

Transcript

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Compere: **KIERAN GILBERT**

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Item: **DISCUSSION ON THE FEDERAL BUDGET.**

INTERVIEWEE: HEATHER RIDOUT, AUSTRALIAN INDUSTRY GROUP.

KIERAN GILBERT: I'm joined now by Heather Ridout, chief executive of the Australian Industry Group. Heather, thank you very much for your time.

HEATHER RIDOUT: It's good to be here, Kieran.

KIERAN GILBERT: What do you think of the Budget overall?

HEATHER RIDOUT: Well, business - I think, generally, business thinks it's a credible and cautious document. It's a no-nonsense, sort of, document. Very important that fiscal policy was repaired, and that it could do its heavy lifting in the face of emerging capacity constraints in the economy. We don't want any more pressure on interest rates because rising interest rates are bad for business, they're bad for consumers, they're bad for mortgagees. And so, that was pretty important.

We're very happy with the investment in skills. Skill shortages will be the number one issue facing Australia, over the next five to 10 years as the mining boom really sucks those resources out of the rest of the economy. And those three areas: the critical skill shortages area, the literacy spending and the reforms to the vocational and educational training sector, I think, they'll be very important.

I suspect more will need to be done, more money will need to be found for this area. Because on our calculations, and Skills Australia, will have 240,000 skilled people short by 2015. So it's a looming problem and it's a big one.

KIERAN GILBERT: It seems like we're back in that position very, very quickly after the crisis, where it was suggested that unemployment would be about that 200,000. But what's your sense of the amount of cuts that have been made? Some economists are suggesting that they haven't gone far enough. Do you think that they have?

HEATHER RIDOUT: Well, it's a pre-election Budget. I mean, you can't expect them to actually cut down to the bare knuckles. I mean, I think it's - so you've got to put it in that perspective. But the savings are quite widespread. The return to of the budget to surplus earlier is very welcome. The fiscal rules are even tighter as a result of the Budget.

You're going to have to - they're going to keep that two per cent spending rule in place even if the Budget is one - has to be one per cent in surplus. So they're quite tight and, you know, I think the savings are - the spending is only half what the revenue's going to be. So I think they've got the balance pretty right and as much as you could expect.

KIERAN GILBERT: Wayne Swan made the comparison, and will, no doubt, do this over the coming weeks many, many times with the Northern Hemisphere, with the numbers...

HEATHER RIDOUT: Yeah.

KIERAN GILBERT: ... that we're seeing in other advanced economies, and the fact that Australia's debt is one-tenth of the average across the OECD. What - what's your sense? Do you think that the business community gives the Government credit for the better than expected performance?

HEATHER RIDOUT: Look, I think the really weird thing was we all thought we were going to be invaded by the GFC and the invasion didn't, sort of, come, and there was this sort of feeling that we'd escaped a bullet, the great escape. But that meant that we probably didn't feel the punishing impacts of the global financial crisis like the Northern Hemisphere did. But they were real, and you can see it's still going on with the private toxic debt becoming public toxic debt in Europe.

I think Greece reminds us of two important things. One, that we do need to run at a low-debt economy. We shouldn't be frightened of having some debt, because we can invest in infrastructure, et cetera. But when government spending gets way out of kilter - and our debt will peak at six per cent of GDP. The average in the Northern Hemisphere will be 93 per cent.

So, you know, we've done a pretty good job and the Government - this government should be congratulated for it, and the former government should be congratulated for it as well, because they set us up with a pretty good balance sheet, and it's the Government's role to make sure we repair - get back to where we were before.

KIERAN GILBERT: The Opposition says that China's stimulus package was more important, in many respects, than Australia's. Do you agree with that?

HEATHER RIDOUT: Look, I think that's one element, definitely. The Chinese stimulus package was huge, and made in China's all over made in Australia. No, it's very, very important. But there are a lot of other things that work, and I think the Government's fiscal stimulus - act early, you know, act strongly - was Ken Henry's advice. They took it. Glenn Stevens' aggressive action on monetary policy. So we had synchronised fiscal and monetary stimulus.

That's now being withdrawn. The monetary policy stimulus is withdrawn. The fiscal policy is going to be withdrawn progressively from now on in.

And so, I think there were a lot of factors at work. House prices didn't fall in Australia, particularly, that was really important. So yeah, China's been helpful to us. We're in the best part of the world with an economy geared to the requirements of the region, complementary to the region, and that's going to work for Australia, which we see in those big terms of trade numbers.

KIERAN GILBERT: You - well, on that issue, the terms of trade numbers, your - you sound fairly positive about this Budget. There are others very critical of recent pronouncements, most notably the mining tax. How do you see that debate playing out?
Joe Hockey says the numbers can't be believed because the mining tax is assuming record terms of trade when you're imposing a big, new tax on that particular industry, mining.

HEATHER RIDOUT: Well, I think, in terms of world demand for energy and minerals, it's going to grow by something like 50 per cent over the next decade or so on most numbers, and this is huge. I mean, 400 million Indians don't have electricity, and the same will be in China and other places. So the demand for our stuff, and we have the world's biggest demonstrable resources in a range of areas, and right up there with a lot of others. You know, you can't dig stuff out of the ground and take it somewhere else and invest in it somewhere else. You've got to invest in it in Australia.

The royalties arrangement is a flawed way of taxing mining income because you pay tax whether you make a profit or not. You pay it on production. You dig a tonne up, you pay some. It's a very crude way to do it.

So, what Henry recommended was that we move to a profits-based arrangement and the super profits tax arrangement. So a normal profit, you just pay the normal company tax. And above normal profits, you get 60 per cent of it if you're a miner and the public gets 40 per cent of it less your company tax.

So it's an arrangement that's got to be negotiated through in terms of the transitional arrangements for existing projects and whether it is a certain normal profit, you know, that uplift factor has to be negotiated as well, I would imagine. But it's conceptually the right way to go for the mining industry.

KIERAN GILBERT: Okay. And for those of our viewers who don't know that you were not - you were, obviously, on that Henry review committee as well.

HEATHER RIDOUT: Yes, there's quite a few things there last night from that. You know, the savings discount, the simplified tax system for punters.

KIERAN GILBERT: Yeah.

HEATHER RIDOUT: I think they're all - and the dividend - the interest withholding tax removal. That's - that was also a Henry recommendation. So we're gradually whittling away those 138 recommendations. I think we're down about 133 now.

KIERAN GILBERT: Were you expecting those measures, the - that particular simplification of the tax?

HEATHER RIDOUT: Well - oh, I think that will be a great thing. Seventy-six per cent of Australians use a tax agent to fill in their tax returns, when 80-plus per cent of them have no deductions or minimal deductions. And it's a silly arrangement. So that's a very good thing.

The savings one is important. If you put your money to shares, or super or into a property, you get capital gains tax relief, you get tax concessions. You put your money in the bank. You pay tax on the whole lot, even the inflation component. It's distorting savings, and it's a long overdue reform. We advocated doing it differently. The Government have done it this way. But it's an important reform.

KIERAN GILBERT: One final question. I asked you on - in a general sense about the Budget and you seem to have given it the tick of approval. What were the negatives that jumped out at you, if any?

HEATHER RIDOUT: Oh look, I think, from an industry point of view, the fact that we haven't seen much assistance for exporters. The EMDG scheme is still sitting there under-funded and the TradeStart program's been cut. The continued uncertainty around the R and D program is really, really bad for industry, and we would have hoped to have - we want to get some clarity around that program, we want to get changes made to make it work, and we'll be strongly advocating that. So they were two areas which we were quite disappointed about.

The climate change issue, this new energy fund, we want it mainstreamed into energy efficiency and emissions reductions program, not just confined to renewables, and we'll be advocating that hard to the Government.

KIERAN GILBERT: Heather Ridout, as always, great to chat. Thank you.

HEATHER RIDOUT: Thank you, Kieran.