

INTERVIEW WITH KIERAN GILBERT

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SUBJECTS: National accounts, stimulus package

Good morning and welcome to AM agenda. Has the Australian economy continued to grow in the second quarter of this year? Some terrible trade data has dampened expectation but most economists still expect the number to be positive when it is released today, but only just. Coming up on the program I'm going to be speaking to Labor front bencher Jason Clare and Liberal front bencher Scott Morrison in our regular Wednesday panel. First though on today's program I am joined by the Assistant Treasurer Senator Nick Sherry.

INTERVIEWER:

Minister thanks for your time. How important is it in your view that the GDP number today is positive in terms of consumer and business sentiment?

SHERRY:

Well good morning Kieran, good morning to your viewers. I think today's figures when they are released will be a timely reminder that there is still a rocky road ahead, bumps in the road and we are certainly not out of the woods yet in terms of the impact of the global financial and economic crisis.

INTERVIEWER:

But in terms of sentiment if it is a negative number, how damaging is that I mean obviously to have two consecutive quarters of growth would be, would be quite a boost for sentiment you would have thought.

SHERRY:

Well let's see the numbers first; what we do know is that the Australian economy in the face of the global financial and economic crisis has performed amongst the strongest in the world. We haven't gone into recession unlike 29 of the other 30 countries, Government debt by comparison is far lower than other countries so that that's reflecting the impact of the stimulus package and the decisive actions of the Rudd Labor Government for example would be the bank guarantee last year.

INTERVIEWER:

You and the Treasurer and others in the Government have made a great deal of monetary and fiscal policy working in tandem. The RBA is now signalling it is going to raise rates in the not too distant future, why then doesn't the Government consider winding back stimulus, if it's through policy working in tandem.

SHERRY:

Well interest rates are at record lows, I mean the cash rate is at 3% which is I think the lowest in 50 years. They are at what Glenn Stevens describes as emergency levels; they reflect the impact of the global financial and economic crisis. The Labor Government have been open and frank with the Australian people unlike the Liberal party I recall in 2004. Interest rates are at record lows at the present time and there is, there is going to be adjustment of interest rates as the world economy moves into the recovery phase.

INTERVIEWER:

But if it is working in tandem fiscal and monetary policy, why won't the Government even consider winding back the stimulus if the RBA is considering raising rates surely if your argument is correct that you are working in tandem then you would be considering the same thing.

SHERRY:

Well the stimulus is obviously, I mean having a significant cushioning in the Australian economy and there is no need to wind the stimulus back if we look at the range of economic data that is being released. Investment for example investment was positive, but if you remove the impact of the stimulus, it's negative. If you look at non-housing construction figures released last week are showing a negative 9.8%, if you remove the impact of the stimulus, the stimulus is very effectively cushioning the economy and we are moving through from the short term stimulus to the long term stimulus, which is about investment in areas such as ports, roads, railways broadband and those investments are very necessary to grow the economy in the longer term.

INTERVIEWER:

Well with the current account deficit blowing out the trade performance yesterday was appalling for the June quarter the Shadow Treasurer says the Government shouldn't be pursuing an expansionary fiscal policy at a time of a current account deficit the size of which we saw yesterday, is that a fair argument? I mean the Government putting money in and the increasing demand.

SHERRY:

I saw that the current account figures particularly the export figures to China as an indication of why we need stimulus. What we are seeing is Chinese growth has dropped in recent times because of the world economic crisis and because of the difficult economic circumstances, close to double digit unemployment in the US and in Europe, and that is impacting on China and in turn that is impacting on Australia. And that reinforces the need to maintain the stimulus to cushion the Australian economy and to underpin the Australian economy, business and jobs.

INTERVIEWER:

Ok just one final issue I want to ask you about the apparently under the Government's redirection of funds from the science and language centres for High Schools under this stimulus program the Government's redirected \$200m to the primary school upgrades which there was a cost blow out, some of the poorest schools in the country are missing out on these science and language centres. Today the Australian's suggesting the Yakanarra Community School in the Kimberly asked for \$500,000 deemed by the independent advisory board to be the most needy school and it hasn't got a cent, PLC Pymble one of the most exclusive schools in the country gets \$3m for a Primary School upgrade how does that work?

SHERRY:

Well as I understand that program was actually over subscribed and when the necessary funding was provided it was decided to reallocate, to reallocate the funds once the program had completed its targeted delivery to other areas. That is not unusual that's, not unusual in terms of many budget programs some of the estimates come in under some come over and it's not unusual...

INTERVIEWER:

But Minister but Minister on principle on principal how do you justify not giving Yakanarra Community School in the Kimberly a cent yet PLC Pymble \$3m.

SHERRY:

Well that particular program has delivered what was estimated in terms of the schools that would be assisted. The program has delivered and once the take-up was concluded it was decided to reallocate, reapportion the funds elsewhere. That's not unusual in any of the budget programs, it's happened in the past and I'm sure it will happen in the future.

INTERVIEWER:

With the poorer schools missing out as a result

SHERRY:

Well the point is that those that applied and the program was subscribed and met it's outlined targets and goals and then the monies were reallocated to other areas and as I say that's not unusual.

INTERVIEWER:

Ok Minister, thanks for your time, stay with us. After the break on AM agenda I'm joined by Scott Morrison and Jason Clare.