focussed on lifting the performance of our teachers as well. We have got great teachers in this country. I was taught by public school teachers all the way through my life, as was my wife. So, I'm a big believer in the public education system. We have got to make sure that the teacher quality is there to support our children.

OAKES: But this is basically Gonski chop back, isn't it?

TREASURER: What this is is an affordable plan for growth in education expenditure. Our education expenditure will increase by more than 25 per cent over the Budget and forward estimates and will come close to \$20 billion at the end of that period. Now, that is a significant increase in investment in education.

OAKES: It's also a lot less than Gonski wanted and a lot less than Labor is promising?

TREASURER: Well, Labor is promising higher taxes. That's what they are promising. And what they are promising is an unfunded plan over the longer period of time. What I'm saying is we will spend the money that is affordable. We will spend it in a way which is disciplined. And we will spend it in a way which gets outcomes. We have had a growth in spending in education over the last 10 years by both sides of politics. But we haven't been getting the outcomes in education at the same time. So throwing money around isn't the answer. Spending money wisely and making that dollar go further is what you will see in this Budget for our children and education.

OAKES: With a lot of help though from Tony Abbott and Joe Hockey, your Government now has the reputation of being cutters when it comes to health and education. Now, doesn't sound as though the Budget is going to turn that around. Health and education will be big election issues.

TREASURER: And we are increasing education spending by over 25 per cent over the next four years. So I mean, I'm not suggesting that that can do everything that everyone would like in education but it's affordable, Laurie. I mean, you just can't go and spend money you don't have. That's what the Labor Party do.

OAKES: Will the states accept that? The NSW Coalition Government has been one of the leading critics of the federal Government's education cutbacks and health.

TREASURER: The Commonwealth Government accounts for more than half of all education spending done by the states, once you take account of all the special purpose payments and other payments and transfers that are made to the states. More than half of all funding of education paid for by states is actually as a result of the funds they get from the Commonwealth Government. So we are more than an equal partner in the investment in schools and particularly public schools around the country. We will continue to invest in that. The funding for public schools alone under this plan increases by a third over the Budget and Forward Estimates. Now, we will spend responsibly at our level and states need to spend responsibly at their level and their there need to be ties otherwise it will just be spent on higher and higher wages and blow outs and other expenditures which we have seen from the states...

OAKES: But the states say they can't afford any more.

TREASURER: Well, the states have to manage their budgets well as well and they are making their own decisions about their own priorities. Whether it is in the infrastructure they are spending or in Victoria's case they are spending over a billion dollars on actually not building the East West Link. They have got to be accountable for their expenditure. We will be accountable for ours. What we are doing on education and health, because on health there is also \$2.9 billion extra that we announced at the COAG meeting which they all agreed to and accepted. So we have a clear plan to affordably fund what you need to do in health and education and that's what the Budget will do. Why? Because we have got our expenditure under control, Laurie – that is the key. That is how you can make these commitments.

OAKES: You say that but expenditure has increased since Malcolm Turnbull became Prime Minister.

TREASURER: That's actually not true, Laurie. Expenditure as a share of the economy has not increased. In the MYEFO statement released last December, it showed that our policy decisions on spending meant they were more than covered off by the savings we made. That will be the same again in this Budget. So, where there are additional commitments, like for the additional refugees that we have taken in under the plan regarding Syria, these were things that we found the savings for to be able to pay for. We don't do it by putting up taxes.

OAKES: But you are going to introduce the seniors tax, as Tony Abbott calls it, at the high end of super.

TREASURER: We will deal with integrity in the tax system. We will ensure that what are very generous tax concessions for superannuation for those on very, very high incomes, we have made no secret about the fact that we will be looking at those measures and those things will be announced in the Budget. We have also made no secret about the fact that we will be cracking down further on multinationals. We put legislation in the Parliament last year to crack down on multinational tax avoidance and the Labor Party voted against it. They actually voted against making it illegal for multinationals to avoid tax.

OAKES: A few quick questions. The Reserve Bank board meets on Tuesday to consider an interest rate cut. Will the Governor Glenn Stevens be briefed on the Budget before that meeting so they can take into account what you will be doing?

TREASURER: Look, the Secretary of the Treasury is a member of the Reserve Bank board. I'm not going to go into the sort of discussions that I would have with the Reserve Bank Governor. I don't think that would be very appropriate at all. But he has an important job to do that day, as do I...

OAKES: But he won't be able to take the Budget into account?

TREASURER: That is a matter between the Reserve Bank, Treasury and ourselves but what I'm saying is I have absolute faith in Glenn Stevens. He has been an extraordinary Governor of our Reserve Bank...

OAKES: Why can't the public know whether you are telling the Reserve Bank what you are up to?

TREASURER: These matters are market sensitive, Laurie and I am not about to...

OAKES: But the fact that you have discussions.

TREASURER: We talk all the time. I talk to Glenn regularly and you can be quite assured that Glenn Stevens will be in a very good position to be informed for the decisions he has to make on that day.

OAKES: I can't quite see how it affects the markets if you say you will tell Glenn what's in the Budget.

TREASURER: We'll have to have a different view on that.

OAKES: I suppose that's right. Will the Budget make any meaningful inroads into debt?

TREASURER: Debt, as long as we have got a deficit, debt will obviously continue to increase and that is why we have to reduce the deficit and the deficit will fall over the Budget and Forward Estimates in the statement I release on Tuesday night.

OAKES: Will it fall in the Budget?

TREASURER: There is still a deficit. So debt will increase so long as you have a deficit by definition.

OAKES: But what about the deficit itself, will that improve?

TREASURER: The deficit will decrease over the Budget and Forward Estimates and we will see both gross and net debt peak over about the next five or six years and then it will start to fall. That is consistent with the projections we put forward in earlier statements. But to start reducing the debt, you've got to get the deficit down. To get the deficit down, you've got to keep your spending down and you don't do that, you don't get a sustainable path back to Budget balance by increasing the tax burden on the Australian economy. That just retards growth over the longer term and it punishes the economy at a time when we need it to perform at its best.

OAKES: You were saying a few months ago that there were excesses in the way negative gearing works. Have those excesses suddenly disappeared? If not why aren't you acting on it?

TREASURER: The first thing you've got to do is when you are looking at tax changes is you have got to do no harm. You have got to make changes that do no harm to the Australian economy. Our systems are never perfect but when you look across the negative gearing in particular, which is predominantly used by mum and dad investors, it is police officers, its teachers, its nurses, its train drivers – they are the people who actually do negative gearing. At the upper end, there are people who use it as well. But if you were to make changes there, you have got to think about what will be the impact on the housing market itself and what will it do to the confidence of people and the value

of their own home. One of the reasons why our economy has done so well has been the confidence of householders to be out there and participating in this economy. Now, if you want to crack the confidence and crush the confidence of Australians, then start playing around with the value of their family home, which is what Labor is proposing to do with their quite reckless proposal. We won't be doing that. For those reasons.

OAKES: Now you keep saying that Australia, the Government, has to live within its means. So how do you reconcile that with the submarine decision the other day where the Government has agreed to pay \$35 billion in today's dollars for 12 French submarines when they could have got 12 Germany submarines for maximum of 20 billion?

TREASURER: Well, you're not on the National Security Committee, Laurie. I am and I am aware of what are the numbers...

OAKES: I know that. You're on the committee and you pay the bills.

TREASURER: I tell you what this defence decision does, of course it provides for our long-term defence needs and interests. But economically, as the Treasurer, what it means is by building these submarines in Australia, we are enabling a transformation of our defence industry...

OAKES: The German submarines would have been built here as well. In fact the Germans want to build all 12 here. The French want to build two in France.

TREASURER: That is not what will happen.

OAKES: But why pick the vastly more expensive one if we are living within our means?

TREASURER: That was the unequivocal recommendation of those who ran a meticulous process which was overseen not just by those peer reviewed here in Australia but some of the best defence minds in the world. So there will be lots of commentators, Laurie...

OAKES: Shock horror, bureaucrats want to spend a lot of money. You are saying we should live within our means.

TREASURER: What I'm saying is we are going to invest in Australian jobs, we're going to invest in Australia...

OAKES: Australian jobs either way.

TREASURER: No, no, not necessarily. Not necessarily.

OAKES: Under the German bid it would all have been done here.

TREASURER: Not necessarily. This bid that we have entered into a negotiation on, so it's a negotiations now, designs have not even been drawn up yet in terms of what the submarine might be but the point about the defence decision, it is an investment in the transformative power in the manufacturing industries – that is what we want to see happen. High-tech jobs in Australia will come from this decision.

OAKES: Would the Germans not have provided high-tech jobs?

TREASURER: If it was the best bid Laurie then the defence chiefs...

OAKES: You are paying nearly twice as much.

TREASURER: No, that's not true.

OAKES: Where are we living within our means?

TREASURER: Laurie, you have got to build the thing that the country needs. Step number one...

OAKES: The country needs, you say, conventional diesel electric submarines. The French specialise in nuclear submarines. The Germans specialise in conventional diesel electric submarines. Where is the logic?

TREASURER: Laurie, the decision we have taken is completely in accord with the strong and unambiguous recommendation who know far more about this than frankly you and I put together multiplied by 20...

OAKES: The French don't make many conventional subs, made you an offer for subs that are twice as good, do you think?

TREASURER: It meets the requirements more than any other bid.

OAKES: And it is vastly expensive.

TREASURER: And it invests in Australian jobs, high-tech jobs for decades to come...

OAKES: So does the German bid.

TREASURER: ...and that is what we are investing in. If the other bid was a better bid, then that would be the bid they recommended but it wasn't, Laurie. You're suggesting that we should have gone against the advice...

OAKES: What I'm saying to you is people in the field...

TREASURER: ...of people who have gone through this from top to bottom, over months and months and months and they have come up with a clear recommendation which is understood and supported by peers, both here and overseas, and it is the right decision but more importantly, it is the right decision for the Australian economy. This decision will produce jobs right across the supply chain in Australia. And help us further in this transitioning economy...

OAKES: But so would the Germany bid. So...

TREASURER: Laurie, you're making that assertion on the basis of information that, frankly, is questionable.

OAKES: Well, it is the bid that the Germans provided you.

TREASURER: Which was not assessed as the best bid by people who know what they are doing, Laurie.

OAKES: People I have spoken to since you made the decision are, quite frankly, bamboozled. Some of them say it will be another fiasco and there is a suspicion now that people in defence ultimately want to transfer to nuclear subs, which is why they have gone with the French model.

TREASURER: Well, that is not the decision of the Government. The bid that the Government has agreed to now negotiate on was the unequivocal recommendation, daylight second, when it came to the needs and what we needed for our defence industries...

OAKES: [Inaudible]

TREASURER: The bid that was put to us was the bid that was universally recommended by those who were tasked to do the technical work on working out what the best submarine was for Australia. As Treasurer, the best decision was to have those built here in Australia. So, that decision is about high-tech jobs, not just in South Australia, but right across the supply chain. You add that to what we have done on the frigates, you add that to what we have done on the Pacific patrol boats. What this means is it is not just about the shipyards in Perth and in Adelaide, it is about jobs right across the country. I think Australians understand that. This is a wise investment. It is a calibrated investment and it is a decision based on the best possible advice the Government could get on this issue.

OAKES: OK, let's hope it is not a fiasco. We thank you.

TREASURER: Thanks a lot, Laurie. Good to be with you.

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