



PRIME MINISTER

FOR MEDIA

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ADDRESS TO THE CHAMBER OF MANUFACTURES, SYDNEY

I would like to thank you very much for asking me to share this evening with you. It is an important one. Manufacturing industry is vastly important to the state of New South Wales and to Australia. It provides a large part of our national income and employs a very large number of people and it is going through a fairly rugged time. I am well aware of that, but I do not know how many of you here would like to swap with me the last two weeks that you have had for the last two weeks I have had. There are two good things that have happened in the last couple of weeks, Carlton won and they were the underdogs and they came through because they had more skill and they knew what they were about and I knew they were going to win. Then I went out and had lunch with John Utz and John Reid yesterday and Parrammatta won. I am not allowed to be so partisan in Sydney about league but I thought Parrammatta did quite well.

Quite obviously you are affected very much by a number of circumstances which make life difficult, the economic downturn overseas and that effects output, it effects orders, it effects your capacity to employ. You have also been very much effected by the wage explosion of the last 18 months and the arguments about shorter hours and this of course has been compounded in its impact because it was coming at the very time when people overseas were starting to realise that they had to work harder and some were recognising that they had to work harder to significantly less.

When the Government was forming this last Budget we were therefore doing it in a climate which was quite different to previous years. In earlier times we were doing it against the expectation and reality that private business investment was going to expand and the Government needed to draw back quite hard to make room for that private investment, but even though private investment on Treasury predictions is estimated to stay high through the course of this year, by the end of the year it will of course be running at a lower rate than at the beginning and it is unlikely that new and significant business decisions, investments are going to be made in the current climate. Against that background the Government's Budget was obviously to an extent a compromise. It would have been possible to have a hair shirt budget which would have done more for inflation, it would have done even more perhaps for interest rates, but I suspect not much, because I think the overseas

influences in relation to that are substantial, but it would not have done anything at all to help people who were in difficulties or families who might be in difficulties as a result of the present circumstances and it would not have done anything at all to help industry and to help to mitigate some of the impact of the overseas downturn.

Instead of having a hair shirt Budget which might have been on the advice of some purist economists and on the advice of Syntac, but I don't know how many of you buy Syntac, because I know cheaper ways of getting exactly the same advice and I suspect a number of you do too. We did not do that; we had an overall domestic budget surplus of about \$200 million and an overall deficit of about 1.6 billion, about 1% of gross domestic product, still one of the lowest deficits in the western world. I think that makes it an economically responsible budget but within that we have been able to encompass tax cuts, especially tax cuts which are designed to help families, families with children, family allowances, people buying off their homes. As a consequence a family with one income earner of say about \$300 a week with a wife and two children is \$17 to \$18 a week better off as a result of that Budget. I believe that that makes it reasonable to argue for and expect wage restraint because if you had to get the same amount from an employer, what is it \$25 or \$30 a week and that could make the difference between profit and loss, survival or not through the course of this coming year. In framing the Budget we very much had in mind something that would make it reasonable not only to argue for but to expect wage restraint.

In addition we wanted to provide what support we could to industry and you know there were all those terrible IAC inquiries through last year, all sorts of nerves were touched on the raw because I suppose everyone knew what the IAC was going to recommend but nobody necessarily knew what the Government was going to decide as a consequence. The IAC in part seems to be coming a body to which you have to refer something to make it legally possible for a Government to make a decision which is not necessarily related all that closely to the IAC recommendations. I suppose that is the only part that the newspapers tomorrow, which are entirely free trade in their consequences and attitudes and which do not have any competition from overseas at all because of the nature of the work they do, will say that I have mercilessly and unreasonably attacked the Industries Assistance Commission. Somebody said here, here I should have, but it was not meant in that sense, it was a friendly sort of comment just relating the facts.

We did want to do things that would help industry and as a result of the IAC reports over the year we made a certain decision as you know, not to reduce protection in current circumstances. We also made decisions about depreciation which from what I have been told should over time be of substantial

support and assistance to industry in enabling them to write off capital equipment much more rapidly and therefore make sure that Australian industry is as technologically advanced as any in the world and depreciation allowances are being provided for buildings for the first time. In addition to that of course there is a substantial increase in the Government's own expenditure for capital works and that again was very much related to the particular circumstances of this year. For small companies an increase in the retention allowance, fulfilling an election policy pledge from the last election. Tax relief on the first thousand dollars of dividend income may be small in its consequences, but important for small investors and important as a statement of philosophy, as a statement of attitude. I hope it can be regarded as a significant and useful start and also changes that would encourage employees to invest in shares of a corporation for which they work, again something that might be small in its cost but important from a philosophical point of view and from the breadth of support which might be available to the private enterprise system.

I think there have been some positive results from the Budget starting with the Remuneration Tribunal which in case you do not know effects politicians, and public servants and judges, Commonwealth judges not state judges because state judges do much better than ours I think or so I am told by Commonwealth judges. They have arguments between themselves too about some basic matters but the Remuneration Tribunal came in with a recommendation for 7%, the Academic Salaries Tribunal immediately followed with 7%, the South Australian, West Australian, and Northern Territory public services 6%, the Commonwealth public service 6 to 6½%. The Australian editorials might say this is all 6 to 6½% or 7% too much, but it is very, very much better indeed than 13% or 14% which would have been disastrous for Australian industry and for Australian employment.

I believe the members of the Parliamentary Remuneration Tribunal who responded to arguments which said don't ask yourselves what you think politicians are worth, you might all say that is absolutely nothing, but ask yourselves in this instance what Australia can afford not just for politicians, or ministers or Prime Ministers or judges and public servants, but imagine the percentage that you are going to put flows right across the board. That was the first tribunal which came down with a decision which was 7%, but delayed three months so that made it a little less than that, but without that I do not believe that the other tribunals would come down with the same decisions and so I hope the members of the Remuneration Tribunal can take some pleasure from the fact that they have set by their recommendations a national lead which I believe is vastly important for all of us in the period ahead because wage restraint is going to be absolutely vital in re-establishing in an appropriate way, the competitive base of Australian industry and then in making it possible for Australian industry to employ more people as of course it must if unemployment levels are to fall.

Other things have happened which again I hope providing some assistance. The exchange rate is down about 15% against the United States dollar since the end of 1981 and by 11-12% against the trade weighted index over the last year. That obviously is important again in the competitive base from which Australian industry must get out and compete.

There are some other positive signs. There have been falling interest rates in the United States. There is now over the last week or so, as a result of a thoroughly successful tender for Commonwealth paper some falls in interest rates in Australia. Bob White has not given me any particular indications as to what is going to happen in the future, but I am certainly not going to give my political opponents any mileage to fly with by making some predictions about the future. I did that once and even though the predictions came true, they keep on saying it did not. That just leads to a very unnecessary argument, but at least the omens in that front are a little bit better than they might have been some time ago.

I would like to point out in particular to those purist economists who wanted us to wear a hair shirt during this Budget and who as a consequence of the Budget said that is going to be bad for interest rates and bad for this and bad for everything else, in spite of in their view the Budget being bad for these things, the Commonwealth bond rate is down about 2% since the 6th of August. So, maybe it is just as well we did not accept that hair shirted advice.

Industrial relations or the figures of strikes, the June figures have been the best for 13 or 14 years and that at least must be pleasing from one point of view, but I think it is a very sad thing indeed that we seem to need, not need, because nobody wants it and everyone would seek to avoid it, but it seems to be only in circumstances of significant unemployment that that kind of situation can be achieved. That is something that establishes a challenge for all of you here and for Barry Unsworth and his colleagues because we ought to be able by management and labour getting together much better than we ever have to establish the circumstance in which it is possible to have a good industrial relations record even with much better levels of employment.

At least we seem to be starting to learn the lesson much quicker than it was learnt in Britain. Their unemployment rate is now about 14% and it was well over 10% approaching 12% before they had to learn that continual strikes and difficulties are just going to harm people and cause a great deal of divisiveness and difficulty.

On a mild note, because I am told this is a non-political occasion I would like to make the point that Mr Cain's Budget in Victoria was a curious one because it follows almost exactly Mr Whitlam's first Budget. I suppose that makes all Victorians very happy just at the moment. Taxes were up 23 point something per cent, expenditure was up 24% and I do not know if Victorians

are going to be enthralled to learn that if Mr Cain follows Mr Whitlam's Budget, in his second Budget he will be spending 24% more. That seems rather lot in slightly difficult circumstances. It is worth noting that that kind of increase in expenditure comes out not far apart from the kind of budget that Mr Hayden said he would introduce in response to John Howard's Budget speech. He never put figures on it, but it was analysed very closely and the analysis is available for anyone to see and read if they want it, but it comes out an an overall deficit of something between \$4.7 and 5.7 billion, a figure on which Bob Hawke and Bill Hayden seem to be unanimous because Mr Hawke on the Sunday after the Budget said that all the countries overseas have budget deficits of 4% of gross domestic product that is obviously therefore responsible and right and that comes out at something like \$ 6 billion which is at the upper reaches of what Mr Hayden apparantly had in mind. I think it is worth keeping that in mind. The political Opposition I don't believe have learnt very much from the lessons of the past, that you cannot spend your way as a government out of economic problems and difficulties.

There is one other thing that I would like to speak about and I believe that the great bulk of the business and commercial world needs to get its act together to make sure that the broader, the total Australian public understand that the great bulk of the business and commercial world behave not only legally but with a sense of ethics, with a sense of understanding of the needs and of their responsibilities of the broader Australian public. I know that that is what most of the business and commercial world does, but everyone out in the street know that that is what most of the business and commercial world does because there have been some actions in recent times which have done a great deal to the fabric of Australian society which have led many average Australians to believe that the system is unfair and stacked against them and they get a bit annoyed about it as a result and I they are justified at some of the things that go on and I am sure that many of you are also.

John Howard has done more to overcome tax evasion than any other Treasurer in the whole history of the Commonwealth and that I think ought to be recognised. There has been legislation against over fifty schemes and a new Part 4A of the general anti-evasion, anti-avoidance legislation that was introduced 18 months or so ago, but still the fight goes on. Over the last few weeks, largely as a result I suppose of the publication of the McCabe-Lafranchie Report and largely as a result of the publication of the Costigan Report, these matters seem to have come much more to public notice. Incidentally with all the wisdom of hindsight it is not very difficult to see how the Painters and Dockers became embroiled in tax evasion because if there were promoters who wanted somebody with no name and no position or who could be given a new name and a new position a different identity and if they wanted somebody who belonged to a closed secret society which in the words of the Royal Commisioner is not a union, but a criminal society, then

and one that can enforce its own laws - there have been 22 murders associated with the union and only 2 prosecutions and that is not a bad record for Australia - then of course you go to the Painters and Dockers and it is not surprising that some promoters of certain schemes also had people who were going to recruit Painters and Dockers who would end up signing bits of paper which I suppose would end up at the bottom of one or other of the harbours around Australia. That is as I understand it how the term bottom of the harbour came to be formed.

We have stopped the worst of the schemes through the Crimes Taxation Offences Act of 1980 which because it could not be stopped in any other way put in criminal penalties against the device and all the evidence before the Tax Commissioner is that the particular piece of legislation has been remarkably successful. That has left the problem which has become very evident, what happens about the tax that was not paid and so John Howard introduced legislation last week which is designed to recoup the tax that had not been paid, but ought to be paid from those who benefited from the device. It is not criminal legislation, there are no criminal penalties attached to it. It is taxation legislation and it will result in taxation assessments being issued.

I do not know how widely the so called bottom of the harbour scheme is understood, but in my understanding it is one in which a company with significant current year profit is sold at a price that makes it perfectly plain that neither the seller nor the purchaser has any intention of paying any tax. In other words the vendor-shareholder gets a price for his shares which is much greater than he could get if he was going to pay tax or if the purchaser was going to pay tax. I am told there are a circumstances in which the vendor-shareholder did not know that the purchaser was going to pay tax and that therefore he did not know that the tax was not going to be paid. I might at times find it difficult that he did not know because the test, and this is part of the test of the legislation, is that on the basis on the price he gets for the shares, which is of course a capital price, there is not enough money left in the company to pay the tax. If you add the fee of the promoter together with the price of the vendor-shareholders, there was generally nothing left and so how was the tax going to be paid. Obviously in many cases it was not.

It is not surprising that a good many people get annoyed about this and expect that something should be done about it. There is an argument about retrospectivity and nobody likes retrospective legislation, but I would like to make a point about that because some considerable time ago a conservative government in the United Kingdom in somewhat similar circumstances the same kind of legislation was introduced. It is worth noting I think that when the particular legislation was on appeal in the court of appeal in the United Kingdom, the senior judge of that court made one or two significant comments and he said "For years a battle of manoeuvre has been waged between the legislature and those who are minded to throw the burden of

taxation off their own shoulders onto those of their fellow subjects. In that battle the legislature has often been worsted by the skill, determination, and resourcefulness of its opponents of whom the present appellant (I do not know who he was) has not been the least successful. It would not shock us in the least to find that the legislature has determined to put an end to the struggle by imposing the severest of penalties. It scarcely lies in the mouth of the taxpayer who plays with fire to complain about burnt fingers."

He also said, "The fact that the section has to some extent a retroactive effect again appears to us of no importance when it is realised that the legislation is a move in a long and fiercely contested battle with individuals who well understand the rigour of the contest."

That was said in 1942. Then again the Lord Chancellor, Viscount Simon, who I understand was a somewhat distinguished jurist in the United Kingdom had this to say about a similar case and the same piece of legislation: "Judicial dicta may be cited which point out that, however elaborate and artificial such methods may be, those who adopted them are 'entitled' to do so. There is, of course, no doubt that they are within their legal rights. but that is no reason why their efforts, or those of the professional gentlemen who assist them (the British are always so polite) in the matter should be regarded as a commendable exercise of ingenuity or as a discharge of the duties of good citizenship." He also upheld the legislation.

He continued, "On the contrary, one result of such methods, if they succeed, is of course to increase pro tanto the load of tax on the shoulders of the great body of good citizens who do not desire, or do not know how, to adopt these manoeuvres". That was said in 1943 as a result of conservative legislation introduced in the 1930s.

A Government as mine does not, does not like retrospective legislation, but in this instance and in relation to bottom of the harbour schemes alone has introduced retrospective legislation to recoup the tax that should have been paid from people who profited from the device. That is not the only principle that governments govern by. I believe my Party and I hope my Government as a whole, has another principle which I believe is enormously, the principle to govern fairly and honestly for all Australians. It is a question therefore of competing principles. It is not fair to let people get away with the profits of bottom of the harbour schemes. Are we going to place retrospectivity of fairness first in this particular contest and the Government has made the decision that fairness must be given greater weight than our abhorrence of retrospectivity in relation to this particular contest because what has happened is patently unfair, has patently placed a greater burden on certain citizens right across the Commonwealth and we need to understand that this cannot be tolerated and will not be allowed to continue.

I think it is going to be terribly important, not only as a Government to establish the circumstances in which this situation is seen to be fair, but I also think it is going to be terribly important for the business of the industrial world, for the financial world, for them also to demonstrate that they regard the mere performance of a legal obligation is not sufficient and that there needs to be an ethical base to business activities and to financial transactions. It is the law together with an ethical attitude of society to the people with whom one does business, that makes this country and if we have to legislate for every wrongful act that people might have in mind, then we will be so subsumed in legislation of every kind Sir Lawrence Street and ever Judge in the land will have to work overtime and never get a Sunday off because so much would have to go the courts.

What happens, what kind of country this is, does not just depend upon laws and a strict observance of the law, it also depends very much on the attitudes it has to each other, the way in which people do business with each other, the relationships which are conducted between companies and corporations and financial institutions. If Australia wants to say to me that there is no ethical base in that, that it all has to be governed by law, then that is not the country that I know and it is not the country that I love.

So ladies and gentlemen in a mild way I offer a challenge, let all the good, and I know that that is overwhelmingly the majority all the good and honourable industrialists, businessmen and financiers and in this city and around this nation, rise up and join in the condemnation of practices that are unethical that ought to be repudiated, that are being outlawed by the law and which drag this nation into disrepute.