



PRIME MINISTER

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TRANSCRIPT OF INTERVIEW WITH KEN BEGG ON 11AM - 20 SEPTEMBER 1985

BEGG: Good Morning Prime Minister, welcome to 11AM.

PM: Thank you Ken.

BEGG: It would seem on the face of it that this is a package that gives more than it takes. Is that right?

PM: Very much more. Every cent that will be raised is raised from those basically who in one way or another have been avoiding their tax payments and we are giving that back and more so that the average taxpayer next year, in the first year, will get about \$9.00 a week and then \$15.00 a week for next year. And that is going to mean importantly that the extra dollars that people earn at work is not going to be raided so much by the tax collectors. They are going to have more discretion available to them.

BEGG: No catches?

PM: No catches, I mean, we couldn't be more open about it. We have faced a situation, Ken, where under the system that had been allowed to develop under our predecessors, so many of the high income earners have been able to avoid paying any tax at all or paid very little. That meant that the tax scales upon ordinary Australians have been kept high and have been coming in at progressively lower levels of income and that meant that the extra dollar that they earned was more and more being soaked up by the tax man. So we have given fairness and equity and discretion back to the ordinary taxpayers by making sure that the free lunches and the tax haven dodgers are now paying and through them paying we are giving the money back to ordinary Mr and Mrs Australia.

BEGG: It is going to cost you \$2 billion to give the tax money back. Where are you going to finance it? How are you going to finance that sort of money?

PM: Well you are referring to ^{that \$2 billion.} That's the first one which meets the Accord so that we are going to be able to keep the rate of wage increase down and therefore lessen inflation and keep employment prospects up. Now we will be picking up our capacity to do that in part out of the measures that will be coming on and also in part out of fiscal drag. And that means that we won't be imposing any burdens, it means that taking from the top income earners who have been avoiding tax, we are giving that back in large measure to the upper income brackets who have just been paying too much tax, the honest taxpayer. And, of course, in regard to the lower tax brackets, we gave them massive tax

reduction in rates last year when we reduced the bottom rate from 30 down to 25.

BEGG: But the Treasurer talks about fiscal responsibility, belt tightening in order to pay for it. Does that mean we are going to be in for more cost cutting, more razor gang

PM: Oh no, it means that we have imposed a discipline upon ourselves that no other government has done. We are not going to allow this to be paid for plus wildly new expenditure programs and let the deficit blow out. We have got the trilogy imposing that constraint upon us. And that is proper, I think that's what the taxpayer wants. He wants government to say 'alright, we are going to bring the tax rates down, we are going to decrease the tax burden and we are going to at the same time bring the deficit down'. They want that to be done so that there is more discretion out there for the ordinary Australians to make their own decisions. But at the same time we will be able to keep the levels of real expenditures in those areas where people want them and necessarily need them. They don't want us to be cutting down in defence and education and those things. So we will be able to keep those levels up.

BEGG: But we still will have restraints upon ourselves. Now one of the so called 'nasties' - the capital gains tax. In five years of operation it will only net you \$25 million. I wonder whether it was really worth all the political flak?

PM: Yes, because you see the existence of the capital gains tax will mean that we will be closing off that avenue which has been a major area of tax avoidance in the past. People were just avoiding tax by way of income, they were converting that to capital and there was no capital gains tax there. Now this will mean in regard to all future assets, and as you appreciate, it doesn't apply to any existingly owned assets. But in regard to newly acquired assets, a capital gains tax on the real gain will apply and that will act as a bar to tax avoidance in the capital accumulation area which had involved a massive distortion of investment in this country which was against the interests of Australia. It inhibited areas of economic growth and therefore it inhibited employment.

BEGG: You have hit your own Ministers and Backbench fairly hard. They have been treated fairly equally I suppose you would say. It does seem to me though they might have had a case. They might have been hardly done by.

PM: Well there is a sense in which the structure of the remuneration of Members of Parliaments have been somewhat artificial. And now they will have to have the same processes as in the private sector. That is in regard to that part of their emolument which is cash allowances, they are going to have to substantiate that. Now for those who can fully substantiate well then they won't be hit. But for those of them who can't then there will be a tax impost. But to their credit and I don't want to be partisan about this, I know there would have been unhappiness on the Opposition side too. I have heard them complaining about what we are doing. But to be fair to Parliamentarians on both sides, I think they will accept and agree that they can't have special rules for them as against the private sector.

BEGG: Do you feel there is any risk in the fringe benefits taxes, in the clamp down on the entertainment allowances, of jeopardising your relationship with business?

PM: No, I think there will be some parts that ^{they} won't like, for instance, taxing of fringe benefits in the hand of the employer, they won't like that. But there is much of what we have done that they will like. And they are approaching this in the context where we have restored business profitability to historically high levels from the low level that existed under the previous government when we came. That has meant billions of dollars more profits going to companies and that has been right because companies have got to have those profits to invest and then employ. So they are going to be able to meet this relatively light burden out of a significantly higher level of profits which have come from our decisions in government and our overall macro-economic policy. But the other point I make is that there are also some goodies. One thing that the business community, Ken, has been crying out for for years and which they couldn't get under 30 years of conservative government was the end to double taxation of dividends. Now with full imputation that has gone. It has cost us \$250 million but we think it is right, not just for the companies, it is right for the community that you shouldn't have the distortion of investment patterns that accompanied that double taxation of dividends. So I think the business community will have the capacity to take an overall view of this and see this as part of sensible general economic policy.

BEGG: Finally Mr Hawke, you have been in a bunker. You have been in Cabinet almost for nine months. You have had a tax summit that has cost you politically. You have taken a lot of flak. Wouldn't it have been better not to have had the summit, Wouldn't it have been better to have made these decisions

PM: No I don't think so. And you are quite right, It has cost us, being tied up in the processes leading up to the summit and then after the summit because we have been bugged in the sense that we have been here in Canberra doing the work. We have paid some price for that. But in politics I think you have got to be fair. I said to the Australian people in the last election, 'look, we have turned this economy around, growing better, doing better than any economy in the world now from being in its worst recession for 50 years'. But now the one thing that we have got to do for the long term future of Australia as well as immediate fairness for ordinary Australians, is to reduce tax rates to get fairness, to get a better structure for the allocation of investment resources. Now I believe that they are going to welcome that and they will see now that we have done ^{the} job in the area of financial deregulation - bringing more banks in, of having a sensible Prices and Incomes Accord, sensible monetary policy. The one thing that was left to be done - to look after the future of this country - was to get rid of the delapidated, unfair, regressive sort of tax system, regressive in economic growth terms, that we had. Now we have fixed that up. We have now created a basic economic structure for the policy future of Australia which will mean that we can continue to have the high levels of growth which put us far beyond the rest of the world and do that with acceptably low levels of inflation, continue to create more and more jobs, to bring an Australia that your viewer wants, a fairer Australia where the burden to distribute it fairly in a way which is going to maximise growth. And I think it has been worth the temporary price to pay to get that system.

BEGG: Mr Hawke, thanks very much.