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PRIME MINISTER

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PM: Ladies and Gentlemen, at the conclusion of an extraordinarily successful Summit, I would remind you of the ninth of the nine principles, which at times seems to have been overlooked. The words of it exactly: Ninth - any reform package must have widespread community support, including support of a widely representative National Taxation Summit, of economic organisations and community groups. We have just concluded that Summit, the Government has, in terms of principle nine, responded to that process. And we are now, as a result of the tremendous assistance that we have received from the representatives of the people of Australia assembled at the Summit, now ready to go into the final stage of this process which commenced over six months ago. And that final process will begin when we meet at the ordinary scheduled Cabinet meeting on Monday of next week. And I take this opportunity of saying, as I said to the Summit participants themselves, the gratitude of the Government, particularly the Treasurer and myself, for the magnificent co-operation that we have received from the representatives gathered at the Summit.

JOURNALIST: Prime Minister, was pushing Option C a monumental mistake?

PM: No. We have made it clear, from the beginning, that we would adopt the responsibility as a government of doing all the work of analysing the existing tax system, and its weaknesses. And indicating the avenues that are available, in our judgement, to meet that situation. And we accepted the obligation of putting what we saw as a preferred option. We did that within the context of the nine principles, including the ninth which I've read out. I would guess the best answer to the question is provided by the reaction of the people at the Summit themselves. Because they, within that framework, were able to put their position and lead the Government to a position which will clearly enable us to meet the requirements of broad community support.

JOURNALIST: Prime Minister what is the status of Option A, against your nine principles?

PM: Well, Option A is still there.

JOURNALIST: That's what nine principles.

PM: Yes of course it does. There was a clear broad support, unanimity, of course. But there was a broad, I would say majority, support for Option A. We of course will within the Cabinet look at the elements of Option A. There may be some fine tuning, there will be, it won't be precisely in exactly that term, but essentially Option A remains there as part of the package that will be adopted by the Government.

JOURNALIST: Prime Minister yesterday twenty-four business organisations issued a statement saying that they reject Option A.

PM: Correct.

JOURNALIST: Mr Keating when did it become clear to you that Option C was not on?

TREASURER: Well I think, Niki, the Prime Minister referred to the criteria, which he established before the election campaign. We, I think, argued that Option C, was in its entirety, I think the most ambitious tax reform change that would have been, I think as you have seen around the world at the moment where we have got lots of tax reforms, going on in the country. Now, I think we, as we went through the Summit process, we were interested in the views which were coming from various groups. We were looking for the chemistry of the Summit itself, to work on the views of others, and to see just where Option C in its entirety sat towards the week's end. And I think, probably, if you ask me for a specific time, probably yesterday. I thought we were at the position, probably where we couldn't get Option C up. If not all of it a part of it, and of course a part of it is there in terms of a consumption tax on services.

JOURNALIST: And when you arrived at work this morning you said you weren't there for the fun of it you were still fighting for Option C.

TREASURER: Yes that's right. We still keep barracking.

JOURNALIST: Was itthe ACTU last night or yesterday.

PM: No.

JOURNALIST: Will full tax indexation accompany any package the Government agrees to?

PM: The indication has been that there has been a disposition towards that principle. But the question of indexation will properly be a matter for consideration and decision by the Cabinet.

JOURNALIST: In comparison to package C how good a reform package will this one be?

PM: It will be an excellent reform package.

JOURNALIST: It's not the best is it sir, and that's what you are on about?

PM: Well look, you are going to have a lot of interest in trying to pursue your cart in and out of this. I am trying to put to you, and whether you want to accept it or not, principle nine has been valid from the time it was written. Now I wish that you would understand the reality, the actuality of the words. Any reform package must have widespread community support, including support at a widely representative national taxation summit. Now that principle was not there for the sake of having nine rather than eight. It was there because the Government, the Treasurer, and myself from the word go, saying we will accept the obligation of analysis and recommendation, but whatever we do it has got to satisfy principle nine. Now please get into your head, and understand that principle nine has been meaningful from word go.

MR KEATING: Can I just pick the point up. Just in response to the other element of the question, and say it is without a doubt, - it will be without a doubt - the most radical tax reform package this country's seen. We've seen reform of the direct tax base, in a way which its never been reformed before. We are finishing off the debate on capital gains which has raged in this country for years, taxing fringe benefits in a way where we stop this tremendous haemorrhaging of the revenues through fringe benefits, the identification cards deal with the haemorrhaging of the system of the straight out fraud, and an unprecedented attack upon tax shelters. The second objective of the reform, we said, was to reform the indirect tax base. We will still be reforming the indirect tax base in terms of changing the wholesale sales tax system, and the establishment of the consumption tax on services. And the third element was to shift some of that weight. And we're shifting the weight, and I think in terms of establishing the principle that we'll have a tax on the service sector of the economy, which after all has been the growing sector of the economy since the middle 1960s, is a very substantial principle. And I hate to go so far as to say, well without the broadness, or breadth, of option C, and its ambitions, if we had begun, with what we have this afternoon, we wouldn't have it this afternoon.

PM: That's right.

JOURNALIST: What sort of income tax cuts are you looking at under this new approach?

TREASURER: Well, we will have to see when the package is costed accurately, and we (interrupted)

JOURNALIST: Can we just clear up that question about Health services. Are they going to be

PM: They will be out.

TREASURER: Exempt.

JOURNALIST: What will be the order of the income tax cuts under this.....

PM: Well the Treasurer has just given an answer which goes to that point. The elements of the package now have to be determined by the Cabinet. And what we are able to do in that area will be the result of the final outcome of all that goes into the package. We obviously can't give you a final answer on that here.

JOURNALIST: What sort of reform, in fact, will be made to the indirect tax base, then, compared to Option C. How much will the net revenue in effect be, what will the wholesale tax level be, will there be one level, or more than one.

TREASURER: Well in terms of services, Paul, 12.5%, as proposed by the consumption tax. And the point I was just going to answer in respect of Michael's question, is to simply say that this is not, and never was a tax cut exercise in terms of say the 1984/85 audit. It is a tax reform exercise which brings tax cuts. And the principles of tax reform, along with tax cuts, is what is important. And so in terms of simply looking at the exercise for any particular groups that will only be possible when we cost the proposal, and put the scales there.

JOURNALIST: Treasurer, could you help us with a checklist of exemptions - both those you have given to this point and ones you would consider.

KEATING: I will, but not right at the moment. You will have it the first time I can give it to you.

JOURNALIST: When would you expect the changes to start now. Will the timetable be able to be brought forward at all for the changes actually coming into effect.

PM: Well it will depend on all the elements of the package. It may be that some elements will be able to be brought in relatively quickly. Others obviously will not. Now it will be a matter for decision on the advice of the Treasurer and myself to the Cabinet as to what that timetable will be, but what is informing our minds right through is the desirability of getting the tax changes into operation in their totality as soon as is possible and consistent with the work that needs to be done to ensure that all the relevant considerations have been taken into account.

JOURNALIST: The services tax would still be about a year off though, would it?

PM: Well, I don't think that you can say exactly how long that would be. It may be of that order. I simply can repeat. It's in everyone's interests, the Government's and the community, to try and get this thing resolved and into place as soon as is possible, consistent with your obligation to take into account all the sorts of points that were made to us at the Summit. Now that will be done. Everyone has got a common interest, as I say, in getting it in as soon as possible.

JOURNALIST: Mr Hawke, the Government had previously rejected the idea of abolishing the tax free threshold. What has caused you to change your mind and are you confident that the problems in that ...in terms of compensation can be overcome?

PM: Again, in line with principle nine, as was acknowledged there this afternoon, there had been a not universal, but quite considerable expression of the view that that is something that ought to be taken into account. And we have said that does make sense to take it into account. There are obvious possible advantages but there are clearly concerns and difficulties and if you were going to proceed down that path you would be doing it in a way which would ensure that the needy and particularly the elderly in Australia could not in any way be disadvantaged and you would have to be satisfied, if you were going down this route, that you could meet those necessary requirements. So, what I've said, and what the Summit heard us say, was that was something that had had a majority support to examine. We are going to examine it and see whether it is an appropriate element to include within a total reform package.

JOURNALIST: The Government is still determined to press ahead with a capital gains tax. That wasn't clear this afternoon in your response to Sir Joh Petersen.

PM: Well, I think it may not have been clear to him. It may not have been clear to you. I would have thought it was clear to everyone else.

JOURNALIST: The future of fringe benefits. Has that changed under this package?

KEATING: No.

JOURNALIST: Treasurer, do you realise that you were given a vote of confidence by the financial market this afternoon when they took half a cent off the dollar on the strength of rumours that you were about to resign or had resigned?

KEATING: Look, I heard this report this morning. There is no truth in it at all. But I didn't know about that. I would like to take this opportunity though just to clear that point and to say that that never crossed my mind and that there has never been the slightest, if you like, rift in relations between me and the Prime Minister and anybody else, for that matter. And the Prime Minister paid me a compliment in the House of Representatives today which I appreciate. I want to pay him this compliment and say that without his support there would be nothing on this table today. And without this support there wouldn't have been a White Paper of this ... dimensions because no Treasurer with the best intentions in the world can get a reform proposal like this through a Cabinet and this country without the support of a Prime Minister. I am pleased to say in the time I have been Treasurer that support has been unqualified and I appreciate it very much. And I would like to take this public opportunity in front of you people who have written so much about our relations on this issue - just to say that the support has always been there and I have always appreciated it.

JOURNALIST: Mr Keating, do you think the support should have lasted a little longer?

KEATING: Well, as I said, cynicism has overtaken most of us, John. I had hoped

JOURNALIST: Did it cross your mind, Treasurer, that today you are standing alone in a sea of weakness?

KEATING: Look, David, I wonder why you are not still barracking - you should try and find Malcolm somewhere

JOURNALIST: Mr Keating, do you feel in any sense - as journalists and politicians would understand the word - do you feel you have been dumped?

KEATING: No, I mean, look, let's be clear about this. This is, you see, in a sense - let's be honest. If we had talked about a proposal as radical as Option C last year, no-one would have

believed if a package of that dimension was put on the table by a Government and argued for in this country - and if Prime Minister and I stumped the country arguing for it. We did. We tugged at all of the ends of power in this country to pull it to the table to pass ... We have done that. But the fact is under his principle nine, it wasn't there. We couldn't get that support. But what you are seeing is a major change - a major change in the business tax area. A major change to tax on services. A major change in respect of the income tax base itself. And busting that whole non compliance psychology - the disrepute with which the tax system has been held - particularly since the former Government failed to do anything about the paper schemes - the outright contrived schemes of the 70s - we have got a very difficult job in restoring taxpayer respect for the system of compliance. And this approach on the base broadening, the repair of the income tax base, establishing a tax on consumption and services, and enormous change to the business tax area will be a milestone in this Government's history.

JOURNALIST: Prime Minister, Mr Keating said that it was yesterday he decided that option C wasn't a goer. But I put to you that you decided that on Monday when you heard Bill Kelty's speech?

PM: You can, yes.

JOURNALIST: Would it be right?

PM: No.

JOURNALIST: Mr Keating, you said under his principle 9. Does that imply that that isn't your principle.

TREASURER: In fact I saw that draft, you were with me in the election campaign, Geoff, you knew when that was drafted. That was of course a draft which the Prime Minister and I, in fact, had a common hand in. And when I say it is the Prime Minister's principle, he made the statement in the election campaign.

JOURNALIST: Prime Minister, you were saying all last week that you were convinced that by the time the next election came around tax reform would be a major plus for your Government and one of the main reasons for that ...

PM: And complete what I said, "and a major minus for the Opposition".

JOURNALIST: Yes that is right. And one of the main reasons you gave for that was that there would be significant nett benefits for the average Australian. Given that there is now not going to be a broad based consumption tax, and nett benefits must be less, are you still convinced that the package is saleable.

PM: Well I understand that you would have been there today and you would have been able to form the judgement on the basis of the reaction at the Summit as to whether the package that we have in mind is saleable. The answer is resoundingly in the affirmative. But let me make this point, as you open it up widely. Let me say a couple of things. Firstly, if you are going to be looking at the benefits to the Australian people, it is not simply to be judged in terms of reductions in scales, and any cuts that may be available. But the great benefit to the Australian people is going to be the continuing one that at last you have had a government that has the guts to face up to this issue and not run away from it and deliberately by their actions, as 30 years out of the previous 35 under conservative governments that you have had, but by their deliberate action as well as inaction, allowed to emerge in this country a system which has disintergrated to the disadvantage of the great majority of Australians. And it is because that realisation will be, have been made very significantly sharper as a result of the events of this week. You saw in there the almost universal approbation of the courage shown by this Government to tackle this issue. It wasn't easy and we knew it. But the courage that has been displayed by the Government has been universally approved in that Summit. That will be reflected at the same time as the courage of this Government will be approbated by the electorate, will be the analysis of the gross inadequacy of what passes for an opposition. They have stayed in their funk hole, not fighting for tax reform, but fighting one another as they use the criterion of perceived political advantage to see what particular piece of negativism after another they can utter. I have been confident from the word go, and I am more confident than ever as a result of the end of this Summit that those judgements will work in the way I said for this Government and against this pathetic Opposition.

JOURNALIST: Prime Minister, do you really believe that you and Mr Keating can walk away from the statements that you have made over the past month. And can I ask you both whether you really believe that a broadly based consumption tax is still the best reform to make to the tax system. And do you think that the chances for that reform are now finished.

PM: You can ask that and I remind you of what I have said at the outset of this proposal. WE had a job, at this conference, We had a job to do which we have done. We guided through a preferred option. We had the responsibility then

PM cont: of selling it. And I don't think anyone can possibly make the judgement in respect of the Treasurer or myself that we have failed in that task of trying to sell what we believed was the ideal option. And of course, we continue to believe that that was the ideal option. But the whole task that we were about at all times was in the context not of 8 principles but of 9. And we knew that we had to come to a position at the Summit, as explicitly stated in the 9th principle, and if ^{we} weren't there able to get the indications of broad community support then the task we had undertaken had not finally met with the satisfaction of principle 9. And then we had to accommodate to that. We have done it. And as Paul Keating has said without the possibility of any sensible contradiction in the result, you have still got (a) the most significant tax reform that this country has ever seen, and secondly, by any international standard the most significant tax reform I believe that has been undertaken. And let me say this, I am proud of the fact that Paul Keating, and with Paul Keating, we have been able to I think guide the community to that position.

JOURNALIST: Does the fact that you couldn't get broad based community support for your ideal option mean that the Government is really out of touch with the community?

PM: No.

JOURNALIST: Prime Minister, I am perplexed by your remark that you haven't failed in your task of selling option C. We don't have option C and a supplementary ...

PM: No, we haven't failed in ultimate task of reform. We have failed, if you want to use that phrase, to get in terms of principle 9 broad community support for option C. That is clear.

JOURNALIST: Well I am sorry I must have misheard you.

PM: You did.

JOURNALIST: You said that hadn't failed to sell option C. Leaving that aside when did ...

PM: I am sorry, I did not intend, we have not failed in the task that we had to go out and try to sell. What I was trying I don't think ...

JOURNALIST: ... trying to sell it? ..

PM: What I am trying to say is that we had a task and a responsibility, once the Cabinet had decided that that was the preferred option, we had the task. I don't think we or I should have used the word, rather than the word failed is that we didn't miss the obligation and the opportunity of going to try and sell. We did that to the limit of our ability. In the end we failed to get satisfaction in terms of principle 9. That is obvious.

JOURNALIST: When did you decide to ditch option C?

PM: It was during this week that it became clear that in terms of the Summit position, it was not on.

JOURNALIST: The Treasurer was precise, can you be more precise.

PM: I would say it was during the evening of Tuesday and the Wednesday.

JOURNALIST: Mr Hawke, the Opposition of course has a policy supporting broadly based indirect tax. What sort of credibility are you and Mr Keating going to have opposing that now?

PM: Well, let me respond with this question. Do you believe that the Opposition is going to be out selling the proposition of a broadly based indirect tax. If I find that Mr Peacock or Mr Howard or Mr Sinclair is going to be out selling such a proposition then I will be fascinated. And that is when we will need to make our decision about them. But I would be prepared to enter into a side bet with you.

JOURNALIST: So you think they will abandon their ...

PM: Well let's say they have already.

TREASURER: One interesting thing was in the polling research we did see that support among Liberal Party voters for a broadly based indirect tax, which was after all one of the main planks of the last election of the coalition, they're a pretty crook pair of salesmen if they couldn't get hardly any registration of support within the coalition. There was a substantial level of support within the Labor voters. So, you know, out of their hands, they wish to try and stir their constituency.

JOURNALIST: Mr Hawke, the Centre Left is feeling somewhat vindicated by the outcome^{of} this package and Tax Summit. Were you influenced by representations made by Centre Left Ministers, especially Mr Hayden, over the last few days.

PM: I have not had representations made by Mr Hayden.

JOURNALIST: Have you had any talks with Mr Hayden?

PM: After we had made the decision.

JOURNALIST: Prime Minister, following up on Michelle's question in a way. You keep referring to the significance of the proposed tax changes but there is one process you need to go through and apparently that is the Cabinet process. Do we take it from what you have been saying up till now that you are confident that the broad outlines that you have proposed today will be endorsed by Cabinet?

PM: Yes I took the opportunity today before I went into the Summit to put that approach to speak^{to} the Ministers. I had had the opportunity earlier of speaking to Bill Hayden and to Stewart West, to Brian Howe. I got the other Ministers then

PM cont: before I went in and indicated to them what I was going to put to the Summit, and the terms I was going to put it. And there was no dissent from that.

JOURNALIST: How important in your deliberations was principle 7 as opposed to principle 9?

PM: Principle 7 has always been important for the obvious reason that for those of you who haven't got principle 7, and indeed each one of the principles engraved on your heart, principle 7 is the one which goes to the question of the support within those sections of the community which would be necessary for the implementation of any indirect tax area. That has obviously always been important. And I believe that we will have the support of the ACTU. I certainly, in light of what the Secretary of the ACTU said today, have no reason to believe that principle 7 will not be satisfied.

JOURNALIST: How would you respond to the perception that the Government has ditched the broad based consumption tax, which is what the ACTU wanted, but has retained, essentially retained all of option A, which business yesterday rejected?

PM: Well I suppose I could equally be asked how would I respond to the perception that the sort of approach that we have adopted in the indirect tax area meets what was put by the Chamber of Commerce, by certain of the welfare groups and so on. And it would be just as legitimate. The point is that under principle 7 the attitude of the ACTU is important not of itself but at all points it has been regarded as absolutely essential that if there is going to be within a reform package an increase in the indirect tax area which would be compensated by way of changes in indirect tax rates, there could not be double dipping for the obvious reason that if that were allowed that of itself would be inflationary. And I am satisfied as a result of what has been said and the Australian community assembled in the Summit has heard the undertakings of the ACTU in that regard. I am confident that they will be adhered to.

TREASURER: ... this point about the ACTU. The ACTU wanted no indirect tax, wasn't prepared to talk about indirect tax in this country. And they were coaxed there, schooled there by 6 months of assiduous effort. They had more exposure, more exposure to the Government, to the Treasury and to a whole basis of analysis, as indeed has other groups in the community. And I think the achievement of getting recognition for broadening the indirect tax area and establishing the principle of taxation on services is a very important milestone. And I don't think if the ACTU has come to that party at this stage one should presume that that is where they were. They were definitely opposed to it and have been pretty well right throughout.

JOURNALIST: Prime Minister, I just wanted to ask are there any modifications you would consider to the capital gains tax and fringe benefits proposal?

PM: Well what we have said in there and have said here again earlier, that option A remains an essential part of the approach and package that the Government will finally adopt. We are prepared within that package to look at elements of it. But as I said in answer to a previous question, a capital gains tax will be part of the end result. Now, there may be elements of it that we can, of what has been said that can be taken into account. But that is a matter which the Cabinet will decide.

JOURNALIST: I think you will find the ACTU had said for months that they were prepared to keep their options open on all reforms including indirect taxes. How does the 12.5% tax differ from what came from the ACTU tax negotiating.

TREASURER: It didn't come from the ACTU. The whole proposal came from the Government. Every element of it, and every element in that paper came from the Government. And in the course of those discussions, I think, we have broken down a very big barrier of public thinking in this country that an increase in indirect taxes is necessarily regressive and that it should not be considered. And that has changed. The ACTU has changed its position on that, and taxation of services is a very important element in that.

JOURNALIST: Mr Keating, apart from exemption for health, food and fuel areas for a consumption tax on services, other than those will it be across the board consumption tax on services, 12½%.

TREASURER: Peter, ... that is proposed at 12½ would apply to goods and services, the areas, perhaps the grey areas in between were automatically covered. What it will mean now in fleshing out this proposal is definition about the area of the coverage in the services sector, which I think is the point of your question. And that is going to be something we have to just give some time and attention to in the next week or so.

PM: Just let me add this to what Paul has said there, Peter, that clearly an overwhelmingly important consideration in what Paul has said there will be looking at those services which if they are to be taxed would have an unduly regressive effect upon the underprivileged and the needy. That is the sort of criterion that has been taken into account to this point and would continue to be taken into account in the decisions that we will come to in that area.

ENDS