



PRIME MINISTER

20 JUNE 1985

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

JOHN LAWS:

As I promised, the Prime Minister of Australia is my guest in the studio now.

Prime Minister, good morning and welcome.

BOB HAWKE:

Good morning, John, thank you.

LAWS:

Did you have a good holiday?

HAWKE:

Beaut, thanks, John, marvellous.

LAWS:

You look very, very well.

HAWKE:

I feel it.

LAWS:

Is Lizard Island as good as they tell me it is?

HAWKE:

It is very good, very restful, not too many people.

LAWS:

Obviously you needed a rest because you have walked into a turmoll on your return really, haven't you?

HAWKE:

I don't know about a turmoll, we expected that there was going to be - - not only expected,

but we want a wide ranging community debate on our tax proposals, and that is what is happening and we are indebted to people like yourselves, John, for the way in which you are facilitating that.

LAWS:

Yes. I see a lot of headlines have been pretty tough - "Give way, Mr K", the Sun editorial said yesterday, a lot of people saying that what you are doing is going to cost you office, "What a rip-off", we are reading here, there and everywhere; has the reaction been greater than you thought it would be?

HAWKE:

No, much as I expected. I was a little bit disappointed in some areas, John, that there hasn't been the attempt to look at the package as a whole.

When you are talking about tax reform in a country like Australia of a system that has been running down for over 30 years, then it is inevitable that in an overall package there will be elements that some people won't like, and some elements that may, just considered by themselves, hurt them and so if there is a concentration on particular elements you will get those headlines.

I just wish people would look at the package as a whole.

LAWS:

Is that the thing that has disappointed you the most, the fact that people have been motivated

by how they are going to be affected themselves rather than the effect the package will have generally on the country?

HAWKE:

Yes, I think so, John, although I understand that people will try and see how it is going to affect them, but I think they have tended to be misled into saying "Well, look, some prices are going to rise, it is going to cost us more", but what they need to do is to look at what additional money they are going to get in their pockets from the very substantial tax cuts that are proposed and in net terms they will be better off.

I think it is a pity that they don't understand that, but secondly and more importantly, if they are concerned not just with assessing their own particular position at this moment, but if they were to think about what sort of country they want this to be for their children, whether they want a country which is going to be efficiently placed to best organise its resources, then I think they should take the wider view, and we do need to make these changes to make Australia not just more equitable but more efficient.

The country will pay a very high price if we just allow the tax system to run down in the way it has been.

LAWS:

Are people, do you think, really aware that in fact some items are going to be cheaper and some items will vary very little in cost, and of course some - and some consider the most important - will be more expensive.

but all we seem to hear about is the fact that things are going to be more expensive, but not all things are going to be more expensive?

HAWKE:

No, that's right. We have at the present time a wholesale tax system which brings in about \$4.7 billion.

We are going to scrap that, that has a wide range of goods within it with tax rates ranging from 7% up to 20% and up even further to 32½%.

Just to name these goods - cars, TVs, radios, soaps, detergents, pet food, soft drinks, insecticides, toys, toilet paper, watches, shavers, cosmetics, toiletries, pens and handbags - they should all become cheaper because the very high rate of wholesale tax will be abolished.

LAWS:

But is it not true that those items that in fact will be cheaper, or not very much more expensive, are in fact the items more likely to be bought by the higher wage earners than the lower wage earners?

HAWKE:

I don't know. As far as I know, I think most people buy toilet paper - a bit of class distinction there!

I hope that is true, I think so.

LAWS:

I didn't hear you say toilet paper in the list. I certainly would agree with that.

But I mean to look at it generally, motor cars, for example, the biggest savings will be made in the biggest cars.

HAWKE:

Yes, but nevertheless I don't think we in this society now think of motor cars as luxury items, a commodity which are bought only by the highest income people.

Your general point is right, John, that there is going to be a whole range of goods which are going to be cheaper and that is of course one of the reasons why a 12½% broadly based consumption tax is not going to produce a 12½% increase in prices, because the estimated 6½% increase in the CPI represents an amalgam of price increases and price decreases and price neutralities.

We have deliberately calculated that tax cuts, that's in direct personal tax, in terms of ensuring that people will be in net terms better off.

Let me just give the figure again. The average weekly earnings figure, which is \$22,500 a year, an average single person on that average weekly earnings will get \$31 a week more in his or her pay packet as a result of tax cuts.

They will pay \$16.80 a week more through increased prices, they will therefore in net terms be \$14.20 a week better off.

If you take not that average weekly earnings figure, people might say that is a bit high,

take the figure of \$19,000, where the 46¢ in the dollar marginal rate cuts in, the average person there will get \$25 a week more in their pay packet, they will pay \$15 a week more in increased prices, in net terms \$10 a week better off.

LAWS:

What about those people who have a fixed income?

HAWKE:

There is a range of considerations there - -

LAWS:

A low fixed income.

HAWKE:

Essentially the package does these things, John.

To the extent that even with low incomes they are still within the taxable income level, they get the benefit of the tax cuts which will more than compensate.

To the extent that they are the recipients of social welfare payments pensions or other forms of social welfare payments, there will be more than compensation, without running through the whole range let me take the case of the single pensioner, the calculation is that the 6½% increase in prices would require \$6 a week increase in pension to cover that.

In fact, what will be given will be a \$9 a week increase. There will be substantial increases of 14% in the areas of spouse rebates and family allowances - 14% increases, and so every point at which there is a dependency upon welfare payments the compensation will be more than is necessary to meet the price increase.

LAWS:

If a pensioner, for example, has a nest egg set aside, a couple of thousand dollars or five thousand dollars or whatever it might be, to make life a little more comfortable on odd occasions, surely that \$2,000, \$5,000 or whatever it might be, is immediately worth 12½% less?

HAWKE:

What you have to ask yourself is if they have got this nest egg set aside and it carries an income stream which puts them in the tax area, then they get the tax benefit because the direct tax cut is of benefit to them, so that more than offsets, or will offset, what happens in regard to the increase in prices that will occur as a result of the increase and the imposition of a broadly based consumption tax.

LAWS:

But if they don't pay tax - -?

HAWKE:

If they are in the region where they don't pay tax and they are the beneficiaries, social welfare beneficiaries, as I have said, there is a significant over-compensation of those benefits and those payments, and part of that over-compensation has been put there in part to take account of the sort of consideration that you talk about.

LAWS:

Yes, but if there is a saving set aside, in fact in true terms that saving is worth 12½% less?

HAWKE:

To the extent that prices go up, then that will be so if the value of their saving doesn't increase.

It depends upon the form in which that saving is held, because, you see, if prices rise then the prices of certain assets that are held can rise as well, and therefore if there is a corresponding rise in the price of the asset in which the saving is held then they are not disadvantaged.

I concede that in some circumstances of course what you say is right.

LAWS:

The big leaguers, and there are plenty of them about, are obviously going to try and find a way to deal with the capital gains tax.

One way that is evident to me, and I imagine to you as well, is if the family is exempt from capital gains tax I am sure we are going to end up with some fairly extravagant family homes, aren't we?

HAWKE:

Well, I don't know, I don't think this has been the experience of other countries, John.

You see, all the debate about the capital gains tax seems to be to some extent put upon the basis that what the Australian government is suggesting is something unusual.

It operates in virtually every other country in the world, and it hasn't produced these

sorts of results. I think that there are limits upon what people will do, how they will allocate their resources, I don't think that they are going to deliberately distort the way in which they spend their money to avoid something which I remind you is not a tax on nominal gains, they are still going to be able to invest in other assets and to the extent that those other assets simply appreciate in line with the general level of inflation will attract no capital gains tax.

LAWS:

But surely if they are going to - -?

HAWKE:

I accept that there may be some element of what you say - -

LAWS:

It is unavoidable though, isn't it?

HAWKE:

Yes, I mean, if you are going to adopt the capital gains tax for the basic reason which I support it, and that is as a means of helping the fight against tax avoidance and evasion, then that is the justification, the basic justification, not the revenue you are going to get which is not much over \$100 million, which in the totality of tax revenues is rather small.

But as the white paper points out, John, the basic argument for a capital gains tax is as a weapon to stop tax avoidance and evasion.

LAWS:

Some questions that listeners have asked that I ask of you, I will do on their behalf as I said I would - will the taxes fall on special dietary food, in particular for diabetic children as they are excessively expensive already?

HAWKE:

John, the proposal is for no exemptions, and I want to say this to you, that the reasons for that are as follows:

Firstly, if there is one thing that has come through to us and our advisers in the months of work that has been done on the tax paper, it is both from the countries where they have these forms of taxes and from independent experts is to say no exemptions.

The reason they say "no exemptions", recognising that there can be the sort of thing you talk about - perceived hardship - is this, that you immediately increase enormously the administrative costs because the retail outlets have to have separate accounting systems, differentiated cash registers and so on, whereas if you just have no exemptions then at the end of the month, the end of the period, they just take off 12½% and that is it.

It increases the opportunities for evasion, but also very importantly, John, it goes back to the point that you were talking about before that is not sufficiently recognised.

that we do have now a very wide ranging tax on goods.

LAWS:

Will there be sales tax on things like diabetic foods for children, specific requirements?

HAWKE:

There would be no exemptions - yes, to the extent that that was - -

LAWS:

But I mean would there be sales tax existent on those now that could be removed, I am not sure?

HAWKE:

No, generally speaking there is not on food, generally. You get into this dividing line between confectionary and food where you have the stupidity that I think Kit-Kats attract a tax and chocolate biscuits don't.

So there is those sorts of absurdities, but I was leading to the point, John, that once you have any sort of exemption at all then you have created the absurdity that we have got now.

With this wholesale tax system you have tax on certain goods, you don't have them on others where there is a great similarity; you have a tax of 7% on some, 32½% on others.

That wholesale tax system is a total chaotic mess. Successive governments independent of political persuasion are always under pressure - if you exempt this, exempt that, have a different rate on this, a different

rate on that.

As far as the problems that are created by having a tax on foods generally, or on particular sorts of foods, I go back to the point, John, that the compensation that is going to be given in tax cuts in direct personal income is going to be very much greater than the increase in prices associated with the broadly based consumption tax, as is the increase in payments of social welfare benefits.

So people are going to have more in net terms than they otherwise would have.

LAWS:

Yes, but in specific areas, for example these foods for diabetic children or specific requirements for diabetic children, they will in fact be 12½% dearer because there is no sales tax to take off in the first place?

HAWKE:

Yes, that's right.

LAWS:

And there is no avoiding that, you have to take a hard line on that and say "That's it"?

HAWKE:

It is not a question of taking a hard line, it really is the point that once you talk about an exemption for one thing you create an administrative chaos and you create the situation where governments are going to be subject to saying "Well, you exempt that, why not this, why not that, why not that?", and if we were giving people less by way of tax cuts on their direct tax area so that in net terms they are worse off, then you

would feel really bad about it and you wouldn't do it, but there is that cushion of surplus in the direct tax cuts and in the social welfare payments.

LAWS:

I understand you are saying that it is not a hard line because you see it as a necessary line, and when it is necessary it then ceases to be hard, but I imagine the mothers of the diabetic children are going to see it as a pretty hard line.

Nothing can be done about it?

HAWKE:

I see that they would see that as a difficulty, and the problem one has, John, is this - that if you are talking about difficulties the greatest difficulties that have been imposed upon people like that, ordinary Australians, is that an increasing proportion of the more privileged of us in this society, the more privileged Australians, have been avoiding tax altogether.

The most regressive burden that you can place upon ordinary people, including the sort of people that you are talking about here who have these particular burdens, is to have a tax system which is breaking down and imposing increasingly a greater burden of tax upon ordinary wage and salary earners.

What this reform is about is to create overall a more equitable system where the tax burden will be shared more equitably, where

people whatever their station in life, are going to have to pay tax where they have been avoiding it, so overall you will be able to reduce the burden on ordinary people.

That is the main, and I believe a noble and proper, objective.

If in the process of achieving that there are some particular problems, well, in a sense that is unavoidable but you are going to create overall a greater fairness in the society, a greater equity.

LAWS:

You know that I understand the motive of it, because the day after it came out when I talked to you on the telephone I said that if we are all proper Australians we should say "This is the way it should go because the average Australian is going to be better off if the majority of Australians are going to be better off".

I certainly understand the motive, and I certainly see that realistically those people who have been in a position to abuse the tax schemes in Australia have abused them out of hand and now they are going to pay the price and many people don't like it.

I do, however, think it is pretty tough that people like the families who have diabetic children paid the price before by subsidising those who evaded and avoided tax, but now they are paying the price again.

HAWKE:

Well, John, I hope you understand the point I am making.

One gets no pleasure if a particular group of people, worthy people, have some additional burden placed upon them. I mean, that is not something that you want to achieve, but I hope you appreciate that the unanimity of the advice, not from harsh monsters but from well motivated people, the unanimity of advice to government that if you have exemptions then you are creating a monster that will start to emerge again as something which is destructive of the totality of equity for everyone.

If there was a way in which you could create a perfect tax system in which there were no problems for anyone then I would love to do it, no-one would love it more.

I mean, both on humanitarian grounds and may I say on political grounds, there is no politician, there is no prime minister, who wants unnecessarily to create problems and I certainly don't want to do it.

LAWS:

No, well obviously you have endeavoured to create what you consider to be a near to the perfect tax system.

HAWKE:

As near as we can.

LAWS:

What about disabled people - wheelchairs and things like that that have been currently exempt from taxation?

HAWKE:

In the area where they were exempt from the existing sales tax - to the extent that you are abolishing a sales tax which hasn't applied to them, clearly if you now bring in a broad based consumption tax in the area where there wasn't a tax, then prima facie they would be adversely affected.

I don't know whether in straight medical terms like that, disability terms, whether there is a consideration available for exemption there, but again it seems to me that you run into the same sort of problem that I was talking about before, that once you create one area of exemption you open up the whole issue.

But as it stands now it is true that if they are not paying a wholesale tax, if they are exempted there, and there is a non-exempt broadly based consumption tax brought in, then it would catch that area and it would have to be the case, I would say, that I would apply the same sort of observations to that as I did to the other area.

At the summit, John, these sorts of things are going to be open to be put to the government. I have made it quite clear from the beginning in the election campaign that the ninth principle, that is, a broad community support, is important.

We are going into this summit not with it being a charade, but to listen intently to all the submissions that are put on behalf of all

groups in this country, and both Paul Keating and I have said that the government will listen very closely to what is said, we will study in the weeks after the summit very closely all the submissions that are made.

It could be that in regard to the final decisions that are taken that you could see some particular areas where the general observations I have made against exemptions would be capable of isolation, so that they would not of themselves open up further claims for exemption.

LAWS:

I can tell you are concerned about the fact that disabled people might have a 12½% tax

HAWKE:

I am concerned about it.

LAWS:

Yes, I can tell you are.

HAWKE:

I am.

LAWS:

But then again you find yourself in a bind because if you do permit exemptions there you have over-ruled what you said strongly to me prior to that, so it is not an easy job, is it?

HAWKE:

It is not an easy job. Let me, without commitment, because one has, as I say, to study very carefully all these considerations, if a government were persuaded that there were some particular areas of, say, medical disabilities where they quite clearly were capable of isolation and never able to

be used as a precedent for other areas, it is conceivable that you would be able to do something in those areas.

But what any government would have to guard against, John, which is what I was talking about in my first answer, would be exemptions which of themselves were capable of leading to other broader classes of exemption because that is what has lead to a wholesale tax system now, which as I say is a chaos and totally illogical.

(Interview continues at 0930 and separately transcribed)

(Continuation of interview commencing 9 o'clock)

BOB HAWKE:

I'd like to have room to move where - and I'm now saying this obviously without commitment - but as you can see, I would be terribly worried about imposing a hardship if you can put it in terms of medical terms, disability terms - impose a hardship which didn't currently exist, and I would think a government could look at a category of that kind which clearly was not capable of uses of precedent.

I would certainly listen to those submissions closely because there's no way I would be about trying to do something for a disadvantaged, a medically disadvantaged group, if it were capable of avoidance in a way which wouldn't open up rorts elsewhere.

I'm not saying that's a rort, but there could be rorts elsewhere.

LAWS:

Oh no, I know. But then of course you're going to find that the mother of a diabetic child is then going to react.

HAWKE:

Yes. Well, I use the term broadly - "medical". If you've gone to two instances which in a sense are medically identifiable as either in the one case a disability, a physical deformity which requires a particular sort of vehicle or instrument or apparatus to help that person.

The other was another sort of medical disability. I don't want by my comments to create a situation where I'm breaking down the concept of no exemptions of a kind which were capable of applying to everyone.

If you could see a situation in strictly medical terms which were not capable of then being pushed to general type exemptions, then I think that's worth looking at.

LAWS:

The supposed experts have had lots of things to say, but a comment that I read that I found interesting concerning Margaret Thatcher:

"Finance Department economists reminded Cabinet that when the Thatcher government in Britain imposed a big VAT, value added tax, increased within a month of assuming low office, low income earners were cushioned by the exemption of food items.

"Mrs Thatcher's ultra conservative administration exempted fuel and power and children's clothing as well".

Now, obviously she'd taken the line that she didn't want any exemptions, but ultimately had to bow to them.

HAWKE:

But let me say this, that you can't just make a straight comparison between what Mrs Thatcher did and what we're about, because this is a much more sophisticated, if I may say so, and more complete package because where we are different from others is that we are simultaneously with the proposals for a broad based consumption tax we're simultaneously more than compensating by very substantial cuts in direct income tax so that people in net terms are going to be better off.

In other words, the impact upon the sort of categories of people that you're talking about of increases in food prices and clothing prices, is more than covered by more money in the pockets of those people.

LAWS:

John McBean, the New South Wales Labor Council, has said today that the package is - and to quote him "stone dead unless food is exempt from consumption tax".

HAWKE:

Yes, John has said that earlier and Paul has replied to him. I don't accept that that's an accurate statement of the position.

LAWS:

What about charitable organisations? What about Meals on Wheels that really do a job to help people that are underprivileged?

What about the Matthew Talbot Hostel here in Sydney and centres that help people who can't help themselves?.

HAWKE:

In terms of their purchases?

LAWS:

Yes.

HAWKE:

Well, as it stands now the purchases which they make of goods and services would be subject to tax.

What you've got to appreciate is that in the whole area of Social Welfare benefits that the recipients are going to be in a, in net terms, better position than they were before because we're going to more than compensate welfare beneficiaries by the increase that will be made in those payments compared to the increase in prices.

So we're not ignoring - not only not ignoring the area of people who are disadvantaged - we're going to deliberately ensure that in their income terms they will be better off, so that if you look at the welfare area as a whole, John, I think you can see that we've very deliberately taken into account those concerns.

LAWS:

Would there ever be a possibility that the consumers tax could be turned to the benefit of Australia? I was talking about it yesterday. I was thinking out loud about it yesterday in my radio programme which I spend a lot of time doing, that perhaps it could be to the

betterment of Australia if certain items created and produced in Australia could be tax exempt to encourage people to purchase those over and above overseas items and luxury items.

For example, the good old Onkaparinga blankets which everybody needs, whether you're rich, poor or indifferent, everybody needs a blanket, if it didn't have a tax on it and people were encouraged to buy it it would be good for Australian industry.

If however people wanted to go and buy Christian Dior or Lanvin blankets they would pay a bigger price and tax on it as well.

HAWKE:

John, the way in which you make decisions in government about the encouragement of Australian industries and the relative price levels of Australian products and imported products is not via the mechanism of exemptions in the consumption tax area.

You have your whole tariff structure, tariffs, bounty systems, that whole apparatus is available to government to provide incentives to Australian production and Australian consumption, and that's the appropriate way of doing it - not via the method of exemption in a consumption tax for all the reasons I put before.

LAWS:

I would have thought it would have been good to encourage Australian industry in that way and make it a bit easier on people buying products that are in fact essential.

But then I suppose you'd have the producers of the non-essential products not being too pleased.

HAWKE:

Well, you're opening up the whole range of problems that I referred to before if you start using exemptions within a consumption tax system for other purposes.

You've got a range of instruments as government available to you to try and say we want to encourage that sort of industry, vis a vis imports, and you should use those instruments rather than the exemption concept within a consumption tax system.

LAWS:

A lot has been made of the effect that losing the expense account is going to have on restaurants.

I know that you were interviewed recently in Adelaide on the subject. I've heard a lot of people discuss it. I haven't quite seen it the same way but I'm interested in how you see it.

HAWKE:

Well, let me say this, John. Firstly I believe that if a business deal is worth consummating it's not going to live or die on whether there is a subsidisation of a meal in a restaurant.

If you and I want to complete a deal which we think is worth doing and we've got to do it over a meal, then we're going to do that irrespective of whether there's a subsidisation

by the general taxpayer of our five course meal and for you a lovely bottle of French wine and for me, some beaut Perrier Water.

I think if we think that the deal's worthwhile we'll go ahead and do it and consummate it over that meal.

But let me make the more obvious point. You've travelled overseas, John. You've been to France. There's no shortage of 5-star restaurants in France.

LAWS:

My instant argument to that of course was there are more people in France, but your answer to that was there are more restaurants too.

HAWKE:

That's right. The ratio of restaurants to persons in France is a much higher one than here.

The realities are of course that it's not seen as necessary in other countries for the ordinary person, the ordinary wage and salary earner to be subsidising people who want to have their meals in restaurants and it's been rorted as well, as you know, that where you have these backdating of credit cards where executives will take their families out on the weekend to a meal in a restaurant and have the thing back-dated so it appears to be a business exercise during the week - this is a luxury that Australia can do without, and all the experience of other countries shows that the restaurant business will still survive and prosper, as it should.

LAWS:

This is another question from a caller. What is Mr Hawke going to do to incorrect the imbalance of public servants to private enterprise workforce, assuming of course that you see it as an imbalance, which is 4.8 to 1 apparently at the moment.

Also how much longer can the Australian economy stand this imbalance .

HAWKE:

I'm not quite sure what the listener means about the imbalance. The fact is, if you look at Australia as a whole, that 75% of the jobs in Australia are in the private sector and that's why since we've been in government we've done everything we can to try and create the proper environment for the private sector.

Indeed the 375,000 additional jobs that we've created since we've been in office have been very, very substantially in the private sector.

I'm not one who's here an apologist for or protector of the public service. I think that in the public service of the commonwealth level and the state level there has over the years accumulated certain areas where more leanness can be introduced.

We're gradually moving to do that and we'll continue to do it.

“ But I want to say this to people: if you're going to have proper defence forces, if you're

going to have a fair and substantial social welfare system to protect those in the community in need; if you're going to have your roads built and your bridges built and your schools built and so on, then these things don't just happen. You've got to have a public service to help in the creation and the delivery of these things to the people.

The secret, John, is to try and make sure that you have a public service which is not unnecessarily large or obese, and I can assure all your listeners that I am very, very responsive to this, and in the long exercise, John, that we went through earlier this year which led to a \$1.26 billion dollar saving in the May statement, part of that involved considerable cutting back of claims for additional resources of bodies in the public sector, and I'll continue to adopt that approach.

LAWS:

Will you make an attempt however to curb that sort of public spending?

HAWKE:

I will say more than that: not only will I attempt to curb it, I've already done it.

Just take the comparison between the previous government and this one: look at all the nonsense that they went on with that Razor Gang exercise, and it produced in the end something like about \$300 million.

In our first year in 1983 we had a very, very substantial exercise. Again this year 1½ billion cutting. We just don't talk about hard decisions,

as distinct from our opponents. They used to talk, come to the hurdle and say, "Oh, that's a bit difficult. We won't jump that one".

It was in the area of the public service, in the area of foreign banks, in the area of floating the dollar, in the area of deregulating the financial system. All these things that ought to have been done to help the private sector, to make a more tough competitive Australian economy, they did the work, wouldn't make the decision.

We do the work and we take the decisions.

LAWS:

The 1983-84 wages for public servants amounted to \$4.9 billion. The projected budget for '84-'85 is 5.3 billion. That's a fair increase.

HAWKE:

Well, I can't say whether those figures are accurate. I'm not saying they're inaccurate, I just haven't got the statistics in front of me.

So I'm just in a position where I can't say that that's right or wrong. What's the source of them?

LAWS:

The Bureau of Statistics.

HAWKE:

Is it the Commonwealth Public Service Bill?

LAWS:

It's the wages for public servants. 4.9 billion in - -

HAWKE:

Well, as I say, I'm not arguing about the figures. I can't say yes, they're right or they're wrong.

But let me just make the general point, that I assure you and the particular listener concerned, John, that where we can halt the growth of the public service where we believe that can be done in areas where growth is not necessary, we have done it, and to the extent that we make decisions that there can be some cutbacks in areas where there are too many, we have done it. We'll continue to do it.

I don't want to have one more public service on the commonwealth public payroll than is necessary.

It's not the easiest thing in the world just to say, "Well, you're going to cut this, cut that, cut that", but what you can do is to ensure that where there have been requests which I think have been based on past assumptions that you put a request up and it will be granted and there'll be more public servants there. We are very astringent about that, and by the process of attrition in certain areas there will occur cutbacks.

What this government has done, what no other government has done, is to impose the constraints of the trilogy upon us, that is to constrain the growth in public expenditures, and that to a very substantial extent includes expenditure on public service salaries.

Having said all that, I think it is fair for us not to indulge in this orgy of an attack upon public servants.

Either we want defence and education and roads and social welfare or we don't. If we want them and I understand that the listener involved and all listeners would accept that those things are necessary for a fair, efficient and equitable Australia, then we've got to understand, as I say, those things don't grow on trees.

They are delivered by human beings, employed on behalf of the community.

When we talk about public servants, don't let's despise them, let's understand that they are people employed on behalf, not of Mr Fraser or Bob Hawke or Paul Keating or John Howard. They are there to serve the public, to provide defence for the public, to provide education for the public, to provide roads and bridges and all these sorts of things for the public, and what we ought to do is to try and have pride as a community in acquiring a public service which is efficient, talented - we don't want to have our best people being leached out of the public service into the private sector. The public is entitled to have high quality people there ensuring that we get good public service.

So I say, yes, there is fat that's accumulated over time. We're trying to cut that out. But I am not going to be party to an attack upon public servants as such.

LAWS:

There's a very strong suggestion if the tax reforms are implemented, that you will then require yet another army of public servants to monitor and administer it.

HAWKE:

John, the calculations about the increased cost that will be involved I think are of the order of \$80 million.

That will certainly require some additional public servants but I would have thought that your ordinary listener would approve of the fact that employing more people in the tax office to cut out tax avoidance and evasion which is what we've done, is to their benefit.

If we can ensure that people who've been avoiding and evading their payment of taxes which has meant that your ordinary listener has had to pay more, then if by the employment of more people to get a more efficient tax system, if that means in the end they are better off I think they'll welcome it.

LAWS:

I would imagine they would. Five of the nation's leading business groups - and you would know them - attacked the government's tax reforms claiming they would severely damage the economy and they would cost jobs.

I don't think that sits very well for the tax commit, does it?

HAWKE:

Obviously I would have preferred that they hadn't said what they did. It would be dishonest to say otherwise.

But let me say this, that the emergence of the government's White Paper has reflected to a very

considerable extent the input of a number of business organisations including some of those that are included in that statement of the five, and we have had inputs from business representatives which suggest for instance that the approach in the fringe benefits area which is adopted in the White Paper is the best way to go.

I think that those organisations of business are like trade unions, like an ACTU. They have a big constituency, a lot of people, different elements in their constituency.

I think what they've done is to issue general statements at this stage. I don't think it's closed off their willingness or capacity to think about the package as a whole and I'm, still hopeful that out of the summit there can be broad support.

Let me repeat what I've said from the beginning. We do not go into the tax summit with a closed mind. I said earlier this week that I believe if you're putting the best position that there should be the 12½%, that there shouldn't be exemptions, but I've said - and I repeat here on your programme, it's appropriate that I should - that we are going to listen to what the business community and the trade unions, the welfare community has got to say.

We'll listen to them. We hope reciprocally they'll listen to us.

We've put a lot of work into this. We are not about doing something that would hurt the Australian community. That would be contrary to everything that has characterised this government since we've come into office.

We are about economic growth, and I say to those business representatives, under what government have you had the turnaround from recession to record levels of growth.?

It's under this government because we've made the decisions to produce that result and we are not deliberately about making decisions which would turn that growth process around.

I think that they will respond to those arguments.

LAWS:

You don't agree that it would increase corporate tax payments by up to 30%, as they claim?

HAWKE:

No.

LAWS:

A fair escalation, isn't it?

HAWKE:

Yes, and it's not only trade unions which are capable of making ambit' claims, John.

LAWS:

What about charities? They're currently tax exempt to such a large extent anyway. Cars they buys for lotteries miss the 20% wholesale tax. Their executive gets normal perks like cars and things.

Are charities going to be affected? I imagine they'd have to be, wouldn't they?

HAWKE:

No. The whole question of exemptions for charities in regard to donations and so on, that's not affected by these sets of proposals, John.

LAWS:

What about if they want to buy a car in order to have a lottery? Up until this time they've missed that 20% wholesale tax which will now be gone, but will they pay the - -

HAWKE:

To the extent that cars generally are reduced from a 20% wholesale tax down to 12½% generally the price of cars should be better.

But what normally happens in regard to charities is, I think, companies make donations in respect of the cars. I don't think that the attitude of companies is going to change.

LAWS:

There's a growing body of opinion that says both you and Paul Keating refuse to compromise on the tax package so that you'll be allowed a chance to dump it saying, "Well, we tried and you didn't want it".

Is there any truth in that?

HAWKE:

No, John. It's not a fair assessment. I think if you look back to the very beginning of this during the last election campaign and everything that I've said throughout, I've said we've got a responsibility as a government to do two things.

Firstly to analyse the inadequacies of the existing system, and then to say, "Well, here are the avenues in which there can be reform" and

I think as a government we have a responsibility to say, "Well, we think here is the best way of doing it".

I remain convinced in my mind on all the discussion that's taken place to this point that the preferred option in the White Paper, John, is the best way.

I concede it's not without problems. Of course there are problems, but I'm not going to lead a government which walks away from issues because there are problems involved in it.

I don't think Australians want governments like that. We paid too heavier a price between '75 and '83 for a government which walked away from decisions because there were problems.

I repeat - the floating of the dollar, the deregulation of the financial system, the entry of foreign banks, the establishment of appropriate relations between the commonwealth and the state governments. In all of those fundamental areas it was clear what the right decision was.

But there were problems involved in it, so government walked away from it, and average Australians paid a heavy price.

In all of those areas we've made the decisions, despite the suggestion there were problems because we knew it was right for Australia.

In this process, John, what we've done is to say, "Well, we think this is the best way of going."

We know there are problems because it's so important, the whole tax area. We're not going to impose that upon you, we're going to open it up for discussion.

If in that process of discussion in the community at the summit, before it, and after it - if out of all that it's clear that the Australian community very broadly thinks there's a better way they prefer to go, well then, okay. We will respond to that.

But I think at this stage leading up to the summit, I've got a responsibility and Paul's got a responsibility of arguing what we see on the best evidence available to us as the best thing to do for Australia.

I believe it is, but I don't go to the summit with a closed mind. I'm going to listen intently and I'm going to study intently everything that's said, and if at the end there is need for refinement, then there will be refinement.

But I've got a responsibility to put what I think is the right case now.

LAWS:

If there's going to be need for adjustment on a large scale, will you just drop it?

HAWKE:

I don't think the community reaction to this point has talked about the dropping of tax reform.

LAWS:

Of this particular tax reform?

HAWKE:

What I think could emerge - and I'm being hypothetical now - I hope it doesn't because I think the preferred option is the right one.

It could be, John, that you could have a situation where it's said, "Look, there are certain refinements of that which would appear to command a much broader community support".

If that were to happen - it's not a question of dumping something but it is a question of refining something.

We've made it clear that our minds are open. But there is a difference in responsibility. It's not a point of Keating and Hawke standing back and saying, "We've done our job - there it is", now we wait for the summit and listen to what people have got to say.

If we believe on the evidence that's available to us now as a result of a hell of a lot of work that's gone into this, and let me just interpolate there to say no government in its right mind does something which it thinks is going to be against the economic interests of a country, or against the interests of the majority of people.

We believe fervently and with integrity that this is the right way to go, so we are out there trying to sell it, John.

But I say on this as I've said from the beginning of the assumption of Prime Ministership, I've never believed in public life that I am necessarily right on everything that I tackle.

I hope that I've done my best to get to the right conclusion. But if it occurs, that in this process up to and at the summit, that we can see that there's either a better way of going or a way of going which is going to have broader support, then we'll listen to that and we will certainly be disposed to try and do that.

But in the meantime if I believe and if Keating believes that on the evidence available to us to this stage, that this is the best thing for Australia, then I'm going to try my best to sell it.

LAWS:

Has the going been tougher than you imagined it would be?

HAWKE:

Much as I thought. I think by and large, John, that if you looked now, tried to make an objective assessment, I think what you'd have to say is this: no one's come up with a detailed alternative package which they say is better to meet what 99% of Australian people say is the case, that is that the existing system's crook. It's gone, it's had it, it's unfair, it's inefficient.

No one's really in all the discussion come up and said, "Look, here we are - that's better".

They've pointed out some things they don't like, and I think we haven't done too badly so far. But it's a tough process.

LAWS:

Sure is. Thank you very much for your time. You've given us a lot of it as usual.

We're very grateful for it, and good luck.

HAWKE:

John, could I say a very sincere thank you to you. I know you don't agree with every single bit of what we're doing, but at least you are facilitating, I think, an objective discussion and debate about it and I appreciate that.

LAWS:

Thank you, Prime Minister.

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