



PRIME MINISTER

PRIME MINISTER ON ITA BUTTROSE - ZKY - 20 September 1985

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BUTTROSE: Everyone in Australia knows that reform of the tax system was necessary. And the previous Governments have ducked and dodged the issue for years. So, no-one in Australia can deny that the tax system needed reform and I believe the Government is to be congratulated for having the guts to bring about the reforms. The Prime Minister has been giving interviews almost non-stop since Treasurer Keating delivered the tax reforms to the Parliament. He even survived interviews with the brothers Willesee on their respective current affairs shows - no mean feat. This morning the Prime Minister will be happy to answer your calls on this program ... and I have the Prime Minister on the line now. Prime Minister, good morning.

PM: Good morning, Ita, how are you.

BUTTROSE: Well thank you. How are you, a little more to the point, you've been a busy man. You've been giving interviews all over Australia - I wondered what the reaction is to the Government's new tax reform.

PM: Generally favourable Ita. It's as to be expected, there's some indication of a little bit of a whinge here and there, but overall favourable.

BUTTROSE: On television last night - a small whinge - you seemed a little touchy on the issue of capital gains tax. During the 1983 election campaign, as you explained, you said that you said there would be no capital gains tax in the life of that Parliament and you did, indeed, keep that promise. Then last year during the election campaign you said there would be a review of the tax system and you didn't rule out a capital gains tax. So you certainly haven't misled the people. However, it did appear that you are somewhat sensitive to some criticisms of that tax.

PM: I wasn't sensitive to criticism - I was just a bit annoyed at the silliness of my old mate, Mike, who at the end accepted that he'd got it a bit cocked up and we went on. I mean it was quite clear that he was - not misrepresenting, I don't put it that way - but he was saying something that was relevant if I'd brought in the capital gains tax in the first Government by showing the '83 clip. But as I pointed out to him, there had been an election in

HAWKE cont.: between in '84 when I said it's now on the table. But I think if I can go to the question about capital gains, Ita, the important point is this - that I think we've met the understandable concerns of a number of people. The family home is not in, it doesn't apply to existing assets and it's only for real gains - and importantly deeming at death is out. So there's no death duty element of it. Now I think that people understand that it's necessary to have a capital gains tax provision there to stop tax avoidance. That's why it's there and I think the great majority of people will say well that's a sensible thing to do.

BUTTROSE: I can't help but think Prime Minister that a capital gains tax, however equitable it may be, being introduced is a deterrent to entrepreneurs and small businesses. Now in America there are moves afoot to completely wipe out capital gains tax. And I'm wondering about the young man who's going to leave school next year and he's an entrepreneur and we don't have many of them in Australia, not as many as we should have, he's an entrepreneur and how will he find, how will he be encouraged to go out into the community - buy, sell, buy, sell. I do think capital gains is a deterrent in that sense.

PM: Well I must say I disagree, Ita. That would be the case if you were just imposing a tax on the nominal gains, so you didn't take account of inflation, but this will be a modest impact. But the important thing you've got to look at if you talk about the impact upon the economy is that what was happening in this country to a very large extent was that because there was no tax on capital gains people were distorting their patterns of investment and instead of putting it into areas which were producing income which would be subject to tax they were diverting investment into areas which would show capital appreciation upon which there was no tax. So that it was a very integral part of the whole avoidance industry and it diverted economic resources in quite uneconomic ways. Now to stop that is important. It's going to create an environment in which the young man that you're talking about is going to be much more likely to be able to be operating in a prosperous and growing economy.

BUTTROSE: We've got some calls come up now for you Prime Minister. I wonder if we might take some. Our first caller is Jack. Good morning Jim.

CALLER: Good morning Ita. Good morning Mr Prime Minister.

PM: Good morning Jim.

CALLER: Sir, I'd like to ask you one question and I think you're on the right track now after a long time. But unfair taxes as far as the PAYE - people were being taxed unmercifully on their wages and it virtually was a setback for the country because it gives people no incentive for productivity. Everybody I've spoken to in the working class, they more or less say well we're being blitzed with taxes, what's the point of getting involved in it

CALLER cont.: as far as productivity is concerned, when other people in the lurks and perks department get away with everything. I mean as far as business lunches are concerned they can sit down and drink the best wine and eat the best food.

BUTTROSE: Not any more.

PM: Well you're quite right Jim and you're right on the button. We recognise that it was a disincentive to honest blokes like yourself who are out there working when the marginal tax rates were so high and you were getting more than half of every extra dollar you worked for taken out by the tax man and so that's why these rates have been - we're bringing them down very significantly now. And again you're right on the button. One of the ways in which we're going to be able to afford to bring these rates down is to cut out the lurks and perks that you were paying for out of your tax for other people. People were just having their free lunch on you, on the taxpayer.

CALLER: While we're sitting back at lunch time eating a sandwich and having a cup of tea.

PM: That's right Jim. And so what we've said, well, is - if I can use an Australianism - you know, bugger that type of thing, because why should some people be able to just have their high class entertainment on the Jims and Jacks of this world who've got to pay their and in the process have to pay too much tax. So we're bringing in a great deal of revenue by closing off all those lurks and perks and applying that revenue to reducing your tax rates.

BUTTROSE: Prime Minister on that question of no more free lunches for business deductions, the restauranteurs trade and in particular their spokesman, Oliver Shaw, was saying last night that it will be very detrimental to the restaurant business because there'll be a drop-down one presumes in the people going to lunch because they can no longer claim it as a deduction, that restaurants will suffer and that there will be unemployment in this field. Obviously that would concern you, but what reassurance can you give to these people.

PM: It does concern you, but you've got to in accepting the responsibility for Government, you've got to look at the overall welfare. And what your last caller, Jim, said was right. There is no justification for a situation in which the ordinary working men and women of this country and those dependent upon them are paying for free lunches of others. Now if in the process that means some slight diminution in employment in the restaurant industry, well I believe that the whole of Australia will say well, that's the price that will have to be paid. The other point is, of course, that with the change in the taxation structure there'll be more money in the hands of a range of people - ordinary wage and salary earners - more in the hands of those who were adversely affected by the poverty traps at the lower end, and the fact that there's going to be more money in their hands - they're going to have more disposable income - will mean that they will spend money on a range of goods. So overall, taking the economy as a whole, the employment effects will be beneficial.

BUTTROSE: What sort of reaction, sir, do you think you'll get if you walk into Edna's Table today.

PM: ... because there are tax perks in existence and that's artificially elevated a particular area of employment in restaurants, we don't do anything to introduce tax justice because we might effect that area.

BUTTROSE: Prime Minister we lost you for a minute there, I just asked you what sort of reaction would you expect to get if you walked into Edna's Table today.

PM: Oh, I don't know, you know I'm not scared of things Ita. I'll walk in any where and if people want to have a rational discussion with me I'll have it.

BUTTROSE: Great. Betty, good morning to you.

CALLER: Good morning Mr Hawke.

PM: Good morning Betty.

CALLER: What I'm ringing about - I have a house on the market for \$130,000 and what I want to do, I wanted to sell it and go into a cheaper area to be with my daughter. Now when I sell it, I want to pay about \$80,000 or \$90,000 for another one and the rest of the money I was going to buy a new car and refurnish the other house. Now how would I go as far as the selling out of here and going into this other area - would I be taxed on that extra money that I'm going to get by buying ...

PM: No. The single important point you've got to understand Betty is that when you sell this existing asset you've got, it will attract no capital gains tax at all. On that existing house you can sell it - no capital gains tax.

CALLER: Now how about, though, say it's in bank for two or three months until I buy the other house and I only pay out say \$80,000 for another one, that extra money that I was going to buy the car with and do things in the other house. Will that attract a capital gains tax.

PM: That proceeds that you get from the sale of this house attracts no gains at all, and you go into another house. Your residence at any stage, not only your existing one, but at no stage will your house attract any capital gains tax, Betty, nor your motor car.

BUTTROSE: Alright Betty, so you can sell your house and be happy and not worry. Right, the Prime Minister has answered that question for you and we'll take another. Good morning, Harry.

CALLER: Hello Ita. Good morning Mr Prime Minister.

PM: G'day Harry.

CALLER: I think you're a great Aussie, mate.

PM: Thank you very much Harry.

CALLER: Now listen, I want to get rid of this big brother attitude to the ID card. Now we know the multi-national companies, they have records on our jail record, our credit ratings, whether we are compo. kings, or our ... or union bashers. Now the Government is drowning in numbers and signatures - why not one number for the lot like for tax, medical and the social service. And why aren't these social services fingerprinted.

PM: Well just taking your last point first, Harry, I think once you get into fingerprints you're getting into a very broadly unacceptable area. But with the Australia Card that we'll be bringing in, that will stop fraud in the social welfare area. It's amazing to me Harry to find some people objecting to these cards when in fact the absence of them is allowing a whole lot of people who are really bludging on the system to get welfare payments one time, two times, three times, four times over. Now that will stop that system. Now as far as the card is concerned, Harry, it will be used in regard to employment so people can't cheat there under false circumstances, in regard to certain financial transactions which involve tax and in regard to the welfare area. Now it will be limited to those things and I think you're right in what I think you're saying and that is that if you do it for these legitimate and obviously proper purposes, there's no-one can complain. We don't want to have a great proliferation of cards, this is not going to do it. But what it's going to mean according to our calculations, Harry, is that once it's fully in operation it will mean over half a billion dollars will be saved so that ordinary taxpayers won't have that extra burden imposed upon them. The cheats will be stopped from getting away with over half a billion dollars of ordinary taxpayers' money and I think that's what people want to see.

BUTTROSE: Prime Minister, if I could just cut across there, a lot of people don't understand, and I must confess I'm one of them, don't understand the Government's decision not to put photographs on the ID cards. Don't you think that they will not be as effective as they might be if the photograph is not to be included.

PM: Look the advice we have, Ita, is that they won't be as effective without the photographs. But this is an area in which we tried to take account of as broad a range of views as we can. There's no doubt that there's some feeling in the community against these things, so we've taken this step. I think it's one of those things Ita, that once it's in and people understand the importance of it, the effectiveness and the fairness of it, the community may come to see that that next step is one to go to.

BUTTROSE: Are you saying then that you think there may be a change, perhaps between now and when the ID cards are introduced.

PM: ... to get the card in and if the community gets used to it and comes to see that it may be even more effective with a photo, well then that could come. But there'll be a very, very substantial saving to the community through this step alone.

BUTTROSE: ... Betty, good morning.

CALLER: Hello Mr Hawke.

PM: Good morning Betty.

CALLER: I'm a Labor and I always will be. Why I'm ringing you is this - two things. Firstly, I'm on an invalid pension, my father died, and I've lived in a Housing Commission unit for the last five years, a single unit. I also receive \$10,000 from my father's estate - he died in April. When I rang the social security in regard to this, they said my pension would be cut out \$10. Also, then I rang the Housing Commission, they said my rent would be put up. That is the first thing I wanted to ask you. I have reared four children etc. etc. I have nothing else in the bank.

PM: Well Betty all I can say to you with certainty without knowing all your details, and I'll come to that in a minute, as far as the tax package is concerned that was announced yesterday, the benefits there are substantial for pensioners. I don't know all your circumstances, but these things are significant for people who are dependent on pensions or that sort of benefit. Firstly, the area that will be freed of the income test will be increased by \$10 a week for single pensioners so that that adverse impact, which will mean in fact that people can get up to an additional \$5.00 a week, that will go to about 450,000. I'm not sure whether you come into that category. I can't tell from what you're saying. In regard to rent assistance, that separate income test on rent assistance will be abolished so that's going to provide relief to about 700,000 pensioners. You may come in there. And thirdly, I didn't get the age of your children ...

BUTTROSE: 21 to 31, four children.

PM: What I want to say to you is that I always make the point, Ita and Betty, when I get a question like this on a program the listener can never give all the details so that I'm able to give an answer which I know will be accurate. So, Betty, if you would like to and Ita, I know you'd co-operate, if you would send to me care of Ita's program the full details of your case, I'll give you a guarantee that I will have them examined to see whether there's any way in which you are not getting all the benefits to which you're entitled or if you're being penalised in any improper way.

BUTTROSE: Prime Minister a change for a moment - off the question of tax. The very vexed question of the almost half a million payout to the former head of the Australian Bicentennial Authority, Dr David Armstrong - now obviously I've followed your remarks in the Parliament and I'm familiar with the case. But even if we were going to err on the side of generosity, it is indeed a very generous payout. You're waiting for another reply from Mr Reid on this matter and I understand that a previous employee of the Bicentennial Authority has now consulted his solicitors to see whether he should be entitled to a similar type of payout. Are you happy that the Bicentennial Authority is being run in the way that it should be.

PM: Well your last point goes right to the heart of it. The Bicentennial Authority operates and is run under a legislation that we inherited from the previous Government. They set it up

PM cont...: as a separate company so that the Government and the Parliament have got no involvement in its running or any direct oversight of it.

BUTTROSE: Aren't you able to change that.

PM: Well, you see Ita, it's a good question. When we came to office we made a deliberate decision. It's not the sort of way we would have liked to have set it up. But what we thought was this - we didn't want to have a political argument and look as though we were getting into a partisan sort of position about the important issue of the bicentennial. So we made a deliberate decision to say alright, we didn't set up this legislation. We didn't appoint the people who are there. But let's try and make it work, not have a political fight about it. And so we've tried to make it work. And increasingly there's been criticisms about some of the things that have been happening. And so we've been trying to deal with them in a way which is not going to make this a political football. Now unfortunately that attitude is being frustrated to some extent. Now we'll have to seriously look at the question I guess, and particularly - I mean I do have to wait until I get the further replies from Mr Reid and I don't want to in any sense prejudge, I'm not trying to do that - it's just improper to make any comment until we get those replies - but depending upon the sort of thing that develops out of those replies, we may have to look at whether there needs to be a situation where the Government and the Parliament do have a greater degree of involvement.

BUTTROSE: Well there's been a massive amount of overseas trips, there's been, I think the sales spending so far by the Bicentennial Authority is \$45 million, coupled up with a half a million dollar payout to Dr Armstrong. I now realise that by seeking my career in private enterprise I've definitely done the wrong thing. I should have taken a bureaucratic job. And then we had the resignation of Ranald McDonald. Now perhaps you and Ranald McDonald have had policies that have not always agreed. But I think in terms of being a businessman whose views are respected, it is a most unusual step for somebody like Ranald to resign from the Bicentennial Authority, because he's not satisfied with the way that it's being run. And to me that means alarm bells of a tall order.

PM: Well Ita it's precisely because there are some alarm bells ringing, including Ranald McDonald, and there are other criticisms, that I had discussions with Mr Reid and it included the matter of the Chief Executive. I mean I haven't ignored those and I've tried to this point to operate within the structure that's been imposed upon us by our predecessors. I'm aware of those concerns and I've asked that certain consideration be given to some of the points you make about the number of overseas trips and so on. But you're in this position where you have no authority over the running of the blessed thing. I mean you talk about bureaucrats. Essentially what they've done, what our predecessors have done, is to set this up as a separate company, and that's what it's done. It's a separate company, it has articles and memorandums of association.

BUTTROSE: Even for a separate company, it's a big payout. Anyway I know you've got the cat by the tail, so to speak sir, so

BUTTROSE cont...: I know something else will happen. I'm just fascinated and intrigued by the various things that have been occurring. You also have time restriction on you this morning. Would you have time for one more call.

P.M.: For you, Ita, I would, yes.

BUTTROSE: Thank you. Les, you're the lucky person. Good morning.

CALLER: Good morning sir.

PM: Good morning Les.

CALLER: This is away from the tax question. What it's about is a national program about the unemployment. The benefits that are paid out and are not been utilised, it's wasted money paid out, not in the sense of a waste of helping families, but it's wasted in helping the country. Surely there could be a State by State scheme introduced where there's some return, some work return, some projects for States ...

PM: Yeah Les, it's a very good point you raised and in some sense that concept is already being utilised. We've got the CEP scheme which involves that sort of idea where people are in fact doing community work - it's called the Community Employment Program - where in return for help and training they are doing projects of community benefit which wouldn't otherwise be undertaken. And in the new overall project for youth that we announced at the time of the Budget, there will be further attention given by us and particularly by the Minister assisting me, Mr Dawkins, to see how we can look further at schemes which will involve people who are getting the unemployment benefit being involved in actually undertaking useful work in the community which wouldn't on normal commercial terms be undertaken. So, Les, I can say to you that your concept makes a lot of sense. Some of the things that we're doing already embody it and there will be ways in which we'll move gradually to widen that idea.

BUTTROSE:..Prime Minister I was most genuine when I said I think the Government is to be congratulated to have the guts to tackle tax reform, dodged and not addressed by the previous Governments. And I wondered now that the Government has its splendid reforming image, I wondered if your next reform might be the Government sector, because the Government sector as a whole chews up about 40% of our GNP, that's our gross national product. And I wondered if perhaps this might be the next reform issue that the Government will address itself to.

PM: Well what you'll appreciate, Ita, is that we've already acted in that area. In these three Budgets that we've been involved with now we have very, very substantially reduced the levels of growth that have been taking place, so much so that we've now reduced the deficit by several billions of dollars and got it down to about half the proportion of the gross domestic product it had before. And I mean that's been recognised by the financial commentators - more in this period to really effectively cut down in this area than has been done before. But more importantly into the future by imposing this constraint of the trilogy upon us, we've made sure that having given these great tax deductions we're not going to be able to finance

PM cont...: additional expenditures by allowing the deficit to go up. We're stopped from doing that.

BUTTROSE: Thank you very much sir for joining us this morning.

PM: Ita thank you very much indeed and your listeners.

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