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PRIME MINISTER

E. & O.E. - PROOF ONLY

TRANSCRIPT OF PRESS CONFERENCE, ROCKHAMPTON, 25 JUNE 1985

JOURNALIST: Mr Hawke, how do you think it looks for the Government going into the Summit with more than half the Ministry opposed to the preferred option?

PM: I think it looks very good going into the Summit, not just for the Government, but for the Australian community. There has been very very widespread community debate and I think that by the time we get into the Summit the opportunity will be there for a detailed examination of the inadequacies of the existing system and of the plusses and minuses of various avenues for improving that existing system. Now the Ministry will have every opportunity in the post summit situation of expressing its views. And, I believe, the sort of views that will emerge in that post summit situation are not necessary the same as they are now. The more the Government's package is being opposed and you discuss the issue with people, I think more are emerging as accepting of it.

JOURNALIST: What is the current state of play, Prime Minister, with the question of exemptions to the consumption tax? Are we having exemptions or not?

PM: No, the current position is that the Government stated in its preferred position that to grant exemptions creates a number of difficulties, both in administration, the possibility of evasion, and in continuing lobby pressure for addition to the range of exemptions. But having said, I mean I have to say, as I have said continuously, that we are going into the Summit with an open mind. We have, I think, manifestly discharged the obligation upon us to go out and explain the White Paper - to explain what we see as the benefits of the preferred option. That does not mean that we are not going to listen to discussions and arguments for the possibilities of change. We will do that. And for that reason, therefore, Peter, I can't at this point be dogmatic about the question of the final shape of the package. If I were dogmatic about that now, it would be making a nonsense of the statements that I have been making that the Summit is a real process. And it is.

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JOURNALIST: Would you concede though that alterations to the package now seem inevitable, given that there has been so much opposition, both from business, the ACTU, and even within ALP ranks? Just generally, not specifically.

PM: The opposition *tends to get* highlighted - I mean I could tell you from experiences I have had and that Paul Keating has had as we've ~~gone~~ *gone* around the country and explain^d the package to people who have stated off with reservations or even opposition. And then once you have had discussions with them or talk with them, their view changes. Now, I think it's too early to *be saying* that it is inevitable there be change. The obligation I have, and I take this opportunity here *of repeating it*. The obligation I have got *to say* to the people of Australia is that we are open to change.

JOURNALIST: Does that include zonal charges or zonal allowances for people living in country areas?

PM: Well, there is already, as you know, zonal allowances and that is an *item which will be open for* discussion at the Summit if people want to *address* that aspect. It already exists. Now, whether it is adequate and there need to be changes, we would like to hear from any people at the Summit who have a *particular* concern about that aspect because there is no doubt that if you look at this great country of ours the vast spread - geographical spread - there are arguments - strong arguments - for *differentiation*. They *have been* recognised. Whether they are adequate enough or properly differentiated is a legitimate matter to be raised.

JOURNALIST: At the weekend Mr Crean said that the ACTU was still not satisfied with the distribution to the income scale of the tax cuts, that he wanted more benefit for lower income earners. Is there room for negotiation in that area?

PM: It's not a question of negotiation. *I mean, I would hope that* at the Summit that people will discuss that if they feel that the very substantial benefits that are available for distribution in the event of the imposition of a broad based consumption tax. If they feel that that distribution is not the most appropriate, then let them argue it. I would have thought that the distribution that has been suggested in the preferred option C is a reasonable one, but I'm certainly open to hear argument as to why a different distribution may be better. Now, you *talk about* negotiation, I would want the matter to be discussed at the Summit, and I think the ACTU would be *putting their view pretty strongly at the Summit*.

JOURNALIST: Mr Hawke, do you expect or hope that the Summit will produce a communique?

PM: I haven't got any feelings about that. I think it's a quite different situation to the Summit of April 1983. It would be less likely, I would think, that you would be able to shape a communique which would have the unanimity bar one - ~~was in his hand~~ - from April 1983. I don't think you would get the same unanimity, but you may be able to get some broad sort of statement about reform and directions for reform, but I really haven't put my mind on that.

JOURNALIST: Would you need a communique which would meet principle nine - that is broad community support - for your option?

PM: I don't think you need a communique to satisfy principle nine. It's just in the area of tax every particular word can mean a lot to people who are there. But we have established an agenda committee and this is a matter that the agenda committee through the course of the week of the Summit can look at, and if it emerges in a way that a sensible communique can be shaped, then that is what will happen.

JOURNALIST: Sir, what is your reaction to the visit of 30,000 farmers to Canberra next Monday. How much time would you be giving to these visitors?

PM: Well, let me say these things. Firstly, I can understand the concern that has been expressed by the members of the farming community right round Australia. This riot march in Melbourne which of course was preceded by marches in Adelaide and Perth. They are in a position where the net incomes of farmers are determined by two things - prices that basically determined on overseas markets and rising cost structure in this country. And I can understand their concern. That is why to this point I have had many meetings both with the executive and with the leadership of the National Farmers Federation and why at this very stage I am engaged with officers of my Department and other relevant Departments in trying to see what can be done to assist in the area of farm costs. So that's the first thing I say that we are concerned with the issue. Secondly, I doubt that I will be addressing the rally but what I had in mind is that I would receive a deputation from the farmers' rally at some stage during Monday if that's what they would like to do.

JOURNALIST: Is your Government willing to risk marginal country seats with the introduction of a consumption tax?

PM: Well I have made it quite clear all the way along that what this Government is about is making the decisions which we believe are necessary to get this economy in proper shape. And there is a very marked contrast between this Government and our predecessors. I have said on a number of occasions that they knew what had to be done in regard to deregulating the financial system. They did the work but didn't have the political courage to make the decisions. The same thing in regard to the entry of foreign banks. The same thing in regard to floating the dollar. They knew what had to be done but because they were always looking over their shoulder and saying

what might happen to us here. Who might be upset there. They put the interests of Australia second before their own perceived self political interests. Now that's not the way we've operated. That's not the way I intend to operate in the future. The interests of Australia are far more important to me than simply saying well what is it that I should do which is going to maximise political advantage. Having said that I believe that the people of Australia are increasingly making their decision between my Government and the Opposition who are increasingly - that is the Opposition - being revealed as hopelessly divided and without principle in this area. After all who comes to the tax debate with credit. Mr Peacock and the Opposition who created and stimulated the tax avoidance industry so that billions of dollars have been avoided by a relatively privileged few and that corresponding burden imposed upon the mass of Australian. And no wonder, as I said in Adelaide at the weekend, no wonder they refused the invitation to come to the Summit because they couldn't come with clean hands. So you ask about political judgement that will be made by the electorate. I am making the point that I believe that increasingly the Australian electorate is making the judgement that the Opposition are hopeless and not to be trusted in this area, even those who may not agree with certain elements of what this Government is proposing. Its giving us full credit for having the courage to face up and tackle this issue. I believe that by the time the decisions are taken by this Government then they will have a lot of time then to be capable of explanation to the Australian people. By the time the next election comes the whole tax issue will be a tremendous plus to this Government and correspondingly a very big minus, as it should be, for the Opposition parties.

JOURNALIST: Mr Hawke, what sort of support do you need from the Trade Union movement for your tax package. Both you and Mr Keating have made it clear that you can't proceed unless the ACTU agree to discounting before the court. But what will you do if a couple of major unions stand out and oppose the consumption tax. Will you proceed even though that means damage to the Prices and Incomes Accord.

PM: I am not going to answer that question in its hypothetical form but its a question the substance of which of course deserves to be answered. We have made it clear, Paul, as you know, that if the preferred option were to proceed with a substantial broadly based consumption tax being imposed then you could not have a situation where unions and their members having been more than compensated for the price increase associated with the broadly based consumption tax - more than compensated by a reduction in direct tax, then sought to double dip. Now, I am strongly confirmed in the strength of the Government's position if you like by the unqualified statements that have been made by the leadership of the ACTU, that they understand that in a position where there was compensation via the direct tax route there couldn't be legitimately a seeking of compensation by way of wage increases as well. Now the leadership of the ACTU have made it quite clear. So the logical thing to say is this. Well, where the leadership of the ACTU from the beginning of 1983 has given its support to the Accord, then you ask yourself the question, will they be able to give the same leadership in the situation you are talking about. Now I have no reason to believe that having given the leadership and delivered before that they wouldn't be able to do it again.

JOURNALIST: Prime Minister, the National Farmers' Federation says you have given them an undertaking to seriously consider exemptions to fuel..... Does that mean you will also consider exemptions on the same basis for industries like the aviation and road transport industries.

PM: Well lets get this position straight. It is true that the National Farmers' Federation put up a case to me generally about the cost of inputs and within that general framework they addressed themselves particularly to the question of fuel. And I undertook that I would consider the detailed submissions that they wanted to put to us there at the Summit and the National Farmers' Federation representing as they do the farming community of this country, they are entitled to be heard and I certainly will take account of what they've got to say. Now there are no further implications to be drawn from that. I will listen and the Treasurer and Government will listen closely to what the people have to say about the economic implications of any of the proposed tax changes and in the end we will make the decisions which we believe are most likely to guarantee equity and economic efficiency. And I repeat the farmers are entitled to put their case because, as distinct from a lot of other significant sectors of the Australian community who are able to determine to some extent themselves the prices they will receive for their products on the domestic market, farmers are overwhelmingly at the whim of international market mechanisms. And the additional element in their concern which I fully understand is that that international market mechanism within which their prices are fixed is not one where relative economic efficiency is the determinant. They have been successively hurt by the distortions of the international market mechanism which have been affected by the activities and practices of the European community. And where they see themselves as amongst the most efficient farmers in the world - which they are - and having their markets decimated as they have been by the inefficient practices condoned by European governments, then they are naturally disturbed. They are entitled to be. And it is for that reason that I pay particular attention to what they've got to say.

JOURNALIST: Mr Hawke, is one representative at the Summit then sufficient for the farmers voice. Apparantly there is only one farmer

PM: You want to catch up. There are many more than one. There are three now from the National Farmers Federation. I contacted Mr McLachlan and asked him whether he would like to have more than the one, and would three do. And he said, yes, that would be fine. So, there are three coming from the National Farmers Federation. Of course in addition to that, Mr Michael Davidson, ex head of the National Farmers Federation, will also be present in his capacity as a member of EPAC.

JOURNALIST: Prime Minister, can you just give us an instance where a group have changed their attitude publicly on the tax proposals, after having spoken to you and Mr Keating.

PM: A group?

JOURNALIST: Or anybody?

PM: Yes I can. On Sunday past I was in Adelaide and at a meeting of about 500 people at a luncheon. And I was speaking to them after I had addressed them. And literally scores of people said to me, well, I was a bit worried about that, but I see what you are about now. We support it. And I have had that thing happen a lot to me in personal discussions and group discussions. And certainly Mr Keating has had precisely that experience. But you have got to also take this point into account. If you talk about a group like the ACTU it is natural enough with the constituencies they have got, and being part of an overall movement that they are going to, I think, keep their options somewhat open. I believe that by the time we get into the Summit and the immediate post Summit situation, some of those individuals who have been expressing a view with an eye to their own immediate constituency, may well have a different view in the light of the detailed analysis that will be able to be undertaken at the Summit. The other point I make is that the ACTU and welfare groups in the period leading up to the Summit are having a lot of work done in analysis of the work that we as a Government have done both - well not both - but in regard to matters like this. The assumptions that are made about expenditure patterns, the assumptions that are made about savings ratios and so on, the assumptions that are made, therefore, about compensation levels that are necessary to cover the price increases that would be associated with the introduction of a broad based consumption tax. Now the more work that they do on analysing the assumptions that have been involved in our work, then the more the possibility is that they will be satisfied as to the general adequacy and accuracy of what has been done. You have got to understand this - I apologize to some extent for the length of this answer, but I think it is necessary and relevant - that there isn't an argument against an indirect tax as such. It is the argument that an indirect tax of itself can have a regressive effect. It can impose an unduly harsh burden absolutely and relatively upon low income people. Now, the more the work is done to show that the compensatory mechanisms are adequate to overcome that regressive effect, so that neither in absolute nor in relative terms are the needy disadvantaged, the more likely it is, I think, that you get acceptance of that approach.

JOURNALIST: Mr Hawke, over the course of the last couple of weeks both yourself and the Treasurer, Mr Keating, have put a lot of your personal prestige squarely on the line in supporting option C. Do you agree that the assessment made by a number of people in the business and financial community that the Government can only retreat from a consumption tax at the cost of destroying the authority and credibility of both yourself and of Mr Keating?

PM: No, of course I don't. The authority and the credibility of Mr Keating and myself and the Government generally is on the firmest possible foundations. That is the achievement of having turned this economy round from the disaster into which it was plunged by seven years of conservative government into a position of record economic growth. The record creation of jobs - the halving of inflation - the tackling of the fundamental issues of our exchange rate - of Commonwealth/State financial relationships - de-regulation of the financial markets - all of those things together constitute an extraordinarily impressive record of economic achievement unmatched by any previous Prime Minister and Treasurer, I would suggest in a comparable period. And that is the basis upon which we will be judged. Now, in regard to the tax process. Let me remind you of what it has been. In the election campaign I said that we would make tax reform a central part of this Government's second term of office. I just didn't leave it at that. I said we would follow a very specific process and I outlined the nine principles that would be applied. In doing that I then said that we as a government would go ahead and do the hard yakka - the hard work of analysing the existing tax system and exploring avenues for reform. We have done that. We have done it in a way which has never before been tackled in this country. We then said we would take the product of that work after its analysis in the White Paper throughout the community. We would then take it to a national Tax Summit so that the community, including the business community, could examine that work. We said that we were not seeking to impose, but we were seeking to do as much work as we possibly could, both in analysis of existing inadequacies and the opening up of possible avenues of reform. We remain of the view at this stage on all the evidence available to us that the preferred option that we have suggested is the best way of going. If, out of the process of the Summit, and immediately following the Summit, there emerges some more general view that there is a preferred way to go, that will not be inconsistent with the whole process that the Treasurer and I have indicated would be followed from the time of the election campaign.

JOURNALIST: Are you saying you won't back away from the 12½% consumption tax?

PM: I suggest you read the transcript of what I have just said. The answer to that question is contained in what I have just said.

JOURNALIST: Mr Hawke, what are the odds then of getting the Option C up?

PM: Come on. I'm not running a book, Greg. You people have got more time to engage in those esoteric pursuits.

JOURNALIST: Mr Hawke, given the fact that the package is very finely balanced in internal construction

PM: That's a nice way of putting it. Thanks, Paul.

JOURNALIST: ... the fiscal dividend, the actual extra dollars that we get in our pockets at the end of this being about \$1½ billion, is a relatively small number compared with the big numbers that are involved - the 14.3 from the intake of the consumption tax and soon - if those big numbers do get thrown out at all, then that little number at the bottom, which is what we are left with, could be thrown out a lot, could it not?

PM: Well of course you are displaying some knowledge, but not a complete knowledge of this finely tuned mechanism that you talk about. Fiscal dividend - the phrase fiscal dividend - refers to that amount of revenue which would be forthcoming as a result of tax avoiders and evaders having to pay the 12½% consumption tax. Of course that is not the total amount which is available additionally for distribution. YOU have the fact that in the part A - option A - which is common to all - the broadening of the direct base - you have there also a very significant additional source of revenue. So, you take the two together, you are then starting to look at the areas where you can calculate what the basis of benefit to people is by way of reduction of the direct taxes. It is not just the fiscal dividend. Fiscal dividend is one part. Now, you are right in saying that you only get that fiscal dividend - that element of it which may be in the order of \$1½ billion - you only get that by way of the broad based consumption tax. And indeed that is one of the very strong reasons that we put in favour of preferred option C because we regard it as offensive if you like, that people in this community would be left in a position where they still would pay no tax into the revenue. And there would still be a number of people in that category if you didn't have a broad based consumption tax, because it is clear, as the paper points out, that you would have to have such a massive army of people in the tax avoidance and evasion area of the Tax Office if you were going to have any possibility of ensuring that everyone paid their tax. So its only through the existence of a broad based consumption tax that you can get that fiscal dividend and that's something that I think the people of Australia should be reluctant to miss getting, provided and always provided, that they can be satisfied that the compensatory mechanism that's put in place is going to cover the otherwise regressive features of a broad based consumption tax. But if the people of Australia do say that they don't want a broad based consumption tax, then they are ensuring that there will be a very significant loss of revenue available to them and available to Government to reduce the direct tax further.

JOURNALIST: Mr Hawke, much of the credibility of the tax package depends on the assumption the inflationary impact of it, there has been some questioning from the ACTU and indeed within the Ministry in the last few days of Treasury figures, have you had any further discussions about them and are you completely satisfied they are correct.

PM: I haven't at this stage had any further discussions about them, Michelle. But I have had nothing brought to my attention from those around me to suggest that those analyses to which you refer are inadequate. But let me say this to you, that by the time I get back to Canberra, which will be Thursday afternoon, I will be going through the whole range of assumptions and analyses before I go into the Summit with my own advisers and with the people from Treasury, so that in the light of all the work that has been done elsewhere, of which they will be aware, so that I can be in a position to make, by the time I go into the Summit, make the judgement about the adequacies of all the critical assumptions and assessments.

JOURNALIST: Prime Minister, last week you challenged the business community to tell you where you could cut Government spending further, since then some of them said they would be happy to do that provided you gave them the relevant economic information on which to base the review. Would you be prepared to give them that information.

PM: Well, I find it a little bit surprising for them to suggest that with the whole range of information that's available to them that they can't give details about areas in which they would suggest expenditure cuts can be made. Let me make this point, however. This Tax Summit is not about expenditure levels and it indeed is somewhat amazing that the business community should be attempting to put some pressure upon this Government in regard to the exercise of discipline in these areas. Because this Government has shown more discipline about its levels of expenditure and has imposed more constraints upon itself now than any other Government has in the past, and I simply say that we will be in that way bringing down the level of the deficit both in absolute terms and very substantially as a proportion of GDP. We'll have virtually by the time we get into this Budget, we will have halved the deficit as a proportion of GDP from that which we inherited, and this hasn't happened by accident, it's happened because we've been prepared to exercise discipline upon ourselves in these areas. Now, outside of the structure of the Tax Summit, if the business community want to go to the details then we are more than happy to do it. They've got enough information upon which they can do it.

JOURNALIST: Mr Hawke, are you happy with the comments that Mr Howe made on Sunday given that he attended all the Cabinet discussions, he obviously doesn't agree with you that the compensation provisions are adequate.

PM: Yes, I've got no unhappiness about that. I spoke with Brian on the Friday, he was over in Perth. We had a very amicable discussion and I pointed out that I knew he had some questions that he still needed to be satisfied about and I certainly didn't regard, nor did he, regard his observations as an attack upon the Government and I must say I valued the contribution that Brian Howe has made in the discussions in the Cabinet on this matter and I am sure he will continue to make very useful contributions in the discussions that we'll have to have after the Summit in coming to our final conclusions.

JOURNALIST: Mr Hawke, in the latest opinion polls the State Labor Opposition has dropped I think 7%. Mr Warburton blamed that on the Queensland electricity dispute and the ongoing occurrences there. I was wondering, given the attempt to involve the Federal Government in that, whether you accepted any of the repercussions - that is the 7% drop.

PM: No, I don't accept any particular responsibility. What goes to make up the decisions in the minds of people in any particular State is a combination of factors. I would have thought, if you want to talk about the current position in the State of Queensland, and not only current but what it is going to be like in the months ahead, that it's a fair bet that the Government position is going to worsen because it's becoming increasingly clear to the people of Queensland I think as more evidence comes out, that it's the worst managed, worst run economy of all the States in Australia in a time where unemployments is declining in the rest of Australia, it's increasing here. Actual jobs have been lost. It's got the worst unemployment and employment record by a very long way. Its price movement has been well above the national average. Its sales of registrations of new motor vehicles is way below the national average and in dwelling commencements, a very important sector of economic activity, it is pitiful and pathetically below what is happening in the rest of Australia. This evidence is becoming clearer and clearer. And as that evidence of the economic incompetence of the Queensland Government continues to come through, I believe that the position of the Government will deteriorate and the position of the Opposition will improve. As will, of course, the influence of the evidence about industrial disputes, also work in the same way. In the rest of Australia we are moving to historically low levels of industrial disputation, because the rest of Australia is getting the benefit of our consensus approach in this area. So the rest of Australia is benefitting from it. Which is the State where you've got industrial disputation getting worse and worse, not just in relation to the SEQEB dispute, the State of Queensland. The Premier has had the opportunity here in this State of using his methods of saying to the people of Queensland this is how you can get industrial relationships working. And he's done infinitely worse than any State in Australia, infinitely worse against the whole of the national average. I just happen to believe that as these things become more and more apparent so will the people of Queensland make their judgement. As they will also, may I say, against his outright misrepresentations - that's a nice way, a polite way of putting it. I won't use the more direct way of saying it. His outright misrepresentations about how Queensland has fared with the Commonwealth Government.

What he is attempting to do is to blame everyone else for his own incompetency. First it is the unions - he blames them for his own economic incompetence. Then it is the Commonwealth Government - it is their fault. But increasingly the people of Queensland will come to the inescapably true conclusion that the reason why Queensland on every relevant statistic is doing worse than the rest of Australia is because they have the worst economic management.
