



PRIME MINISTER

**TRANSCRIPT OF THE PRIME MINISTER, THE HON PJ KEATING MP,
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Q: Industrial relations and enterprise agreements; regulation of business at national, state and local level.

PM: I'll just take up your first point about allowing employees to negotiate. Three weeks ago I was in Japan and I went to the Toyota plant where they produce in one factory 300,000 vehicles a year and every day, every morning the plant manager and the sub-plants managers meet with their employees to discuss the days work, the week's work, to see how the business operates. The emphasis is on common goals and harmony and being part of the one thing - which I think is part of the success of the productivity of those particular plants and the innovation in the way in which they produce things, because a lot of the innovations come from the employees. Nowhere in that structure do you see any sense of fracture, where one employee on the line is negotiating with the company different to the one next door to him or her. They negotiate as a group and therefore they take group responsibility and pressure within the group produces an emphasis on co-operation and working together and getting a better result. I think that is what I'd say about the so called notion, it sounds well and good to say let all employees negotiate, but we and the organised workforce know that when one employee is forced to negotiate by his or her self with a company, be it small or large, their negotiating position is very weak. And whereas if they are allowed to negotiate as a group, their negotiation position is better. The sign of the maturity of our workforce is that when the wage share in the economy had to decline in the 1980s in favour of profits for higher investment and employment, it did decline. And that the whole emphasis on training, enterprise bargaining and productivity, a large part of the impetus for that has come from the trade unions themselves.

No system is perfect and there will always be problems within any set of arrangements, particularly one built on the multiplicity of craft structures which we've had in Australia, which we inherited from Britain so long ago. But it seems to me that all the flexibility which companies today wish to enjoy in industrial

organisation, be it in terms of rates of pay, or penalty rates or hours worked during a day or week are now, by virtue of all the agreements we've constructed in the last six to twelve months, capable of being resolved in favour of higher productivity and lower costs, and I don't see that co-operation being sustainable in a process where awards expire and where you see a fracturing amongst employees. All the flexibility which is required now in industry can come under S.137 agreements and the like, the only flexibility that there isn't in there is flexibility downwards. There's flexibility up, flexibility laterally, flexibility diagonally, but there's no flexibility down, the system is not geared to cut remuneration and, in the end, all of this talk about dealing with employees, letting people speak for themselves, is really about cutting their pay. That's what it will be seen to be and the bonhomie will cease the moment the activity starts, and the moment that happens the great leap forward to be made in productive co-operation and emphasis on productivity and training and lower costs and sharing the benefits of better product, higher product will evaporate. That's why the Liberal Party is quite wrong about this; Mr Howard is going to announce a policy along these lines tomorrow - they are quite wrong about this, and it's we who have had to take Australia from the industrial museum of the late 1970s and early 1980s with 300 unions, a craft structure of organisation, and evolve it in a revolutionary way to a modern system which is more enterprise specific, more industry specific and where you are getting - without any loss of time with industrial disputation, without major mayhem along the way - a very large and important cultural change. And I say it's happened because a Labor Government and the trade unions have sat down with business and decided to make the country better and stronger by adopting a co-operative effort. Going back to that 'them and us', managers versus employees, pushing people onto common law contracts and asking some poor little character on \$16,000 a year to go and represent himself with a QC in the Supreme Court, is not going to help anybody. The Liberal Party have already ignited a wage fire once or twice in 1979-80 with wages growth of 16 per cent. We've got now average weekly earning growth of three. John Howard is desperate to return to the scene of the crime and get out and do it twice. We say 'pigs' to that and it's a rotten policy.

On the question of regulation, could I just say this: I share your view and the view of everyone around here that regulation, that the Federal system of six States and the Commonwealth and Territories has been a problem for the national co-ordination of business regulation and by moving to a system of uniform standards, and now having a structure under the Council Of Australian Governments; where we have a meeting with the states which is not a financial meeting but a meeting about issues and the micro-economy such as this, that we can resolve some of these issues and already some have been resolved and we'll be able to do more. So rather than giving you a commitment, that yes we'll have it on the next meeting agenda, I'm certainly quite happy to give you a commitment that we will keep this matter very much under review, it's very much under notice, and wherever we can advance the notion of a national basis of regulation, wherever we can remove the multiplicity of a State base of regulation, we'll do it and do it with might and main, because it is through no fault of anybody, just a nation of seven different

governments over the years, working on all these various issues has produced a desperate result which is no good to any of us. We are very aware of it will continue to keep our eye firmly fixed on improving the situation.

Q: GST and Wholesale Sales Tax.

PM: Well could I say that I think the wholesale sales tax is being very substantially maligned. It is not a perfect tax, but again it has a lot of benefits, one is it adds 20,000 taxing points not 700,000 taxing points. One is that you can have dissipate rates of tax, so you can tax things lightly if you wish or heavily if you wish. You have a discretion, luxuries are taxed heavily, other items are taxed more lightly. It raises \$9 billion and therefore has nothing like the sort of macro economic influences that a tax that raises \$27 billion has. But let me just go and tell you, you mightn't get this numbers in the public debate, but let me tell you because they are correct, but this is how the GST breaks down. The GST raises \$27 billion, it costs \$9 billion to abolish the wholesale sales tax, that leaves \$18 billion. It costs \$7 billion to remove pay-roll tax, that leaves \$11 billion. It costs \$6 million to diminish the tax on excise, that leaves \$5 billion, and the package for compensation of social security beneficiaries, it wouldn't need to be compensated without the GST, it costs \$4 billion. So there is \$1 billion left for the tax payers, \$1 billion, and the tax cuts are going to cost John Hewson \$13 billion, of which he has \$1 billion from the GST to pay for it. Now he has got to pay that \$13 billion, which of course is nothing like compensation, even if it were paid, from a package which the Department of Finance says is \$6 billion short of its savings, but even if it were intact it requires a \$10 to \$12 billion cut in Government spending, and where is that going to be cut, obviously in education, social security and the like? So, the social upheaval which would follow that kind of change is going to be quite profound. So, that's why nobody is going to be paying \$27 billion and getting back less than full compensation and not making wage claims. So if you believe that you don't think the inflationary effects are there, I can only say to you that the Liberal parties modeller, Dr Murphy, in the wages up case, that is, in the flow on to wages thinks inflation would be 10 per cent and the Treasury thinks it would be 12. Well even if you put a discount through those numbers, even if you called it eight, I mean the vandalism of taking Australian inflation from 2 per cent to 8 per cent is profound, to what, get a tax switch from income to expenditure? And of course in that services will be taxed and a lot of the expansion of small business in a service sector of the economy, which is now not taxed. So it will be taxed and the one great employing possibility we have, where we have got very high levels of labour, is in tourism because you can't get a machine to make it better, or a machine to clean up the bathroom, or a machine to serve a meal, and that industry which has been growing inordinately strongly over the '80s, and will continue in the '90s, will carry a 15 per cent flat tax upon its whole service base. So, I think the GST is an entirely dud idea, as I said it is a tenth order issue in an economy where we are seeing a fast cultural change to an export basis where we are now exporting nearly 23 per cent of everything we produce, nearly a quarter of all we produce, where we have seen a huge shift in exports, where we have seen now a large shift in productivity and now much more innovative things happening in other enterprise agreements, a whole cooperative basis of organisation occurring, it is just not worth it to put that a risk in my view for a tax on expenditure

verses a tax on income when the income tax now working very tightly. We have got now one of the most tight, direct tax systems in the world by virtue of the changes in the 1980's' and I don't think it is worth the risk. On the question of sales tax and remittances, again, this is an issue in tax design and costs, and I suppose every Government would like to say, we will see nobody out of pocket before remittances, but I think this is again just simply whether or not we can afford it, and whenever it has been proposed to us to change the timings or remittances we have not been able to do that. I think this matter came up at our last round, but for the same reason we weren't able to do anything for you.

Q: Impediments to small business; payments of Provisional Tax

PM: Well, Paul, on the last element of the question first, I wouldn't want to commit the Government to an inquiry on the matter but I am quite happy to look at the issue. We have asked the Industry Commission, under a number of references, to look at impediments to certain sectors of activity in the economy, and if you think that something can be gained by an examination of impediments to small business employment activity then we can certainly consider looking at that, how best it ought to be looked and who by is another issue, but we have the Industry Commission for such kinds of references and it might be that it is something we can think about. Anyway I am certainly prepared to talk to you about it, and to David of course.

On the other question, look, this is a vexed question, I don't know whether I can be profound about it, Paul, that is in relation to provisional tax payers and companies, there is always this question about incorporation and the costs and benefits, there were always substantial costs for being incorporated until we introduced dividend imputation, because if you were a single tax payer you were taxed once, if you were a single enterprise you were taxed once, if you were a partnership you were taxed once, if you were a trust you were taxed once, but if you were a company you taxed twice, and I never saw the sense of that and we took that away in 1986, so that now whenever company tax is paid there is virtually a tax credit there against personal tax. So, trying to get an equation between the tax treatment of those incorporated and those not has always been difficult to do, you have got two yard sticks in this, the individuals pay PAYE as you earn taxation, whether they earn their income, those who are provisionally taxed enjoy at least some concessions against the PAYE tax payer, whereas the company pays later and enjoys, in your terms, a greater concession against those who are unincorporated. Again, these are timing in revenue questions involved, we can always make this position more concessionary, I don't think I can be any more enlightening for you than I was with the previous question, I just don't know to what extent we are able to change the tax timing of provisional tax payments so as to produce a closer relativity to those who are incorporated on the tax payments treatment, those who are incorporated, David mentioned to me about these closed corporation issue, which may provide some opportunity, that is a structure which provides some opportunity for a better equation, between those categories of individuals and companies, I am not sure about that because I don't know enough about it. But I am happy to look at that for David.

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