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PRIME MINISTER

FOR MEDIA

4 JUNE 1985

TRANSCRIPT OF INTERVIEW BETWEEN PRIME MINISTER AND JOHN LAWS,
RADIO 2GB

LAWS:

On the telephone the Prime Minister of Australia - Good Morning.

PRIME MINISTER:

Good Morning, John.

LAWS:

How are you?

PRIME MINISTER:

I'm very well thank you.

LAWS:

Good. How do you think it went?

PRIME MINISTER:

The launch of it?

LAWS:

Yes.

PRIME MINISTER:

Well I wasn't able to tune into Paul but I understand we've got off to a reasonable start. There's a long job in front of us now and up until the summit and including the summit, John. I think the important thing that all your listeners and all Australians need to understand is that we as a Government have discharged our obligation - first step, that is to try and outline how the present system has broken down, to set out ways in which we think we can produce a fairer system for all Australians. Now we want to discuss it in every possible way with our Australian electorate - with all Australian men and women having a chance to think about it. We'll go into the summit not with a closed mind. If it can be shown that there are better ways than we've suggested of doing it then we want to hear them. We're about trying to produce for Australia a system which is simpler and fairer and more economically efficient.

LAWS:

Yes I think it's very important that the general public realise - and I think the Opposition is not allowing them time to realise - that this is a paper that is to be discussed, that this isn't the ultimatum, is it?

PRIME MINISTER:

No definitely not, John. We have done what we think is the obligation upon us because we know that Australians understand that the present system is not good. We know that they don't like having to pay so much of the income they earn straight out in income tax. We've got the position where about 40%, John, of full-time earners are paying 46¢ out of every dollar as a margin as tax. Now we think that that is not what they want. We know they think it's not fair - it's not efficient in economic terms. So if we're going to be able, John, to get a substantial - and we're looking at about a 30% reduction for the average wage and salary earner - a 30% reduction in the direct income tax he pays - then we've got to work out what we think are the best ways of getting alternative revenue so that we're going to be able to provide the services that the people still want. Now as you rightly say, John, this is an outline of the ways in which we think we can get there. But we're not saying to the Australian people there it is, take it or leave it. We want you to talk with us about it. Paul Keating and I and others will be available in the period up to the summit to explain - but not just us to be talking but also to listen to what people have got to say.

LAWS:

Yes, I think that's very important and it does worry me a bit that the Opposition is rather giving the impression that this is it and this is what they're going to have to cop, and that is not the case.

PRIME MINISTER:

It is not the case but it is consistent with the attitude of the Opposition. When they were in Government they knew that certain basic things had to be done, John, to get this economy into better shape. Just very quickly you can list them - I'll come to the question of tax at the moment - but in the area of the financial system they did the work, they knew that the financial system should be deregulated. They didn't have the guts to make the decision. They knew that the dollar should be floated. They did the work but didn't have the guts to make the decision. They knew that more banks should come in here so that ordinary Australians could have a more competitive banking system - did the work, didn't have the guts to make the decision. In tax Howard knew that the sort of changes that we're talking about should be brought in - did the work - didn't have the guts even to bring it right up to the Australian people. Now in Opposition they are just as bad. They are scaremongers. They are trying to misrepresent - now if they think that that's the sort of thing that the Australian electorate appreciates I think that they are making a bad political judgement.

LAWS:

Yes but the point is this: I don't like paying tax and neither does anybody else and there might be many people who are going to find parts of the suggestion that has been made by your government most unpalatable. But if in the washup the majority of Australians are going to be better off surely if we're proper human beings, that should be our prime concern shouldn't it?

PRIME MINISTER:

Well John I appreciate that and there are two points to be made in regard to what you said. You very rightly make the point that it's a package and obviously in any total package that a government puts forward which has to deal with a whole range of taxes there will be parts in it which are unpalatable to some and parts which other people like. So if you look at the whole

community of Australia there'll be points here, there and everywhere people will say I don't like that. But you're quite right John in saying well let's look at the package as a whole. Which leads me to the second thing: that the overwhelming majority of Australians will be better off. No government in its right mind - and we're certainly in our right mind - is going to bring in changes which is going to be worse for the majority of Australians.

LAWS:

Of course not.

PRIME MINISTER:

It's politically stupid and economically disastrous. Now we're not about either of those courses. Now one can ask then why will the majority of Australians be able to be better off when you have tax changes and the reasons, basically, are simple. Firstly, there are - as know unfortunately - very many of our fellow Australians who don't pay any tax at all. They don't do that because they are able to avoid the obligations in respect of their income by getting into a whole lot of tax evasion and avoidance. Now part of our proposal is to broaden the direct tax base so that we will pick up a lot of tax from those people who are currently avoiding and evading. And the second thing under our preferred option is that with a broad based consumption tax these people with their hundreds of thousands, in some cases millions of dollars, who are not paying any direct tax and are not paying any tax on a large area of their consumption will now be making a contribution to the general revenue through a consumption tax. So when you bring these elements together John - getting them in the direct tax area by the broadening of the base and bringing in a consumption tax so that they are making a contribution to the general revenue that way - that's bringing in to the general revenue pool available to help all Australians some millions of dollars which are able then to distribute to the mass of Australians to make them better off.

LAWS:

Now when you and your men sat around and discussed this you must have all said God we're going to be in trouble there, or they'll be after us, or we're going to have a problem in this area. Where do you believe the biggest problem is going to come from?

PRIME MINISTER:

Well John you're right. Now let me just make one preliminary point and then go to directly answer your question: we knew when we approached this job of trying to reform the tax system we knew that we were taking a risk. We know still that we're taking a risk and you very astutely put your finger on part of it because there are campaigns of misrepresentation. We have an ultimate belief that if you are honest with people, talk to them, listen to them, that between us as a government and as a community working together we ought to be able to get a better system. We know there are risks. Okay, where are the particular areas of risk? I guess, John, the things that we'll need to explain most are these: firstly, in the area of fringe benefits. Now this has fired up in a way which is exploding now and if something is not done about it now will mean that more and more burdens will be placed upon those in the community who don't get any fringe benefits - and they are still the majority I guess.

LAWS:

Yes.

PRIME MINISTER:

Now what we've got to do is to explain that the way we're going about this means that the employers will have to face up to the implications of this. In many cases they will be prepared to carry that additional burden, in others they may not. But I believe that there is a lot of explanation to do in that area but I am sure that we can do it. Secondly, there has been concern about the area of capital gain. We'll have some explaining to do there, but I'm more than happy to do that because it has been somewhat misrepresented. Let me make these points about the capital gains tax, John: firstly and most importantly there would not be, if we go ahead with a capital gains tax, there would not be any capital gains upon the personal home - on private homes - none under any circumstances - absolutely free of that. Secondly John it would not be a tax upon nominal gains - only upon real gains. So that inflation is not taxed - it's only real gains. Thirdly, it's only prospective. I mean any gain that's accumulated prior to the date of the introduction of it is not taxed. Fourthly, losses are offset. In other words, when you take those things into account it is a very modest capital gain. But the fifth and very important point to make about it is this, that we are not looking at a capital gains tax simply in terms of revenue. The revenue that we'll get from it will be in the scheme of things very small. You're talking about the order of \$100 million which shows that it's not very heavy in its impost, but its importance is as an instrument, John, in helping to beat tax avoidance and evasion. And I believe that when these things are explained they will be not merely understood but I think broadly accepted by the Australian community.

LAWS:

Yes, the cost of policing capital gains is going to be pretty high I would imagine. Obviously the revenue is going to offset the cost?

PRIME MINISTER:

Oh no I don't think the mechanics and the administration of it are enormously difficult John. But as I make the point, we are not deluding ourselves and nor should the people feel that this is going to be a massive source of revenue. It's not going to be. But what Australians have got to ask themselves I think is this simple question: why is it the overwhelming majority of countries in the western world have a capital gains tax? It's been there in the United States for a long time. Most countries have it. And they have it because it is fair that you shouldn't have the discrimination against the ordinary mass of people who just get their income from their exertions. Some people are able to get very substantial income from appreciation of assets in which they've involved no effort. But importantly, in doing this, you do close off or help to close off very, very substantial areas of avoidance and evasion.

LAWS:

Yes, I think that area - and I mentioned it to be Paul Keating and I think that you'd be interested in it too - the fact that you say that the family home will not be included and that's eminently reasonable and will never be included and I think that that's fair.

PRIME MINISTER

It would never be here, it's not normally included elsewhere and it would not be here.

LAWS:

Okay, but the question I asked Paul Keating, and I ask the same question of you: why can't there be - and I'm not suggesting there be 5 or 6 - but why can't there be two family homes. If a man finds himself in a position where he has paid exceptionally high tax in order to organise his life so that he can have a house in town and be lucky enough to have a beach house - and only the rich people can do it so the rich people have paid high taxes in order to enjoy that luxury. Why can't there be two family homes?

PRIME MINISTER:

Well I think, John, you start to break down the principle of the tax there and, of course, I'm not saying it would be the case in your case because I know you pay all your taxes but.

LAWS:

(laughs) I sure do.

PRIME MINISTER:

Yes, and good luck to you, but you get a lot of situations where there could be rorts, I think, in this sort of thing. I'm not saying that that's so in every case but all I can say, John, is where this has been considered in other countries that sort of distinction is not made and I think it is not made because it would lead to conceptual difficulties and, of course, the other thing is you could have economic distortions as well John. You could have an incentive to put money into second houses as a way of avoiding tax and that would not be, in terms of economic policy and in trying to get rational allocation of resources, a sensible thing to do.

LAWS:

Yes, it's just that I feel that as I think things being fair and equitable to everybody is the way that these systems should work and if a man has organised his life by hard work and by paying excessively high taxes up until this time into a position where he can afford the luxury of a second house I don't really think he should be discriminated against and I can't see anything wrong with encouraging people to invest in property either.

PRIME MINISTER:

Let me make this point: you realise John that if you have a second house you don't pay tax on the fact of having a second house. I mean you can have it there and you don't pay any tax on it. It would be only if you disposed of that second house and made and derived a capital gain from it. I mean the way you've been putting your point it is almost as though having a second house attracts a tax. It does not. You would only attract a capital gains tax if in regard to that second house at some stage you disposed of it at a profit - and at a profit beyond inflation. In other words if John Laws buys a second house - let's say \$100,000 - now you don't through buying it have any tax to that house, and say over a period of time - you held it for - let's say just for a simple case, an arithmetical example, you kept it for ten years. Now you pay no tax in that period on it. If at the end of ten years let's say - and I'm not using compounding here - but let's say there was 10% inflation in 10 years and it was worth \$200,000 - and I know with compound interest it's different - but in simple arithmetic terms and you sold it at \$200,000 in

in ten years time you wouldn't pay any tax, because that would be nearly the inflation that had occurred in the period and you wouldn't pay any tax.

LAWS:

Yes, well I can see merit for both arguments and I am aware that you don't pay any tax simply by owning it, only when it's passed on, but it is also taxed at the time of death, isn't it?

PRIME MINISTER:

Yes but it's not a death duty. The whole point about a capital gains is the very fact that your property is increasing in value - you don't simply pay tax on that - it's only at the time of realisation of the capital gain and for the purpose of the implementation of a capital gains tax the transference at the time of death is regarded as accrual for the purposes of capital - a realization for the purposes of capital gain.

LAWS:

Yes, and I understand that, and again I think it is something that should be made very clear to the public because it's one of those facets of your proposal that can be distorted and I'm quite sure that plenty of people will be prepared to distort it. It isn't in fact a death duty even though it is payable at time of death, but where it's not payable at the time of death then you could simply pass property on from generation to generation to generation.

PRIME MINISTER:

Exactly, and John let me make the point too to Australian men and women - this government has shown in its period in office that what it is about is trying to promote growth and efficiency in our economy. The last thing that this government would do would be to change the tax laws in a way which is going to reduce growth, reduce the efficient operation of our economy. And I just ask Australian men and women to ask themselves the question: why is it that governments in the rest of the world have this tax? The United States could hardly be regarded as a country which is against free enterprise and the opportunity for the individual to expand their acquisition of income and wealth. It is simply the case that governments all around the world have understood that it's necessary to have this sort of tax not simply as a revenue source but also, John, as an instrument to fight tax avoidance and evasion.

LAWS:

Yes. The ACTU is obviously not happy about what has been proposed in the form of a consumption tax.

PRIME MINISTER:

Well there's two or three things to say about that, John. Firstly, I know that you know because you've said on a number of occasions, this government is not here to do just what the ACTU or the trade unions want.

LAWS:

No, I hope not.

PRIME MINISTER:

We certainly are not, we regard it as economically and politically sensible to talk with the trade union movement, as we talk with business, because that's involved in our whole approach to government. We don't regard the organised working men and women of Australia as the enemies of Australia. We regard working men and women of this country as an important constituent of our whole society and their organisations as important units with which governments ought to talk, in the same way as we regard business. Now during the last election, John, when I initiated this process of tax reform. I said as a seventh principle then - you see we're not changing anything - I said if any tax reform which were to include a consumption tax is to work then it must have the support of those who would be directly involved - the trade unions - because let me make this quite clear John - from the outset of these community debates this must be quite clear. If we do as a community decide that it makes sense for all the reasons we've put to move as part of tax reform to include a broad based consumption tax so that from that we can give massive tax cuts - 30% tax cuts to the average wage earner - you can't then having got that great benefit in direct tax cuts from the introduction of a broad based consumption tax then have your second dip and say I'm going to have my wages increased to cover the price increase associated with the introduction of the tax. There must be discounting for that. Now in the discussions that Paul Keating has had with the ACTU and that I have had we have made it quite clear that discounting is essential. Now I think they understand that. They are going to the tax summit with an open mind, I believe, to listen to all the options. And it's my view, John, that they will come to see that what their members do really want is a very, very substantial cut in direct taxes. I mean it is silly to have a situation, John, where the ordinary bloke is asking himself a question - look shall I work a bit more overtime because virtually half of each extra dollar is going to the government. It's economically inefficient and if we are going to be able therefore to cut that 46¢ rate down to something like 35 and give what's really a 30% reduction then it can only work in the way I've put. Now I think that ordinary workers and their unions will come to see the sense of that. Let me make the point John: if you take the average weekly earner, in annual terms he gets about \$22½ thousand dollars. The income tax cut for the average worker will be \$31 a week. That is we as a government will be taking \$31 a week less out of his pay packet in direct tax cuts. The calculated cost of the increase in the consumption tax is about \$16,80 a week. In other words that worker in net terms would be \$14.20 a week better off. He'll then be in a position to spend that money - he'll have that net increase in his or her hand to make a decision as to how to best satisfy his wants and those of his kids.

LAWS:

Yes. I wonder why some sections of the media choose to take a negative approach - not what you're going to gain but what you're going to lose with headlines that indicate that you're not really going to be better off by it - "Tax changes to please nobody" is one headline.

PRIME MINISTER:

Well John I suppose there's two points about that: you're an old media man. I suppose it is always the case that bad news tends to be more saleable than good news and so if they think they can find some bad news in something they'll emphasise that. The second thing John is that we've got to understand, as I said earlier in our discussion, this is a package, it has whole lots of elements and it is true that a lot of groups will be able to point to one element and say well gee I don't like that and they'll tend to concentrate on that, and some newspapers might, rather than looking at the whole package. Just to go back to the example I gave: you take this person - the average weekly earner figure who's on about \$22½ thousand, now it is true that with the introduction of a broad based consumption tax which is 12½% then prices will go up, there will be an increase in the index for a while and it will cost another \$16.80 a week. Now if you want to run a headline \$16.80 a week increase in your outgoings it's a big story, but I suppose you know the truthful exposition would require you to say oh yes but he'll also have \$31 a week more in his pocket and in net terms he'll be \$14.20 a week better off. So if you want to write your headlines \$16.80 increase prices that you pay - sure headlines - but as I say a more balanced one \$31 a week extra in your pay packet as well, \$14 a week better off.

LAW:

A question that is going to be asked, and it's being asked flippantly already and people are going to start to get a bit serious about it is the tax on fringe benefits. The question being asked of course is are the politicians going to pay the same sort of tax on their fringe benefit?

PRIME MINISTER:

Well what the paper points out is that in regard to - whether it's politicians or anyone else - where you have arbitrated decisions they are not covered. What I want to say is this: in political terms we would not be doing anything which would be stupid enough to say look here is a differentiation, you're trying to look after politicians favourably as against everyone else in the community. That wouldn't make sense, and we're not going to be doing it.

LAW:

You see the point is that people are going to say - people that are a bit stupid but there are plenty of those in the world - are going to say well look at the fringe benefits that the Prime Minister gets. They simply neglect that as Prime Minister of one of the greatest countries in the world - or to my way of thing the greatest country in the world - you're entitled to a few but people are going to say well what about all the fringe benefits he gets - the cars, and the overseas trips, and the other things.

PRIME MINISTER:

(laughs) Just let me take the overseas trips one - if we had room to fit in over and above all the demanding journalists who want to cover everything that happens I wouldn't mind taking your ordinary Australians with us just to see how these overseas visits which are supposed to be such great fun - let me make the point that one of the frustrating things about these trips is that at the end of the day people will say - the journalists will say we had a great time seeing The Louvre today or we went down to the West End. You don't see them, it's the most

frustrating thing in the world. You're there in conference or working over briefs - but that's a peripheral point. Let me get to the guts of it: I can tell the people of Australia as Prime Minister I am not about tax reform to benefit Bob Hawke. At the end of the day the same sort of rules will have applied to the Prime Minister as to anyone else. I've made it quite clear that if at the end, in terms of the outcome, that I were to be seen as being significantly better off I've made it quite clear that from my own point of view I would be disposing of that. I'm not in this position for personal benefit and I won't be doing it.

LAWS:

Yes, you made a point earlier that I think requires re-making and that is that - and I've said it on many occasions concerning the NSW government as well - whether we like what you do or whether we dislike what you do is totally immaterial. We should at least have enough faith in ourselves as members of the public of Australia for electing you that you're intelligent and the people around you are intelligent. Now no intelligent person is deliberately going to do something that's going to get him out of office. It mightn't be right what you're doing - but if it is wrong you're not doing it deliberately are you?

PRIME MINISTER:

Certainly not doing it deliberately but the other side of that coin is this, John. I've tried to make the point in the last week or so: this country - as you rightly say this great country - has paid for too long the very heavy price of having governments here in Canberra which knew what needed to be done for the welfare of this country and didn't have the guts to do it because they thought what they did could be misrepresented. I repeat what I said before - foreign banks, floating the dollar, deregulating the financial system, all of those things crucial to having a better, more efficient functioning Australian economy which would produce benefits for the ordinary Australian man and woman. Now they wouldn't make the decisions because they thought they could be misrepresented or they might get some political flak. We've faced up to each one of those and we've made the decisions. Now it's the same with the tax system. It is quite clear, John, that this tax system is disintegrating and it's disintegrating in a way which is increasingly with each passing year imposing a greater burden on ordinary Mr. and Mrs. Australia and the kids dependent upon them. They are the ones which are increasingly paying the burden. Now if we are prepared to face up to that and say to Mr. and Mrs. Australia here's how we think we can create a fairer and more economic efficient tax system. Here's our thinking, respond to it and together we can improve it. I said just recently John it would be easy enough to walk away from it because I can assure you Bob Hawke, Paul Keating, all the people around me, we could get by under this present tax system. We won't be hurt. We'd do all right and the people out there - the relatively well to do in the community - they can get by under this system. In fact many of them are doing very, very well indeed under it. But next year, the year after, a decade after, the generation after, the kids of today will pay an inordinately high price - a devastating price - if politicians and government today haven't got the guts to face up to it. Now we have got the guts to face up to it. We know without question that change has to be made to produce a better Australia for the future and we will not walk away from that responsibility.

LAWS:

How are you going to protect the very low income earners? What about people on fixed incomes? They are going to get hurt, aren't they?

PRIME MINISTER:

Well no, there are a number of ways in which they will be helped. First of all John there will be an increase in the tax-free threshold so that people can have income rising from \$83 now to \$120 a week absolutely tax free. There'll be no tax upon them at all. That's part of the move. Now secondly in regards to pensions and benefits and allowances, the price impact of the suggested broad based consumption tax is about 6%. That 6% increase in the CPI would need just to cover that a rise of \$3 a week in the pension. What we are proposing is an increase of \$9 a week in the single pension - so 30% more than is suggested by the rise in the CPI and \$14 a week for married couple pensioners. In regard to families the dependant spouse rebate and family allowances would both be increased by 14% - not 6% but by 14%. Dependant spouse rebates for those with children would increase \$2.75 a week, family allowances would increase by \$3.20 a month for one child, \$7.75 a month for 2 children and \$13.20 a month for 3 children and the family income supplement which is there for very low income families with a lot of children - that family income supplement will also be increased. So altogether John in the compensation packages that we're talking about there is just on \$2 billion compensation packages which will more than compensate for the increased prices which will affect those lower level income people.

LAWS:

The assets test I'm quite sure you would be prepared to admit cost you pretty dearly at the last election. Do you think that this is even a bigger achievement in your political career and do you think it's as big a or a bigger risk?

PRIME MINISTER:

Well it's a risk. John, as I said earlier in this program we do understand it's a risk. But in politics there are as well as risks there are obligations and duty. We believe we have an obligation and a duty to reform the tax system. I'm not going to walk away from that obligation. I'm going to try and talk with the Australian people - try and get a general understanding about what needs to be done. I have sufficient trust in the Australian people that if you talk with them - not to them and at them but with them - to try and share their experience and thoughts that we can get a way through this which is going to make for a better Australia in the future and I'm not going to shirk that responsibility John.

LAWS:

Okay Prime Minister thank you for your time. I was good to talk to you and I appreciate you giving us so much of your time and I hope I see you soon.

PRIME MINISTER:

John can I say two things: firstly thank you - obviously. But in a sense even more importantly than that is to say to you how very much I appreciate the way in which you approached this. I know that you won't necessarily agree with every element in the package but at least one can know that with you today and in the weeks ahead there is going to be a rational and profitable discussion about this issue and I appreciate that very much.

LAUS:
Okay, take care of yourself.

PRIME MINISTER:
Thank you.

LAUS:
Our Prime Minister, Bob Hawke.

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