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Jim Waley: With the result of the Federal Election still anyone's guess, over the last two Sundays before the poll we are talking again with the leaders of both major parties beginning this morning with the Prime Minister, who is in our Melbourne studio. The interviewers, Alan Ramsay from the Sydney Morning Herald and Sunday's political editor, Laurie Oakes.

OAKES: Prime Minister, good morning.

HAWKE: Good morning, Laurie. Good morning, Alan.

OAKES: The coalition this week is re-jigging its campaign. They are going to focus on the impact of the capital gains tax on superannuation. New commercial featuring John Howard. They are circulating a petition calling on the in-coming Government to abolish the tax. Has the issue got legs?

HAWKE: I believe it has certainly got legs for us.

OAKES: In what way?

HAWKE: Because the facts are quite clear. They were put by Alan, I think, at the start of the great debate. They haven't changed and that is that less than 1 per cent of Australian taxpayers pay capital gains tax. It is the basis of a quite remarkable statement and I will just read to you because here is the answer to it all. This is something that was said in 1980 by Professor Russell Matthews. He said: 'The essential problem is to make the rich pay any income tax at all'. That is what he said. The essential problem is to get the rich to pay any income tax at all. And the reason why under the Liberals and before we

came in the rich weren't paying any tax basically. It was a matter of choice because of the absence of a capital gains tax.

OAKES: But what about the question of superannuation funds, Prime Minister. They don't represent the rich. As I understand it today the Society of Superannuation Funds is going to issue a statement giving examples of how the tax affects superannuants.

HAWKE: The facts about the superannuation funds are very, very simple. When the tax was brought in 1988, 15 per cent tax, the arrangements there were for that to be offset, at least offset, by imputation credits. And that is that any superannuation fund that is properly managed can have a zero position in regard to the tax on superannuation. The point was to enable superannuation funds to invest in Australian companies because as those funds grow we want them to be investing in Australian enterprises so they can have a net zero position of impact with the tax and that is well known.

OAKES: But if the society representing those funds are backing the Liberals are you saying that all funds under that umbrella are wrongly managed?

HAWKE: We'll see what the superannuation says but I am telling you quite clearly the facts are that under the tax arrangements brought in that 15 per cent tax that is imposed is more than capable of being offset by the imputation credits which the holders in funds get in terms of the tax already being paid by the companies. It can be more than offset. And the fact is that it was the absence of a capital gains tax which meant that billions of dollars that should be paid by those individuals and companies in Australia was not being paid. That is what meant that ordinary taxpayers were paying higher taxes than they need to. The voters of Australia, I can assure you Laurie and Alan, are going to say we do not want a return to the situation of a pre-Labor Government where the ordinary Australian taxpayer paid more because the rich, as Professor Russell Matthews said, had it as a matter of choice whether they paid any at all. It is only with the capital gains tax that you can have equity in the tax system.

RAMSAY: Prime Minister, interest rates certainly is an issue

with legs.

HAWKE: Yes, it is.

RAMSAY: With only two weeks to go to polling day, the banks still have not responded to the Government's manipulation of official rates by lowering mortgage rates. Now are you still asking voters to take you on trust?

HAWKE: It's not a question of taking me on trust. I guess, if you like, it is a question of taking the banks on trust. We had no expectation that during the Election campaign, Alan, they would bring down mortgage rates. But what they have said is that the policies of the Government, which involved an initial lowering of the official rates, they have said that will lead to a lowering of mortgage rates. That is their statement and, indeed, it must do because the cost of money to them is coming down. The choice for the voters is quite clear. The banks are saying interest rates will come down under the policies of the Government. Under the Liberals there are two things which must mean a rise of interest rates. One, the wages explosion, which they do not deny must occur under their policies and, secondly, the blowing of the Budget surplus. If you blow your Budget surplus and have a wages explosion, interest rates must go up.

RAMSAY: But go back to what governments say, what politicians say. In the 1987 Election campaign you said interest rates would come down.

HAWKE: No, I didn't.

RAMSAY: They went up, considerably. Why should people believe you now?

HAWKE: Very simply. We have been through this before. We had the run on this in the debate. We underestimated - and I have said this. I couldn't have been more open and nor could the Treasurer. In 1987-88 we had a \$15 billion accretion to domestic demand capacity because of the favourable turn around in the terms of trade. We all, every economist in the country, underestimated the strength of demand that became associated with that situation. And, as a responsible Government, we had to bring in tighter monetary policy because if we didn't you would have had the simple situation that we would have had a totally

unsustainable explosion of imports and the economy would have collapsed. Life in running a Government, running economic policy, isn't simply an easy thing of saying: 'Oh well, we won't take any notice of the changes and the circumstances and we will just adhere to some concept of the past'. If you are confronted with an unforeseen explosion of demand than responsible Government means, if you are concerned about the long-term equilibrium of the economy, it demands that you take action to see that that level of consumption is brought back and we have done it.

RAMSAY: Yes, Prime Minister, but out there a lot of people don't understand all this and that sounds like a big fat excuse.

HAWKE: Some may, I don't doubt that. But, as you know, Alan, I have always argued from the beginning of the campaign and, indeed, before it that I have got greater faith in the intelligence and the understanding of the Australian electorate than my opponents and some commentators. I don't believe, for instance, Alan, that the electorate is going to buy the nonsense of this last week where Mr Peacock manufactured a \$14 billion hole in the Government's forward estimates and said: 'There is a \$14 billion hole there'. That lasted less than one day but you see they think they can insult the intelligence of the Australian electorate. I don't think you can. I think if I tell them that we had this great explosion of demand which would have ruined the economy if we hadn't lessened it, I think that the majority of people will understand and accept it. They won't like the fact that there had to be higher interest rates. I am not deluding myself about that. But they will (a) understand that that was necessary and, (b) they have got to look at the choice. They have got the banking industry saying that our policies, Alan, are going to lead to a reduction in mortgage rates. They know. They know. Against that you have an explosion of wages which Mr Peacock has not denied. If you have an explosion of wages and you blow away our Budget surplus, those two factors together must mean an increase in interest rates. That is the clear choice they have got.

OAKES: Mr Hawke, one thing Mr Peacock said during the week was

that election campaigns reminded him of the movie 'Sex, Lies and Video Tape' without the sex and the video tape. Does it worry you that you have to tell fibs to people to win their votes?

HAWKE: I don't tell fibs to win their votes.

OAKES: Come on. Alan has already mentioned the 1987 promise that interest rates would come down and in the same election campaign you said inflation would come down. Back in 1983 you promised there would be no capital gains tax. It's a pretty long list.

HAWKE: Okay, let's take them one by one. Let's take the last one. In 1983 I said there would be no capital gains tax.

OAKES: We've got one.

HAWKE: Laurie, could I finish. I said there would be no capital gains tax in that Parliament. There wasn't. You have conveniently overlooked for reasons which I suppose are useful just for fun the fact that the capital gains tax came in after the 1984 Election. And in the 1984 Election campaign I specifically said to the Australian people we will, after this Election, have a tax summit at which the tax policy to be brought in will be affected. So, don't give me that business, Laurie.

OAKES: The inflation promise. The interest rates promise. They all happened within three years. Or virtually within three years.

HAWKE: Okay, let's take the inflation. When we came to office the inflation rate was 11 per cent. 11 per cent. By 1984-85 we had halved it. Then we had the collapse of the dollar with the collapse in terms of trade but it still under that impact didn't ever get back to anything like 11 per cent. It peaked at 9.8 per cent and it is coming down. But Treasury said that at the end of this last year, 5.7 per cent, the underlying rate. We have never-got anywhere near the 11 per cent inflation rate that I inherited. So, in the period of the Hawke Government inflation has been brought down and kept down below the rate it was.

OAKES: But it went up after 1987. After you made the promise. It didn't go down.

HAWKE: Yes.

OAKES: You can't say that wasn't a fib.

HAWKE: I can because I am saying that we were mistaken. There is a difference between a fib and an honest mistake shared by every economist in Australia. Every economist in Australia - public and private, Laurie, as you know - underestimated the strength of demand and that demand pushed up inflation. Okay, I cannot say to the Australian people - I won't say in this campaign and I have never said in any other - that I can predict with absolute certainty everything that is going to happen in Australia and overseas. But what I can say with certainty is that we will have the basic structure of policies. That is, one of things which----

OAKES: But Prime Minister, if you know that you can't predict with certainty why did you say inflation will come down, interest rates will come down. If you knew you couldn't say it with certainty it was a fib.

HAWKE: No, I don't believe that. I don't believe that is a correct way of saying it because in respect of all the things that we could do to affect these rates, we did them. Just as, at the present time, Laurie, very simple, that a Government or an alternative Government can do in its power to influence interest rates and inflation rates are essentially these things: Wages, and that is fundamentally important. Let me give you the figures, Laurie, of what has happened in the period we have been in. In these seven years our predictions about wages rates, outcome for the next year, have been either on target or we have somewhat overestimated the outcome. In other words, where we have predicted wages outcomes we have been right. So, that is the basic thing a Government can do. Have control over wages outcome. We can do it. We have done it in seven years. Our opponents can't. There will be a wages explosion. The other thing—that you can fundamentally do is the control of Budget policy. Now, I have in the last three years had a surplus, a Budget surplus, of about \$17 billion. That is the first time in the history of this country that is has been done. Against that, our opponents will blow the Budget surplus by at least \$6 billion. So I can say with certainty in regard to the things that fundamentally determine these outcomes what will occur.

Against that the outlook is appalling under our opponents.

RAMSAY: Prime Minister, a lot of people think that this is a pretty boring Election campaign. That after seven years you're boring. Is this a deliberate strategy on the Government's part. Send people to sleep.

HAWKE: Well, Alan, I'm not trying to send people to sleep and if I am boring that may be the judgment of some.

RAMSAY: Very laid back, Prime Minister.

HAWKE: Well, I don't know about laid back. Certainly not cocky or complacent. I believe that this is a campaign in which my obligation, Alan, is calmly to tell the Australian people where we've been and the sorts of policies we've been building on for the creation of a better Australia and, importantly, I thought my obligation in the policy speech was to say: 'My fellow Australians, here is where we are and these are the sorts of things I have in mind in regard to education, science and technology, children and so on. All these things that I have in mind for building a better future'. Now if that's not sexy - and I guess the creation of 50 centres of research is not sexy. But let me say this it will more than anything that any other Federal Government has ever done I think determine the quality of our research and our capacity to be competitive in the future. Now, it is not sexy and exciting but I wanted to say it. I intend to do it.

RAMSAY: Prime Minister, though I think that often you look bored. That a lot of the life has gone out of you in the last seven years.

HAWKE: Well, Alan, if we want to exchange views about how one another looks I could say something about how you look but I don't think that would be very elevating.

RAMSAY: I'm not standing for election, Prime Minister.

HAWKE: No, but you are making judgments about how people look.

RAMSAY: Yes, I am.

HAWKE: I am simply saying I have never been more excited, Alan, about being Prime Minister of this country.

RAMSAY: You don't look it, Prime Minister.

HAWKE: You may say so. But if you want me to be jumping up and

doing a jig then you are going to be disappointed. The sense of excitement and pride I have about being Prime Minister of the best country in the world is beyond description. Every day I wake up and feel just tremendous and indescribable pride about being the leader of this country. If I wanted to, and if you just gave me a minute, I would tell you about not only in terms of what we have done in this country but let me just mention in the last 12 months the leadership given for Australia in the world. In the world. Firstly, here is Australia having the chemicals weapons convention. Bringing all the nations of the world and the industries of the world. Never been done before. Doing what had never been done before in bringing all the countries of the Asia and Pacific region. People had talked about it for decades. Hawke brought them together to get Asia-Pacific economic cooperation. The Hawke Government taking a lead in trying to get a break-through for peace in Cambodia. The Hawke Government taking the lead in the world in saving the Antarctic from mining. And that is not the end of the list. Now those things give a sense of great joy and excitement. Now, if I'm not showing those by jumping up and down and saying I am excited about taking Australia to the lead in so many areas of world affairs, well, I don't apologise for it. But I can tell you the excitement is there.

OAKES: Mr Hawke, one of the things you were excited about in your policy speech was the extension of fee relief to private child care centres. What is the cost of that promise?

HAWKE: The total cost of the package is of the order of \$400m.

OAKES: What about this section of it?

HAWKE: I'll give the section. I haven't got the elements there.

OAKES: You see, there is no asking you. When Ray Braithwaite, the Opposition front bencher, suggested this six months ago, you were sneered at by Neal Blewett in Parliament. Neal Blewett said it is balderdash to suggest that this extension would not involved very significant additional cost. He talked about it costing extra hundreds of millions of dollars.

HAWKE: All I can say, Laurie, is that the total cost of the package which is made up, as you know, of the extension of places

and is made up of fee relief----

OAKES: But according to the ERC score sheet you issued, the total cost for a full year of the new initiatives in your policy speech was \$144m. How can you have an initiative in that that is worth several hundreds of millions of dollars?

HAWKE: Because our initiatives have been both funded and expended over three years. That is what the score sheet shows, Laurie.

OAKES: If that is the case then Neal Blewett was talking through his hat when he was criticising the Opposition.

HAWKE: No, he wasn't. The child care proposals in total in 1991, \$86.8m; in 1991-92, \$144.6m and in the third year, \$166.5m. There you get, Laurie, the total over three years of the best part of \$400m, carefully costed. But before we decided on one cent of expenditure, whether it was in child care, roads or anywhere else, we did the savings exercise first. There they were set out. The savings identified in the February statement - \$347.7m, \$547.8m in the second year, \$602.9m in the third year. Every savings identified, costed by the Department of Finance. And then, as I say I have given you the exact figures for child care, of promise that we make totally funded.

OAKES: Prime Minister, we are just about out of time but I find that is inconsistent with what Neal Blewett said. A final issue----

HAWKE: No, don't just leave it there. You are talking about something that was said before in regard to an unspecified, uncosted, unfunded proposal.

OAKES: It's the same proposal.

HAWKE: No, it's not. That's not good enough, Laurie. What has happened here is that very specific proposals, very specific proposals, funded - \$86.8m. You can't get it very much more specific than that. \$86.8m in the first year, \$144.6m in the second, \$166.5m in the third. Specifically funded, covered and out of all that we have done, Laurie, out of everything that we have done, still a slight increase in the surplus at the end. Against that, at least a \$6 billion hole - \$2.8 billion for their two-tiered tax, about \$2 billion in regard to Medicare, \$800m in

regard to the whole fund by the Department of Finance, \$700m for roads. Over \$6 billion unfunded.

OAKES: Okay, Prime Minister, you win. Thank you.

HAWKE: Thank you.

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