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PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON P J KEATING MP
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PM: There are a couple of sleights of hand going on by the Coalition in my short absence from Australia, and I just thought I would point them out, and underline the significance of them. And they are that a week or so ago, Richard Court presented an *Access Economics* report on the distribution of Federal/State financial powers, commissioned, it says, by the Western Australian Ministry of the Premier and Cabinet, on behalf of the Governments of the States and the Territories. He did a press conference holding this document, and of the document he said we don't want another Quebec situation, where people are being forced out of the Federation. In other words, he was waving around the threat of secession, or the prospect of secession, were the States not to get a go on that thing they called the vertical fiscal imbalance. Now, I had made this point in the Federal Parliament, that when Mr Costello said that one of the first things he would be dealing with in Government was the vertical fiscal imbalance, that could only mean as it meant to the journalists who wrote the story, and that was a transfer of taxing powers to the States.

John Howard has been on Richard Court's back, and he is now onto the big smother in the run-up to the election. He said that's a no-no until we're into office. So, what was a secession issue for Mr Court early in the week, by the meeting of the State Premiers on Friday, it was really only a division of Commonwealth income tax. Now, first of all - the first thing to say about that is that's only the policy until a Coalition Government, or were a Coalition Government were to be elected to office. If a Coalition Government to be elected to office, the bible of Commonwealth/State tax powers will be this *Access Economics* report. And it says - let me just remind you of a couple of things it says - "our assessment is that a combination options - options 3 with other options 4 and 5 - dominates the others as potential avenues for future reform. That is, combining State income

taxes with possible increases in the wholesale sales tax, a broad-based consumption tax, or payroll tax, so as to eliminate both vertical fiscal imbalance and the worst of the State taxes". That's their principal observation recommendation. It says "eliminating VFI by allowing the States to raise personal income taxes in aggregate, in order to do away with net Commonwealth payments to States, the States would need to levy marginal personal income tax rates above the tax-free threshold, at the rate of 15.6%, the Commonwealth making room by dropping its own marginal rates equivalently", it goes on in the conclusion, "for Australians to enjoy the benefits that competitive Federalism has to offer" - whatever competitive Federalism means one century after Federation - "then VFI should be eliminated or much reduced. The elimination of VFI could be done in several ways: allowing the States to levy personal income taxes or sales taxes, or sales taxes, or somewhat less plausibly by a marked increase in the more efficient State taxes. However, probably the best and most obvious way to eliminate it, would be allowing the States to levy personal income taxes".

Now, it's as solid and as direct as that, and it has been commissioned by the Western Australian Premier, his Government, on behalf of the States. Now, at the meeting of State Premiers, Wayne Goss - who chaired the meeting - presented the States position at a press conference. And, not surprisingly, because he doesn't subscribe to these views, he said that he and Bob Carr and the other Coalition Premiers, would be content with a share of Commonwealth income tax - not new State taxes. But this is not at all the Coalition agenda. John Howard and Costello - their agenda is for State taxes and a State consumption tax. And Richard Court made it abundantly plain in the commissioning and presentation of this report, and he made it abundantly plain by his backflip. So serious was it, we might secede on Monday or Tuesday, but by Friday - after having been nobbled by Mr Howard - he was going to go, lamely, simply for a share of income tax. So I'm just here to point out what that backflip meant. And we are also seeing it now on industrial relations.

In industrial relations, he had his phase 2 proposal - he was going to stare down the unions, he was going to fight to the last drop of the blood of the Federal Labor Government, and the rest. And what we find now is that he has got another signal from Mr Howard - run dead on phase 2 of your IR proposals. But, the point we make - it's phase 1 which is the real problem. Phase 1 of the problem which is still in place, doesn't guarantee that workers will be as well off as they are now. And remember the interview which Fran Kelly put with Mr Howard - I think I have got the notes of it here - where she made these points, and the reply was completely unambiguous in terms of the direction in which they would be heading. Mr Reith said he couldn't guarantee - when asked persistently - can you guarantee that workers will be no worse off? He said - paraphrasing him, but I think you will find the paraphrase is accurate - look, we'll be doing our

best in the circumstances - best to have fair and reasonable wages and conditions. Not a guarantee. Twice he got asked about the guarantee, and there of course, no commitment on the guarantee. So, what we're finding is now that we've got this quotation from Richard Court - he ruled out his own State income tax with a consumption tax, that's on November 4th in the *West Australian*, but earlier in the week, he was so het up about it all he was talking secession. Last week, he was going to tear the unions apart, he was going to do all these things - and remember the things that he has dropped. He is now...Mr Reith is now running around saying that he has made concessions to the unions, you know, that they thought better of it, and they can now work with unions, he said. And what they have proposed is that the most draconian of things - they won't now prosecute a union if it tries to become Federally registered. Well, thank you Mr Court. He won't stop unions having access to industrial sites - I mean, these are all the things which cut across our very democracy, not some industrial law.

But, I think the most important thing that bears upon these 2 things are the things that Mr Howard has said himself in the last couple of days. And he got asked this question by a caller on a phone-in program: "Mr Howard, the people who developed Fightback, who are still in the parliamentary party, how are you going to balance the new initiatives if you win Government?". "Well, it won't be any problem", said Mr Howard, "we just don't have Fightback anymore". "I know you don't have Fightback, but you have got the people who developed it", and he says "oh, yes". Then he has told us - on another radio program in the last day, that people know who their people are. "People know who the players are", he said. He made an analogy about football - they know who are the players for the various positions. In other words, it's not a matter of our policies when David Margan asked him these questions. Let me give you these answers - he said this: Margan said "not to reveal the policies?", Howard: "No, no, no, no, no - you know who the players are - you're not going to tell me that you don't know who the players are". In other words, the players are the people who have held all the positions which are synonymous with Fightback - on industrial relations, on state taxes, on consumption taxes, on all the things. And then he said in the *Courier Mail*, just a few weeks earlier: "One of the great advantages of my having laid out an industrial relations program over such a long period of time, is that if I win the election, nobody can deny I have a mandate to change industrial relations". That's a mandate for the old Howard policies - the policies of the players that everybody knows. So, by making the point that you know who the players are, you don't need the policies, what he is really saying is you know what the old policies are. You know what the old prejudices of the players of the Coalition are - the people who put Fightback together. And how perceptive is the caller saying well Mr Howard, if they're the old players, and they're the old players who put

Fightback together, what are you going to do other than give us Fightback policies? And he says well, you know who the players are.

Now, this is a very - I think - damaging admission by Mr Howard, because what he is really saying is look, people now what I stand for - I stand for consumption taxes, I stand for hopping into unions, I stand for individual wage contracts. It won't be a matter of the policies - it will be a matter of who we are, and what we have always stood for. So, when you see that in the context of the gymnastics in the Coalition this week, of Richard Court going from secession on the Monday, to mute compliance on the Friday on State taxes, and then going for rabid, anti-democratic draconian industrial policies one week, and then moving lamb-like to an agreement with unions about those clauses in another week, all I can say to people is you can smell the rat in the Coalition camp. Mr Howard's nobbling Mr Court, and what you will get were there to be a Howard Government, is all the things that are in this Fightback, in this authors' of Fightback, *Access Economics* in their new paper - State consumption taxes, State income taxes, particularly State income taxes, and of course, the same industrial relations pollices that Mr Howard has always subscribed to.

J: ...made your run on this a bit early? Aren't you just a bit miffed that they have acted to de-fang these issues before the next election?

PM: Oh, no. But Mr Howard is not de-fanging anything - he is putting the dentures back into the Coalition dog's mouth. He is saying we're the same old people - don't you know the players? We have always been there. It's us - the old team, the old Fightback group, we're going to do it all again. I mean, what do you need? Flashing lights? You know, do you need it put up on your pc's? I mean, he is making it obvious to you.

J: Are you saying that all the States are complicit in this arrangement...?

PM: No. I think the Labor States have traditionally rejected State income taxes, but there is no doubt the Coalition States want one. Jeff Kennett made clear when he said that 80% of the taxes should come to the States. There's Jeff Kennett's remarks - I'm not imputing remarks to him, he made that remark. You have got Richard Court making clear where he stands - that's what they're after.

J: But didn't, at the very least, Mr Goss and Mr Carr show a little lack of foresight from your point of view, in signing onto allowing Access to do this report?

PM: I doubt very much whether they did sign on. I mean...

J: Well, Mr Goss certainly did. He was there when the initial decision was tabled?

- PM: Well, even if that is true, that doesn't mean that he must comply with, or sign up, to its recommendations,. But it very much - clearly - means that Richard Courts militant presentation of the Access report, and his banging the secession drum, makes very clear what his preference is.
- J: Are you saying the States aren't all that serious about seeking their own State income tax?
- PM: They want their own income taxes. Look, it's the 1991 proposal - it's the Greiner proposal. it's the Coalition proposal. They were going to do it in Perth - they wanted their State income tax, but not only that, [they wanted] the right to set their own State tax rates themselves, and what's more, cheekily at the time, they said if the Commonwealth were to give tax cuts or any tax benefits by way of arrangements under the Accord, we actually had to compensate them. I mean, you know.
- J: ...(inaudible)...economic growth may have slowed too much affecting the labour market - how quickly do you see the labour market...(inaudible)...?
- PM: Well, the economic growth has slowed from an unsustainable 6%, to a sustainable 3-4%. And we're seeing, consistent with that, very strong growth still in the job vacancy series. We're seeing strong investment expectations - the economy is in a very nice position. It's on a sustainable growth path, with good investment and low inflation.
- J: ...(inaudible)...not worried by an increase in the unemployment levels?
- PM: Well, we have had the biggest fall in unemployment in a year, and what we have seen in the past is whenever you see these very large takeup in employment, we have seen these pauses, or these plateaux, until the economy sort of catches its breath again, and moves along. Now, at a 3-4% clip, the economy is till going quite strongly.
- J: Is the economy in nice enough shape...has there been enough of a pause or a breath to consider that the next move in interest rates might be down?
- PM: Well, again, that's for longer portents - for markets to make a judgment about, I think. But a lot of the judgments are already in on that - we have seen the long-term bond rate drop from over 10.25% to around 8.5%.
- J: On taxes - are you saying that a party leader who supports a consumption tax, and changes their mind, shouldn't be believed?

- PM: No. If you are making a reference to me, and you are, what I did was cut then Government spending by - let me refresh your memory - by 6% of GDP. From 30.5% of GDP, to 23.5% - just under 24% of GDP. In other words, the Commonwealth doesn't now need a tax base in consumption, because it's a smaller public sector. That's the difference between 1985 and now. But to give the States - there would be 3 tax bases. There would be a Commonwealth income tax, there would be a State income tax, and a State consumption tax. You give the political system 3 bases, it will go and spend it. It might not spend it at the Commonwealth level this year, but over time, the States and the Commonwealth systems of government will spend the money, and we won't get a second chance to get out of the hole that Mr Howard left us in, in the early 80s - we won't get a second chance to buy down public spending in the way we did in the 1980s. So, when we looked at a consumption tax in 1985, we had Commonwealth outlays around 29-30% of GDP. By the time it got to 24% of GDP under the Labor Government, we didn't need a consumption tax, and that's the point I have made consistently.
- J: Last Friday, all the Premiers signed up for a fixed share of Commonwealth revenue - including the Labor Premiers - doesn't that leave you isolated from the States?
- PM: Oh, no. It leaves me in the box seat.
- J: Why?
- PM: Because we have the powers, and...
- J: But you're at odds with all the States, even the Labor States?
- PM: Well, that's been part of my condition for nearly a decade. And I'll tell you why - in the last 3 years, in the period 90-91, the States would have lost about \$3 billion, had they had a fixed share of Commonwealth income tax. Now, how can the States cop a \$3 billion loss? How could their school system - not withstanding the massive cutting you have seen by Jeff Kennett in schools and in health - it just pales into insignificance compared to the cuts that would need to be there in public services by a loss of \$3 billion over that period. So, effectively, the Commonwealth would have had to have kept up the payments, either in nominal or real terms. So, in other words, the Commonwealth carries the burden on the down-side, but then loses it on the up-side when it needs the money to bring the deficit down, or to produce a surplus. Because the Commonwealth is the shock-absorber in the national economy, the Commonwealth Budget is a shock-absorber, the State Budgets are not. What the States need is revenue adequacy from the Commonwealth - which we're giving them by a real-terms per capita guarantee, that is real-terms maintenance with a population factor. But to give them a share of income tax? If

we ever reached a point again where the Commonwealth income tax fell, they would be screaming blue murder that they want more money from us. I mean, it's just an insincere ploy that they know has not a snowball's chance in hell of happening, from us.

J: Mr Keating, are you inclined to pick up Gough Whitlam's suggestion about a referendum of the Senate's power to block?

PM: Look, I have been away, and I haven't followed this debate around November 11th, and I really haven't seen what Gough has said.

J: Mr Keating, on CHOGM - Jim Bolger says he doesn't think John Major's in a mood to change his mind. Is that the right sort of attitude...(Inaudible)...?

PM: Well, I mean, I think, our position is that we're not in a mood to change ours, either. That is, this is an indefensible position by the French, and no amount of sort of post-decision rationalisation can make it defensible, and that's the position we will take.

J: So what as a minimum would you be expecting to come out of CHOGM in response to the French testing?

PM: Well, our clear condemnation of their decision.

J: Are you concerned that internal politics may lead to something a bit softer...(inaudible)...?

PM: Well, there's no doubt that the French will be calling up favours all around the world, amongst Commonwealth countries. And it won't be changing Australia's position. I mean, we will secure all we can from the process, but our position will be crystal clear right through.

J: But doesn't it rather weaken things that Jim Bolger is already saying that we'll agree to disagree, and leave it at that?

PM: Well, I know he has said that, but I don't know what that means in terms of the documents, the communiques etc. But I will be making very clear to him - in fact, I'm going to speak to him in less than an hour, to say to him that our position is that we should have a clear condemnation of France for its testing program. And of any other country testing weapons, consistent with the communique of 2 years ago.

J: Prime Minister, what's your view of suggestions that CHOGM should also be censuring Nigeria over its human rights record - would you be supportive of a move like that?

PM: Well, I think that I would be. It depends of what comes from the floor on this issue, but our position on human rights is clear, and of course,

we don't support - as a party, as a Government - the death penalty, under any circumstances, least of all these kind of circumstances.

J: Do you think Charles should be allowed to marry Camilla?

PM: Oh, well, I think it's time for me to leave on that note, Niki.

ends.