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PRIME MINISTER

E. & O.E. - PROOF ONLY

TRANSCRIPT OF PRESS CONFERENCE - 18 JUNE 1985

PM: Well good afternoon. Over to you.

JOURNALIST: Mr Hawke, are you disappointed by the way in which the big business and industry groups have reacted to the idea of a voluntary code of conduct to Australian firms in South Africa?

PM: I'm disappointed at the initial reaction. We will have further discussions with them and I believe that out of those discussions we should be able to achieve a basis of operation that will be acceptable. But when you commence anything new like this there is always going to be some reaction. I am not surprised.

JOURNALIST: Mr Hawke, you said a week or so ago that the tax package was open to negotiation and possible changes. Do these possible changes include the level of the consumption tax and the question of exemptions?

PM: Well, when you have a summit and you say you are going to invite the community through its representative organisations to raise issues in the White Paper, then you do that without reservation. I would simply say this - taking your two points in order. As to the level of the proposed broad based consumption tax, it has appeared to us that it needs to be of that order in conjunction with the other elements of the package, if you are going to be able to give the significant cuts in direct personal tax which we believe are necessary to achieve more realistic levels of contribution from peoples' wages and salaries to tax. On the question of exemptions, all the evidence that we have been given from overseas which deals with our own consideration of the issues suggests the inappropriateness of exemptions. It is not firstly, the most efficient way of dealing with the quite legitimate problem which is in the minds of people when they raise it. That is, if you talk about food in particular, it goes without saying, and was recognised from the beginning that of itself, tax on food is regressive. But if you eliminated food from the broad based consumption tax at the level which has been spoken of, it would cost you \$1.6 billion. Now, that would mean that higher income groups in the community would escape contribution, including that significant proportion in that region who virtually pay no tax at all now. So it wouldn't be the most effective way

of dealing with the problem of the impost of the tax on low income people. You address that problem, we believe, more effectively in the way that we have talked about - that is the combination of the tax cuts and the provisions for more than compensation through the social security welfare system. And of course, there are the other category of problems that are involved as well. Once you start making exemptions, then that immediately imposes significantly greater difficulties for the tax collectors. That is at the level of the retail shops and so on you have got to have a more complicated system of cash registers and so on. And secondly, you start down the track inevitably that has plagued this country in the existing area of tax on goods in the wholesale tax area where you have a totally incongruous, inequitable, logically unjustifiable mish mash of exemptions and inclusions at different level of tax - at the 7½%, the 20% and 32½%. And the next point follows. That once you start to allow one area of exemptions, then of course you get pressure groups saying, well, you have exempted that item. There is a very strong case for exempting this item. And governments then are down the slippery path which has resulted as I have described in the totally unrealistic existing system of tax upon goods in the wholesale tax regimen.

JOURNALIST: Mr Hawke, there has already been widespread reaction to the Government's preferred position on taxation reform, notably from the business community and the ACTU. In the light of that, are you satisfied with the level of debate so far. And more particularly, are you still confident you are going to be able to sell this package to the community?

PM: Well thanks for that question. I think it is an embracing one and very relevant. Firstly, am I satisfied with the level of debate. Yes. I think that by and large it has been a sensible debate. Inevitably, as one would expect when you are talking about tax, there has been the expression of particular interest group points of view. Naturally, people tend to be somewhat selfish and self-centred when they are considering tax reform. I am neither surprised nor disappointed about that. It is precisely what we expected. But importantly, I believe that the debate has not damaged the essential structure of the package. There is nothing emerged which has been put up as an alternative which would meet all the objectives of the Government's preferred package. I am indebted to the way in which the media generally has facilitated the discussion. And I believe that in the period which still remains between now and the summit that you will have a situation that the community will therefore be well served at the summit by the discussion that will have taken place till that point. I believe there will be a clearer appreciation of the essential objectives of the Government's approach. I think there will be a clearer understanding of the way in which the compensatory mechanisms are calculated to deal with, and I believe more than deal with, the problems that would otherwise be there. To the second part of your question, do you think we can sell it. Well, I hope so and I believe so because the one thing, if you like, that remains untouched in

any way at this stage, is the conviction, I believe, of the overwhelming majority of the community that the existing system is finished. It is unfair. It is inefficient. And it is totally complex. And increasingly it is operating in a way which is becoming more evident, I believe, to the Australian community whereby more and more of our fellow Australians in the high levels of income are avoiding virtually any payment of tax at all. And that must mean, I believe, that a decreasing number of Australians - and that will mean the ordinary wage and salary earners - will have a greater burden imposed upon them if no change is made. Now, I think that understanding is increasing. And I therefore am optimistic that in the period between now and the Summit, at the Summit, and the period after the Summit, we will be able to persuade the Australian people that the preferred approach suggested by the Government is the best way to go.

JOURNALIST: Mr Hawke, given that exemptions are virtually out, is there any sympathy for making some change to Option C so that lower income earners will receive a greater net benefit than Mr Keating has outlined?

PM: Well, this is one of the areas that is open to discussion. and you will note from your reading of the White Paper, the indications of a disposition on the part of the Government to consider further ways in which some small groups who may not be encompassed by the compensation packages may be able to be covered. And how some already covered, may be able to be better covered. We have not said that what is set out in the White Paper represents the last word in terms of compensation. And certainly I can say this on behalf of the Government. If out of the process of discussion between now and the Summit and at the Summit itself, there emerge viable effective, equitable ways of making the compensation packages more effective, then the Government will be very very well disposed towards embracing them.

JOURNALIST: Mr Hawke, are you concerned at all about the inflationary pressures building up in the economy, particularly the projected revision for next financial year of the inflation rate of seven per cent, and in the light of this, given that there are pros and cons both ways on this, will the Government be tempted at all to consider some sort of reduction in the 12.5% rate mentioned in Option C in order to minimise these inflationary dangers.

PM: There are two points to make about that. Firstly, of course, we have from the very first day in Government indicated that the control of inflation has been one of the primary objectives of Government economic policy making. We have translated that concern into effective action, and we have, as you know, more than halved the inflation rate that we inherited. So yes we are always concerned about inflation because inflation is damaging in terms of your competitive economic position internationally, And it is disruptive in terms of equity in the community because those on the lowest levels of income, whether it be as wage and salary earners, or as beneficiaries through the social welfare system, always have most to fear from inflation. And to the extent therefore that there are signs of some upward movement inflation, yes we are concerned and our economic policy making will be directed towards containing those elements and pressures within our economy which could, if not properly regulated, add further to those pressures. Now coming to the second point. You asked whether as a result of those signs of potential inflationary pressures, would there be an argument considered by the Government to think about a lesser level of a broad based consumption tax than the 12.5%. I believe not. Because what you must understand is that the level of the proposed broad based consumption tax has been reached in very large measure, in terms of trying to maximise the degree of relief that Government will be able to make available to wage and salary earners with regard to the direct tax that they pay. In other words if it were a lesser level of broad based consumption tax, say 10% or something less, then Government would have a lesser amount of revenue to make available for the purposes of reducing direct tax. Now this, I believe, is relevant to the question you asked because wage and salary earners are not simply going to leave themselves unprotected against an increasing erosion of their earned income by deprivations of tax. It is the case, as you know, that now that 46% rate impinges around the 19,000 level, and in the absence of change it would be biting in before the end of this Parliament at about 17,000. Now if people are paying more of their earned income in tax, then I believe that in the absence of significant reform they would be attempting to protect their disposable, real disposable, income position by more pressures for increases in money wages. And so if you're going to get the full analysis, and proper appreciation of the relationship between proposed tax changes and inflation it's no good simply saying a 12.5% broad based consumption tax has a 6.5% CPI effect. A one-off effect that would wash out within a year. If you're going to do the analysis

properly you have to say well, is it not likely that if you don't do something significant to reduce the direct tax rates will there not be wage pushes to try and maintain or improve the real disposable income position. So its our assessment, taking all those factors into account, that we believe, we've pitched the proposal at the right level.

JOURNALIST: Prime Minister one of the arguments of the business community is that you could fund a reduction in the rate of the broad based consumption tax, through further cuts in government spending, still get the same level of income tax cuts but reduce the CPI level.

PM: I'm glad you raised that. And there are a number of things that need to be said about this. Firstly, no Government has done more than this to impose effectively, constraints, restraints upon the levels of government expenditure through the life a Parliament. The trilogy is a self-imposed constraint. And by now in the life of this second Parliament, we have strongly evidenced our commitment to making the trilogy effective, and ensuring that the levels of Government expenditure will be constrained within the growth of the economy. Now, we are therefore able to base the business community, and the community as a whole, and say in regard to that area of concern, that is the levels of Government expenditures, that independently of what we're doing about tax reform, we have addressed that issue and addressed it more effectively than any other Government in the history of this country. That's the first point to make. Secondly, I would say this in regard to the question of the reduction of the levels of Government expenditure. We've made it quite clear from the outset of this tax reform debate, and the processes of achieving tax reform, that it is not appropriate within those forums to muddy the waters of tax reform by talking about the levels of government expenditures. We are open in the processes leading up to the Budget, and at all times, to representations from the business community, or elsewhere, as to how we should be addressing that issue. As I've said, in my first point, we've done more about it than anyone else, but we're still open to any submission that the business community, or others, want to make to us. To be precise, in budgetary terms, we have indicated that we will, in preparing the Budget for 85/86, reduce the deficit further, and you know we're talking in the order of 6 billion dollars. And I believe that that's the sort of figure which the business community believes is appropriate at any rate. The final point that I would make is this. That in all the talk about what should be done about the level of Government expenditures, and having said as I have what we have done, and more effectively than has ever been done before, I still want to make this point. That you won't find a very big file on the Treasurer's desk, or on mine, of detailed submissions from the business community or elsewhere, as to precisely how existing levels of expenditure should be cut beyond what we've done. I mean when you look at the

expenditure patterns of this Government, and indeed the Commonwealth Government generally, you will find that there are very large hunks taken up by areas which people really don't want to do anything about. Defence, payments to the States, social welfare, housing, education, you add all those up and you're talking about a very large proportion of government revenues. Now if the business community wants to, for instance, talk about the areas of government expenditures which are of assistance to the business community, well they should be cut back. Well that is certainly virginal territory for them, its open to them. And in the other areas that I've talked about, Defence, social welfare, payments to the States. In the area of payments to the States we've exercised more rigour effectively there than has been done before. So I repeat, finally, as a Government we are open to submissions and expositions about what should be done in the level of government expenditures. But I believe that when you get past the rhetoric, and get down to the detail that there is not a great deal of room for massive cuts in that area. But I believe, finally, that the two areas should not be confused. Because at any level of government expenditures there are the most appropriate, most equitable, most simple ways of gathering the revenue which is necessary to finance those levels of expenditure, and we should address ourselves to those issues.

JOURNALIST: Mr Hawke, the Treasurer, Mr Keating has made it clear over the last week or so that if the Consumption Tax proposal doesn't get up that he doesn't see much point in sticking around in politics. I wonder whether you think this sort of attitude assists the passage of Option C at all? Did Mr Keating indicate to you earlier on this particular attitude he's got? And what's your view of the Treasurer making this sort of threat to the Cabinet before some final decision is taken?

PM: I think these things have been like Mark Twain's death - grossly exaggerated. The situation is this quite clearly. The Treasurer has a audable and I believe understandable enthusiasm for achieving significant tax reform. This is not some personal Keating mission. It is consistent with the approach that he and I have adopted since we've come to government, that if you're going to put Australia into the best possible position for the rest of this century to properly develop its resources to take advantage of its position in the most dynamic region of the world, then fundamental structural reforms have to be undertaken. Our record already in this area, in the economic area, is quite outstanding and I don't think I need to repeat it in detail, as you know what's been done in the area. Financial deregulation, the bringing in of foreign banks, reform in the area of foreign investment, the floating of the dollar, the relationships between the Commonwealth and the States - truly historic achievements in a very short time. Now tax reform by any definition must assume a significant place in structural reform of the Australian economy. Paul is unswervingly committed to achieving significant tax reform, and in that he has my support. He is an enthusiastic operator as well as being a very effective operator. I don't think it does justice to him for it to be said now that he's the little boy with the cricket bat who'll take it home, if he can't get it his way. He is working extraordinarily hard, toughly to achieve what he believes, and I believe, is necessary to get the best possible basis for Australia to go ahead to achieve the sorts of growth - the realisation of our capacities that's within the potential of this country. He will do his hardest, work his hardest to achieve that result and I believe it will be successful. And I think it does him very considerably less than justice to say that if he doesn't - to hypothesise - to say well if he doesn't get exactly what he's been talking about then he'll go home. I don't believe he would.

JOURNALIST: That's based on his own words Prime Minister I think the question is whether you approve of those tactics he is using?

PM: Well, I'm simply saying I know Paul Keating better than anyone in this room. And I have nothing to add to or qualify the previous answer that I gave. I don't have to make my judgements about Paul Keating upon what in certain circumstances he may have said or be believed to have said to certain people. I know him better than anyone in this room. My judgement is based upon that knowledge of him.

JOURNALIST: Mr Hawke, are you concerned that the consumption tax will hit rural people, if we go outside the capital cities, harder than city people because of the higher prices there. And what can be done about this?

PM: Well let me say two things about that. Firstly I think it's evident from the time since we've been in government that we have a very clear realisation of the importance of the rural community to the Australian economy as a whole. I can't repeat too often, because it's still too easily forgotten, in all the talk about our mineral exports and so on, that 40% of Australia's export income is derived from the rural sector and therefore, quite apart from anything else it would be economically nonsensical deliberately to pursue policies which would be against the interests of the rural community, in terms of their capacity to produce. So we've never been about that and we are not about it now. We don't believe that the overall tax package will be of the kind that will have that sort of impact, that it will work against the effectiveness of rural production. As I've said in direct discussions with the National Farmers' Federation, we want to do what we can to help them in ways which are relevant to their position. And don't believe that you can use the tax system as a whole, when you're looking at the tax system for the whole of the country that you can use that as a way of specifically differentiating in favour of the rural community. But I can say this, that as we go up to the Budget I'll be looking at other elements of the rural cost structure to see what sort of things may be able further to be done to improve the position of the rural community in that way.

JOURNALIST: It has not only been said that the Treasurer has threatened take his bat home. It's also been said that he has threatened to hit people with it. In the Cabinet discussions on this matter, did he threaten to call a special caucus meeting to have a new ministry elected if he didn't get his own way?

PM: I think you ought to know by now Laurie, and I give you 10 out of 10 for trying, but I don't talk about what goes on in Cabinet Meetings.

JOURNALIST: Is that how you want to see your Government portrayed, Prime Minister?

PM: Well I can't really help how people's imagination runs riot about what happens in the Cabinet meetings. I don't run that sort of government. I'm simply not myself going to add to speculations about what goes on in Cabinet meetings by myself saying what does or does not occur.

JOURNALIST: Prime Minister would you close down Australia's Trade Commission in South Africa before going campaigning for trade sanctions in international forums.

PM: What we do about our office there is a matter which will be considered within the totality of our approach on this issue. No decision has been made. We will continue to conduct discussions with other countries within the Commonwealth, CHOGM, and within the United Nations. What we do ourselves will be consistent with the approach that we adopt in those forums.

JOURNALIST: Mr Hawke is it correct that the Foreign Minister has told you that he is very worried about the macro-economic problems associated with the broadly based consumption tax, and you believe that you and the Treasurer can get final Cabinet endorsement for a broadly based consumption tax if Mr Hayden does not come onto the cart.

PM: Well again, similar to the answer I gave to Laurie Oakes earlier, I'm not about detailing conversations that I have with Bill or with other Ministers. Having said that I think its fair enough to say this, without going into details, that in discussions that I've had with Bill, he's not taken any final position on this matter. He has raised prima facie questions, on economic grounds, and on political grounds. But the end of our discussion, which was a relatively brief discussion, he made the point that because of the fact that he'd been away, he hadn't had at that stage the opportunity of reading in detail the White Paper and the associated work that had been done around it. He was going to do that, and that when he'd done it he and I and Paul would sit down and have a very serious discussion about this. I certainly welcome it because from the very first day of Government Bill Hayden has been a very strong supporter of the basic economic thrusts that have been pursued by Paul and myself and that have been endorsed by the Cabinet. And having said that I, of course, am not going to the hypothetical question of what may or may not happen in the Cabinet following the Summit.

JOURNALIST: Prime Minister how concerned are you that the Labor Party isn't doing so well in the polls at the moment, and how much of that is responsible is due to the uncertainty generated by the tax debate.

PM Oh I don't know there'll be another poll tomorrow I guess. I don't know exactly what it will show. I would think that we're not in bad shape. I think there is emerging a very clear understanding of the steadfastness of this Government to pursue meaningful economic reform. The evidence of the success of the policies that we've been pursuing is more and more on the board. We now have the fact of 375,000 new jobs having been created. The evidence that's coming from industry of significantly higher levels of real investment, than was talked about at the time of the last budget. Confidence in the consumer area. So if you take the essentials of economic policy I think each passing week clearer evidence of the success of what we've done, and of the commitment of what we're about. Against that is the increasing uncertainty and chaos displayed by the Opposition. They are at odds within the Liberal Party, they're certainly at odds between the Liberal Party and the National Party. And I think that the confidence and the success and purposefulness of the Government will become increasingly evident, in contrast to those of us in the political community on the other side of the fence from the Government. Now, let me make the final point in regard to the last part of your question. Its inevitable that at this time overall political judgements about the Government will be mixed up with people's assessment, at this stage of the proposed tax reforms. And I think for some time it will not be possible to disintegrate assessments about tax reform from their overall political judgement. And in the sense that that is true, let me say this, because I'm confident that as the debate goes on there will be an increasing realisation of the, as I say, the good intent, the integrity, and the purposefulness of what we're about in the tax area, that the general political judgements about the Government will correspondingly improve.

JOURNALIST: Mr Hawke will you take one last question on the consumption tax?

PM: Well I will be in trouble with my highly paid press officers if they having said that was the last one I now transfer their responsibility to you.