

INTERVIEW WITH JOE O'BRIEN

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SUBJECTS: Economic Outlook/Stimulus Package

O'BRIEN:

Ken Henry has declared there are some grounds for economic optimism. But at the same time he has eyed our neighbours and urged caution. For more on this we are joined by the Assistant Treasurer Nick Sherry in Canberra.

SHERRY:

Morning Joe and to your audience.

O'BRIEN:

What is the likelihood of a second shock wave?

SHERRY:

Well, I think if we look at the rest of the world and our destiny, our economic destiny is linked to events in the rest of the world, there is still considerable uncertainty about the economy in the US where unemployment, where and when it will reach a maximum. Having said that, there are some good signs. Certainly Japan yesterday, they are now enjoying some growth from the first time and France and Germany last week appear to have bottomed and their economies are improving. So I am mildly optimistic, certainly more optimistic than I was say 6 month ago or a year ago.

O'BRIEN:

If there was to be a second shock wave though, what is it likely to be borne of? : The first was from the problems with the US housing market.

SHERRY:

Well certainly in terms of the financial system that has broadly stabilised worldwide but there will still be or still could be event say in the US property market, property valuations. I know that was a concern when I visited New York and Washington some weeks ago and where exactly

does unemployment, what level does it reach in the US and then how long will it start to come down. They are still important question marks and what happens in the US affects the rest of the world, including Australia.

O'BRIEN:

Now what do you say to Ken Henry's remark that nobody really understands the reasons behind Australia's strong performance?

SHERRY:

Well I think Ken as well as saying that identified why Australia has done comparatively well. The bank guarantee, the decisive decision to guarantee bank deposits and inter-bank lending. Certainly the fiscal stimulus again was mentioned yesterday as an important, very important element in cushioning the economy but also the Reserve Bank's actions in reducing interest rates to a 50-year low. That combination of activity has served the Australian economy well in these very, very difficult circumstances. We are the only economy that has not - of - of 30 economies that has not gone in the recession so I think we can clearly identify now that the stimulus package for example has stopped the retail spending going off a cliff as it has in some other countries, same with the building sector. The building sector activities has held up well compared to other countries so I think now the evidence is there that conclusively the decisive actions around the stimulus package, the guarantee, the Reserve Bank activity has served our economy well compared to two other economies.

O'BRIEN:

Then his remark would seem to indicate there may have been an element of luck to it. Do you think there has been no luck to it, it is all up to your management?

SHERRY:

Well, there is certainly a combination of factors. The fact that Australia is with its trading partners a predominantly linked the Asia now and if you look at the performance of say China, India, Indonesia, they have comparatively done well while their growth has dropped it certainly has not become negative like most of Europe and North America so I think the positioning of Australia and its economic links with Asia has been a help in addition to the various decisive policy interventions of the Government around stimulus, bank guarantees, actions of the Reserve Bank etcetera.

O'BRIEN:

Taking into account Australia's strong performance is there any scope to wind back some of that infrastructure spending over the next couple of years so that the debt does not grow to the extent that we are expecting it to?

SHERRY:

Well definitely not. I mean the stimulus package, we can divide it into three elements. Firstly there is the initial phase which was to provide cash payments and additional monies through the first homeowners grant. No that phase if you like is coming to an end or will come to an end in the case of the First Homeowners Grant, the increase there. Second and third phase are longer term investments that will make the economy stronger in the longer term by boosting productivity. The National Broadband Network for example, investments in ports, roads, those sorts of long term investments are necessary to strengthen the economy over the next decade to improve productivity so no there is no real reason to wind back the stimulus package. Our level of Government debt has been primarily brought about by the collapse in revenue as a result of the worldwide recession. That has been the primary cause.

O'BRIEN:

And if that big spending continues over the next couple of years the Government is going to have to make some tough decision on where it finds the money to service that debt. What are you going to do in terms of tax? The Opposition is trying to tie you down on where you are going in terms of tax, homes worth over \$2 million, capital gains, is that in the mix?

SHERRY:

Well, no that is nonsense. The Henry Tax Review is looking at our tax system. It will provide a report to Government at the end of the year and in respect to that specific example that I noticed had some prominence on the front page of one of our papers at the weekend, I mean it was fiction. It was fiction that report. The Henry Tax Review has not done any work in that area.

O'BRIEN:

Where you will be looking?

SHERRY:

Well we'll wait until the Henry Tax Review reports at the end of the year but I will give you one example. Yesterday unfortunately the Liberal Opposition have decided to oppose Labor's attempts, determination to

collect revenue owed to Government on employee share schemes so in opposing that they are going to add to the Budget deficit to the tune of \$135m, tax revenue that should be collected. I mean unfortunately I think the Liberal Opposition want it both ways, they criticise us given the debt levels as a consequence of the global financial crisis and then when we want to collect revenue that should be collected they oppose us.

O'BRIEN:

Thank you