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## PRIME MINISTER

E. & O.E. - PROOF ONLY

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JOURNALIST: Thanks very much for joining us this morning, Prime Minister. Before we turn to tax, there has been a lot of comment about the effect that the job of Prime Minister has had on you - that you are looking older and tired - and it wouldn't be the first time that it has happened to a world leader. Have you found that the job of Prime Minister was tougher than you thought it was going to be?

PM: No, not really, Robert. It has been very long hours, but that has been as I expected. I think this year has been a little bit tougher than one would normally have thought of because in addition to the normal tasks of the Prime Minister's job we have had the Expenditure Review Committee which led up to the May Statement with that saving of \$1½ billion and that \$1½ billion wasn't lying around easily to be found. There was a lot of work in that. And in addition to that we have had the preparation of the tax white paper, so I don't think there will ever be a more horrendous six months than this last one.

JOURNALIST: Just on that tax paper. There were a couple of Cabinet meetings that swallowed up Sunday night and went onto early Monday morning. You can't go on like that can you?

PM: Well, and nor do we intend to. But, as I say, those two things were there to be done. We had to get the May Statement out because we were committed to the economic strategy of which you are aware to bring down the deficit, to create the conditions for growth for Australians - more jobs, sustainable levels of inflation. And you just don't get those things by sitting in your lounge chair at the Lodge and saying, I want them. You have got to do them. And if you are going to do them it is hard work. And then in addition to that, as I say, there was the preparation of the tax paper. Now, I don't believe there will be another six months in which you will have that conjunction of heavy circumstances.

JOURNALIST: Prime Minister, over the last few weeks we have had headlines like - is he still up to the job - a tired, depressed PM loses his magic touch - Prime Minister's backdowns - is it becoming too much for Hawke - and a real beauty - PM not back on grog. I am just wondering why you think that perception has suddenly developed and what you are going to do about it.

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PM: Well I think it has got something to do with the answer I just gave to Robert that times have been hard. You just couldn't work any longer hours and not just disintegrate. And one has been doing it. And when you get very very very tired - I guess it is true of all of us - that you operate at less than your optimum. Now you just have to make a judgement as to whether the jobs that you have got there and that have to be done within a particular timeframe - whether you have got to do them. Now I made the judgement that they had to be done. If you look at the tax exercise, Paul Keating and myself, despite some nuances that appear to be in the press, have worked hand in glove on that. And it has been Paul and myself. In regard to the Expenditure Review Committee, I just could not avoid being in that because it is not just economic decisions, but it is political decisions as well. Now, if you are working those inordinately long hours because you know that something has got to be done, you realise that you are going to be at something less than your best. Now it is a question of judgement. They had to be done. They are behind me. And I want to assure you, Laurie, and all your viewers that I feel great now and, as for that last observation about the grog. It is now exactly five years since I gave it up. I have not had a single drop in that five year period. But you know, Laurie. You have had something of the same experience. People are always sitting there wanting to be half smart. They are the ones that finish up with egg on their face, not us, Laurie.

JOURNALIST: Isn't it the case though, Mr Hawke, that those headlines are occurring because people are wondering whether or not, as Laurie said, you're up to the job. And the man who had a 70% approval rating now has about a 50% approval rating. The man that the Labor Party put in as their leader because they knew he could win is now, according to the polls, quite beatable.

PM: Well I've not ever said George that those figures of over 70% were permanently sustainable. One enjoys them while they're there. But I've made it quite clear to the people of Australia, particularly during the last election campaign and since, that Australia has entered into a period where a whole series of tough decisions have to be taken. I think the record is quite clear now that I and my Government are prepared to do the hard work which involves taking the hard decisions and a lot of those don't make you popular. And I would prefer to be seen as a Prime Minister leading a Government which is going to take the tough correct decisions. And if that means in the process that you lose some popularity points, so be it. The judgement will be made at the end of the road where those decisions have helped to get Australia into the position where we are going to continue as we are now - performing better and far better than the average of the rest of the world.

JOURNALIST: But wouldn't it appear that Bob Hawke who looked like an invincible charismatic leader is now back with the pack. He's an ordinary politician who could get done?

PM: Well that's for people to make their judgement. What I'm saying to you George is that I believe that by the time that we get to the next election the Australian people will be making their judgement on the issues that matter to them. Is this economy performing better than the rest of the world? Are we providing more jobs, at sustainable levels of inflation? Have we reformed the whole economic system. And at the same time, which tends to be forgotten as there's this concentration on economic management, are we gradually moving to do things in the area of equity social welfare, education, which provide a better more just society? We've been doing that. They tend to get forgotten. In the area of social welfare we've done more for pensioners in real terms than the previous Government ever looked like doing. In the area of real need in social welfare you're single parents, with kids, massive increases for them. Field of education - there has been some talk about tertiary education - forgotten, that for seven years the previous Government neglected tertiary education. For the first time in seven years we've provided additional real funds, real places in all these areas - welfare housing. Now we'll continue to do those things, look after the people most in need, create a growing economy.

JOURNALIST: Prime Minister, perceptions, images are also important in politics.

PM: Of course they are.

JOURNALIST: And there's a perception abroad at the moment that you're vacillating, that you're not a strong leader. Do you agree that Paul Keating being quoted about how difficult it is to keep you in the tax cart, that sort of thing has effected your image adversely.

PM: Well it may have, I don't know, but as far as ....

JOURNALIST: How do you feel about that?

PM: I feel quite relaxed about it because Paul Keating and Bob Hawke know what the truth is. And the truth has been from the beginning of this Government that we've worked closer together, probably than any other prime minister and treasurer in the history of this country. We have a close professional relationship. We have an extraordinarily close personal relationship. Our families have a close personal relationship. And between two people of intelligence and integrity there are going to be points at which you'll have some difference of emphasis. One is not the clone of the other. But the relationship between Paul and myself I believe has never been better than it is now.

JOURNALIST: Prime Minister there is a difference in the perception of yourself and Paul Keating, and I think it comes from this, that Mr Keating has taken a stronger and tougher stand on tax reform - has been more consistent on tax reform than you.

PM: Well I think the truth about the tax reform situation is this and neither Paul nor myself have tried to put it differently. Paul, as Treasurer, has had the ministerial responsibility for developing a tax reform package, and that is his direct responsibility. My responsibility as Prime Minister is to oversight that work, as of other ministers if you like, and also to take account of the total environment within which initiatives, including the tax reform package, have been undertaken. I have never wavered, as Paul understands, from the beginning in believing that if you are going to have, Robert, a comprehensive reform, which gives to the mass of Australian people, a fairer, simpler, more economically efficient system, then ideally you need to go to the preferred package that we will be putting in our white paper. Now I've had to look at that in the context of what is achievable. And I've done that and I've come to the point of not changing from what we said in the beginning. And you will find in the white paper that the position that Paul Keating and myself have guided, if you like, through Cabinet, is there on the understanding that the people of Australia, through the summit, and elsewhere have to look at that package in exactly the terms that I've put in this debate from the last election. There has been no wavering by Paul Keating, myself or the Government from the approach of the election. Nine principles, including,

specifically, the final ninth principle, that whatever is done to get tax reform in this country, Robert, must be generally acceptable to the Australian community.

JOURNALIST: So are you saying that you've been in and out of the tax cart ....

PM: No I'm not, I'm saying the opposite. I am saying that from the beginning I believed that the ideal approach is the preferred approach that will appear in the white paper and we are all saying - Paul, myself, the Government are saying, there it is. We are saying to the Summit and the people of Australia, that you've got to look at that. You've got to see whether on your judgement, with a package which will always include some losers, as well as an overwhelming majority of winners - look at the package as a whole. Do you make the judgement at the end, that that package is most likely to produce a fairer, simpler and more economically efficient system. And I do not waver from my belief that that is achievable.

JOURNALIST: Do you believe that you are more aware of the electoral consequences of the tax package than Paul Keating is?

PM: Well what I would say is this. As Prime Minister it is my responsibility to look at the overall implications. It is Paul's responsibility, which he has discharged magnificently, to go ahead with the highly complex technical task of overseeing an examination, which is the most comprehensive that's been undertaken in the history of this country. He's oversighted that task with dedication, and I believe enormous competence. Now while he's engaged in that I have to support and sustain him, as I believe I have in that and also try and understand what sort of problems there are in the application of the preferred option. Let me just make one point. It's been quite clear from the very beginning that if you move to a new system which has a broad based consumption tax element into it then prima facie that can be regressive. It can hurt people on lower incomes, and social welfare beneficiaries. So we've had to look at the compensatory mechanisms that you can put in and try and guarantee your satisfaction that those people are going to be looked after. Now I've had to make sure in my mind as the process goes on that that can be achieved. I believe it can.

JOURNALIST: Mr Hawke, just to pull it together - this deceived difference in approach to tax reform between yourself and Mr Keating. Is it in fact because of your consensus approach to try and be all things to all people whereas Paul Keating doesn't like stepping on toes and upsetting some members of the community at least. And that is why he is conceived as being tougher on this whole issue.

PM: No, that is very simplistic, George, and inaccurate, and unfair to Paul Keating, I might say. Because Paul would not be pressing the third option if there had not been an enormous amount of work done by him and his officers to satisfy themselves that the least privileged in the community would not be hurt. He has had this matter very much in his mind. He is not a steamroller man who says, this is something which is going to be economically efficient, therefore do it come what may. I am simply trying to make the point that Paul and the Treasury people have had the major carriage - have necessarily had to concentrate on the technicalities. I have had to have a broader vision. And the thing that satisfies me so much at the end of the exercise is that we share the belief that what we believe is the most economically efficient and equitable and simpler system, is one which we believe the majority of the community will come to see, not only satisfies those tests, but has built into it the mechanisms which will look after those in the community who need to be protected.

JOURNALIST: So Paul Keating is not pulling the tax cart and dragging you and the rest of the Government along with him?

PM: Well I have made that quite clear in the previous answer.

JOURNALIST: Prime Minister, word has leaked out that you are going to tax perks like company cars and cheap loans and travels and all those things. Now how are you proposing to do that?

PM: Well I think it is preferable that the details - that we wait on the exposition until Paul releases the paper on Tuesday. But let me say this broadly, Robert, which will be useful. I think that you will see that there is a message whereby these sorts of things may be taxed in the employer's hand rather than the employee's, which will meet, I think, a lot of the problems that people have in their mind about this.

JOURNALIST: Even when the employer is a trade union or the ACTU giving a car to a union official?

PM: You will see, I believe, that there are no exemptions in the sort of way you are talking about.

JOURNALIST: But Prime Minister, if you tax the employer - charge him 45 cents in the dollar for perks - I mean, surely the employers will stop giving perks. The workers will be affected anyway.

PM: No, I think that there will be a variety of reactions, Laurie. There will be in some areas - there may be that reaction. In others, there will be some absorption by the employers. I think you can't give a blanket answer, but what you have got to understand is this when you talk about this area. It is an exploding area and you will find when you see the white paper projections that it is exploding at such a rate that if something is not done about it, then the ordinary taxpayer will again have a greater burden imposed upon him and her. I wonder whether I could just, setting the background to this very briefly, give you a view as an indication of just how the last 30 years the burden of the tax system has changed. If you compare back to '54, '55 with '84, '85. You have got the situation where the person on average earnings - 30 years ago, average rate 19 cents. It is now 46 cents. And the average has gone from 10 to 25. Now that is an enormous increase in the burden. You have got the situation where just over 2 million - 2.1 million taxpayers - which is 39% of people in full time employment - are at the 46 cent rate. Now, 30 years ago 1% were at that 46 cent rate. Now that is the sort of order of change. You have got the position where the top tax rate - 60 cents - is now biting in at 1.6 times average earnings. Now, 30 years ago that was 18 times average earnings. Translated in price terms, \$35,000 now is where the top tax rate bites in. In 1954 terms that would need to be \$400,000 now to have the same thing. So those are the sorts of things that have happened.

JOURNALIST: By definition, Prime Minister, to prevent that, you have got to raise a lot of money.

PM: Yes.

JOURNALIST: Now, is the only way to raise that money through a broad based consumption tax?

PM: Well, let me put it this way, Robert. You can do something about broadening the direct tax base. But you have to say two things about that. Firstly, there is a limit under the operation of the law and the mechanics of the tax office as to what you could get. To be sure that you could really get into all the areas of avoidance and evasion you would have to have such a massive army of people in the tax office that it would be the sort of system that wouldn't be tenable. So there are limits to what you can get from the direct tax broadening base. And therefore, if there are those limits which mean you can only get \$1 billion, \$1½ billion, there, you are talking about tax relief in personal taxes which are significantly less than what you were able to give in the last Budget. If you are going to get substantial amounts you have to look elsewhere.

JOURNALIST: And the place where you can get that money - really the only place where you can get that money - is through some large indirect tax. You are not going to get it out of capital gains. You are not going to get .....

PM: No, capital gains - may I just quickly refer to capital gains, Robert. There has been a lot of loose reporting of capital gains. It has been put as a massive heavy impost because you are talking about the tax operating at the marginal rate. But what is not understood and hasn't been put clearly is that it is not a tax on nominal gains. It is a tax on real as offset the losses and prospective gains and at the time of realisation.

JOURNALIST: But it also covers things you inherit, doesn't it, and gifts?

PM: Well let me - I don't want to go into all the details. The thing that it doesn't cover and which has got to be made clear, is the personal home. That is excluded. And it is a relatively minor impost going back - I mean, I want to pursue your point, Robert, and this is the important point, as to amounts. You will see in the white paper that the amount which is derivable from a capital gains tax is very very small. It has its importance, and I hope that the community, including my friends in the rural community - and I am entitled to say my friends, because I recognise that the rural community is terribly important. It provides 40% of our export income. And we are not about hurting them. We are not. What they have got to understand is that without a capital gains tax this community is not going to have all the instruments available to it to stop the tax avoidance and evasion which is imposing increasing burdens on the mass of the people. So coming back to your point, unless there is a source of income in the consumption area, then the mass of Australians - the ordinary taxpayers - are not going to be able to get the substantial cuts in personal direct taxes to which they are entitled. Because you can't have a situation, I believe, where your ordinary taxpayers are just getting into the situation of paying half their incomes in taxes. There will be another quarter of a million people .....



JOURNALIST: Mr Hawke on the question of capital gains, still, its always been envisaged as a tax that would only affect a wealthy minority, but there are suggestions being made that your approach could mean that all sorts of people across the board could be hit, that it isn't going to be restricted to just the wealthy few.

PM: Well I think that the debate which will emerge after Tuesday, will satisfy people, George, that it is a proposal, and that's all we are at this stage with the draft white paper, a proposal. It is a proposal which will be seen to be fair. Let me make it clear, the last thing in the world that this Government, which more than any other Government, has shown its commitment to stimulating economic growth and expansion of job opportunities. The last thing in the world that this Government is going to do is to contemplate the bringing in of a tax reform with an element which is going to have adverse impact upon economic growth. We simply wouldn't do it. Our whole record shows that. And we're not about trying to impose burdens upon people which shouldn't be imposed. But if the community wants a tax system which is going to be fair, and mean that you have, as a community, every instrument available to you to stop billions of dollars being avoided and evaded in tax, then its sensible to have it. And particularly, if I may make this point finally in regard to capital gains tax. You do have to ask yourself a question, as Australians. Why is it that virtually every other country in the western world has such a form of tax, in part to stop avoidance and evasion. Why shouldn't Australia have it.

JOURNALIST: Prime Minister can we look at the politics of the consumption tax.

PM: Sure.

JOURNALIST: It seems to me from talk back radio and from opinion polls that its quite clear the public doesn't want this. They dread it. The Unions obviously don't want it. How can you sell it. Aren't you taking a heck of a risk, and is it worth it?

PM: Yes we are taking a risk. But I just want to make this point, if I could, by preface to going to answer the question particularly. What this country has needed desperately for years now is a government which is prepared to face up to what has to be done to get this economy in proper shape. We have across us in the Parliament a group of people who in government did the analysis of what needed to be done. Floating the dollar - they did the work and then they wouldn't jump the hurdles. Sorry too hard, might be problems. Deregulating the financial market - did the work. Yes that must be happening. Came to the hurdles - said no, difficulties, problems, wouldn't do it, and so on.

JOURNALIST: But if you do this and then lose the election, they're the ones who benefit.

PM: Well let me say this. I'm not in politics and never have

been in public life just to be their to ride a popularity wave and do what you think is going to be popular. What needs to be done is to have a Government in this country which is prepared to face up to the great challenges facing this country. We're coming to the end of this twentieth century. We cannot any longer afford to go on, take soft options and say she'll be right mate. The world is not going to say to Australia, she'll be right. Now if you don't have your tax system which is an intrinsically important part of seeing that your economy runs efficiently. If you just say, sorry too hard we won't do it, then perhaps it might be easier politically for us. But let me remind you of this. When in the last election I said we were going to approach the question of tax reform I put up the nine principles. I guess you don't want me to run through them. I can if you want me to. But the final principle was this. That if tax reform is going to work then it must have broad community support, so the job we've got at the Tax Summit, and leading up to the Tax Summit is to try to get prejudices and narrow interests, as far as possible off the table, and ask all Australians to look at the package as a whole. Now we want to do the job of selling that to the people. If overwhelmingly they say they don't want it, then under the nine principles, so be it. It will be a tragedy for Australia if we baulk at tax reform because it might hurt me here, it might hurt you there. Now for God's sake let's, as Australians, say what does Australia as a whole, what do our children need in the next generation. Do they want a tax system which has just been slip slop, mish mashed together over thirty years, with no point or purpose, and which is inefficient.

JOURNALIST: Well you used the word earlier, hurdles, about the Liberals going up to the hurdle on deregulation and not jumping the hurdle. The hurdle on consumption tax it seems to me is the ACTU. If you can't get them to agree to it, then it won't happen. Now if it doesn't happen, that's the first part of the question, the second part of that, if it doesn't happen can you, and particularly Paul Keating, draw back from consumption tax with any credibility left at all?

PM: Well let me remind you of the seventh principle. I mean I'm going to have to read them all out in a minute. But the seventh principle put to the people of Australia was that if there be a proposal to move to a broad based consumption tax, then you are going to have to have the support of the Trade Union movement, because what would be totally disastrous and not acceptable. And that's why I put it to the people in the election campaign, is that to have a consumption tax which had the immediate effect of lifting prices, and then having the Trade Union movement saying having got an enormous cut in direct taxes wanting to double dip and saying we want our wages adjusted to that as well. Now so I said to the people, unless there is an acceptance of this and no discounting, then it can't be done. Now I believe that, part of the work that Paul Keating has done so well, is to talk with the Trade Union movement, as well as with business, and say here are the advantages. Now I know that the ACTU is going into the Tax .

Summit with an open mind. They've kept their options open.

JOURNALIST: Mr Hawke you've got a unique relationship with the Trade Union movement. Most of those guys are mates of yours. Is Bob Hawke going to be the Bob Hawke of old and convince the ACTU to accept a thing like a consumption tax.

PM: Bob Hawke is going to be standing shoulder to shoulder with Paul Keating seeking to persuade the ACTU, persuade business, persuade the rural community, that what each section, including the Trade Union movement has got to do, and we've reached the point as Australians where this is what has got to be done. We've got to stop thinking about a particular self interest, a particular concern. We've got to say what is it that's going to be best for Australia as a whole. Now I think I have the capacity. Certainly, whatever capacities I've got, I'll be trying to use those to make my fellow Australian men and women say that you can't have a continuation of a tax system which is haemorrhaging, imposing burdens on those least able to bear them, economically inefficient. Now I'll try and persuade the Trade Unions. I'll try and persuade social welfare people. I'll try and persuade the business community. I hope we'll be successful, because if Australia refuses to face up to this issue we'll slop through, Oakes, Negus, Hawke and Haupt. We'll slop through. Our children will pay an enormous price if through our self indulgence and self interest we refuse to remedy this system.

JOURNALIST: Prime Minister, just one last question. We're running out of time. We read in today's press that the Australian Rugby authorities intend to approach the Australian Cricket Board for a joint submission to try and change your Government's mind on sporting contacts with South Africa. Have they got any chance of succeeding?

PM: No. But let me say this. If people want to make submissions to us they can. We'll receive them. I don't want to be emotional about this issue, but just let me make this point Robert. We are members of the Commonwealth of Nations. And I think that's something that we should be proud of. That Commonwealth of Nations, through the Gleneagles Agreement, has said that it is an obscenity to witness what is happening in South Africa, where the overwhelming majority of people, simply because they were born black, are to be treated as second rate, third rate, fourth rate citizens. And they have said, the Commonwealth conservative politicians, the most conservative, the most liberal, black and white have said together. There is one area in which we as a Commonwealth can do something, not to give international prestige and standing to that regime. And its through refusing to have competitive sporting contests. Now that seems to me to be a reasonable thing. I do want to make this point because it seems to me to be absolutely fundamental. I am not asking. This Government is not asking. Mr Fraser and his Government were not .

asking people to embrace their particular political philosophy or ideologies. We're just asking people to understand one thing, that no human being in this world can control, determine the colour they are born. And if you want to think of the great obscenity in the world I think it is this, that a kid that is born without control over their colour is going to be subjected to discrimination because of difference of colour, then we've got to say we will not do anything we possibly can to sustain and help a regime which continues to condemn kids because they were born black.

JOURNALIST: Well you've been accused of hypocrisy in not having the same attitude, or of taking the same measures on trade, and I know your answer to that, which is the trade we can't effect. It has to be done with an international agreement. Now we're about to go on the Security Council of the United Nations. Are we going to try and lead the way to getting a world trade embargo on South Africa.

PM: Certainly Robert. I believe that we should, and will take a lead there. I can come to this with I think impeccable credentials. For ten years I represented the Australian working men and women at the International Labor Organisation. And when they had their emotional gatherings there saying we're going to have trade embargoes, I said that's beaut. I said what you've got to do is go back to your Government and make sure that your emotional voice here is backed by Government decision so that such sanctions can work. Now we will with others take a lead in that.

JOURNALIST: We'll initiate something in the UN. Is that what you're saying.

PM: Well I believe that with others we will. Certainly we will take a lead, but what I'm saying to the actual mechanics of it. There'll be others associated with us I would think.

JOURNALIST: Prime Minister we must leave it there, thanks for joining us.