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PRIME MINISTER

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PRIME MINISTER- ADDRESS IN REPLY

In the last three years, a serious economic crisis has been needlessly brought on Australia, an economic crisis which has harmed all Australians and has harmed the weak and poor most of all.

The crisis was principally caused by a failure on the part of Government to plan and act responsibly by an unrealistic attitude to what Government can effectively achieve.

To restore prosperity there must be a much more realistic appreciation of what Government can and cannot do.

At the heart of Australia's current problems is a lack of realism about one simple basic fact - the fact that at any one time Australians' resources are limited.

This fact should be obvious, when we address ourselves to it. It is obvious, but despite this, it has been persistently and dangerously ignored.

Because our resources are limited, we are - or ought to be - constantly faced with choices about how those resources will be used.

Those choices are often very difficult to make.

It would be more comfortable for us all if we did not have to face them. But if we ignore them, if we pretend that we do not have to choose, we do so at our peril.

Real improvements which are not at the expense of other people, other areas, are restricted by the rate of real economic growth.

The fact that our resources are limited presents hard choices in many areas. There is an obligation on all of us to face up to those choices.

The need to choose how our resources will be used, confronts us all. I want to discuss tonight, three areas where the need to choose is pressing.

The three areas are government expenditure, wages and salaries, and social security spending.

First, government expenditure.

Because our resources are limited at any one time, we have to choose which of the many worthwhile things that need to be done we will do now, and which we will leave for the future.

It is crucial to understand that these choices are not just choices between different areas of government expenditure. They are also - even more importantly - choices between government spending on the one hand and spending by individuals and private enterprises on the other.

The more Government decides to spend on goods and services the less real value the wage and salary earner can expect to have in his pay packet. The more politicians decide how people's earnings are to be spent, the less discretion do people have over their own income.

A responsible Government must be prepared to take the very difficult decisions between different kinds of public expenditure. A government which values the independence and capacity of Australians to make as they wish the important decision of their lives, will not pre-empt too large a proportion of people's incomes for Government programmes.

In the end, of course, there is no escape from responsibility. The pressure from limited resources is ultimately inescapable, as we are now finding to our cost, and as other countries such as Great Britain, are finding to their cost.

In the last three years, there have been quite extraordinary increases in Government spending. Just because Australians' wealth is limited, this has required a massive transfer of resources from individuals and private enterprise to Government.

Looking over the last three years, at the many new costly programmes which have been undertaken, we should remember how they have been paid for, and who has paid for them. Enormous expenditures were made which were quite unrelated to the Government's revenue.

The deficit for the last two financial years is of the order of \$7,000 million. The new Government has inherited a deficit which the Australian people were told in August would be \$2800 million but which was rising out of control towards \$5000 million by the end of the year. Since the revenue was inadequate to cover this massive expenditure, it has been financed out of inflation.

The people who have paid for this expenditure are those whose real income and savings have been eroded by inflation. The burden has fallen most heavily on the productive sector of the economy, on those people who have lost their jobs, and on the weaker and poorer sections of the community.

The report of the inquiry into poverty states: "Inflation favours the active and the powerful: the position of poor people deteriorates."

Many of the previous Government's programmes were introduced in the guise of helping the disadvantaged. The fact that many of these programmes have been financed out of inflation makes a mockery of these pretensions. The report of the poverty inquiry stated quite plainly that inflation contributed to poverty in Australia.

"No country with a continuing inflation rate of over 10% has been able to prevent this causing grave hardship to important groups of poor people."

On Tuesday, we heard an impassioned attack from the Leader of the Opposition on the programme of the present Government.

So distant is the Member for Werriwa's touch with reality that he forgot the reality of his years of misrule and represented it as a progressive Government full of compassion for the disadvantaged, a Government which took concrete action to assist those in need. The real record of his Government is far from this.

The former Labor Government, despite its protestations, in effect sacrificed its claims for concern for the disadvantaged to its dream for the centralisation of power.

Let's look at the most blatant fact - unemployment. An unemployment directly consequential on Labor's disregard for the fact of life; an unemployment which harmed most of all the weak, the migrants, the poor - those sections of the Australian community which have sometimes looked upon the A.L.P. as their protector.

These people were sacrificed by Labor to unemployment. The Labor Party refused to face the fact that the more Government spent, the less there was for private enterprise to use in creating job opportunities. These social democrats, these so-called protectors, of the weak and poor, brought the highest unemployment to Australia since the Great Depression.

The Leader of the Opposition certainly cannot be criticised for allowing the facts his Government created, to weigh too heavily on his mind. In migration the reunion programme nullified pensions. The Labor Government abandoned its commitments to increase pensions according to average weekly earnings. His last Treasurer deferred the pension increase by a month. His last Minister for Social Security conducted an attack on voluntary welfare agencies. In education, his Government was forced by its own failure to abandon triennial funding and disrupt important research programmes.

The Leader of the Opposition might well be thankful that his dismissal and overwhelming rejection by the Australian population gave him the time and the frame of mind to embroider the myth of a social democratic Government brought to an untimely end.

The reality is of an elitist political party which has severed its bases of support in the interest of expanding the power of a few men. The reality is a political party which has wilfully spent Australia into the worst inflation and the highest unemployment for decades.

Excessive Government spending tended to exacerbate inflation and infaltion has continued to sap confidence throughout the community. Expectations of inflation have added a big element of uncertainty to investment decision - uncertainty has damped investment activity. Both the current level of activity and the long term potential for economic growth have been curtailed as a result.

Inflation and the fear of unemployment has also contributed to the reluctance of consumers to spend as reflected in a sharp increase in the rate of savings.

Between 1971-72 and 1974-75 the savings ratio in Australia rose from 9.7 percent to 17 percent. The indications are that

individuals react to high rates of inflation by seeking higher cash balances to protect their own positions and minimise what they view as the risks to their security. The very things that encourage people to save - uncertainty and fear of inflation - are the same things inhibiting business from investing.

The first task is to bring inflation under control. Pre-eminently, that means asserting a responsible attitude to Government spending. This means being prepared to tell people the truth - that at any one time there are limits on what Government can do without damaging the capacity of other people to achieve their objectives.

The Government believes that since resources are limited the crucial choice between Government and private spending should be as far as possible an explicit choice - a choice which is clearly presented to the Australian people.

For that reason the Government had as a major plank in its election programme the introduction of tax indexation. For that reason the Government will begin the implementation of tax indexation in the next Budget. For that reason the Government will be aiming to take as large a first step as will be possible in the economic and budgetary circumstances.

The Government regards tax indexation as a major part of its programme to control inflation and force Governments to be honest about the costs of their spending programmes.

We believe that the Australian people will appreciate that tax indexation (and its accompanying tax reforms) is a far more effective way of protecting their earnings than seeking even higher money wages which are soon eroded by price increases. The Government believes that responsibility with respect to its own spending, with respect to the claims it makes on peoples incomes, is the best way to secure responsibility in wage and salary demands.

This leads me to the second area where Australians as a people have to face the consequences of limited resources - the area of wage and salary demands.

The previous Government pretended to people that they could have higher and higher real wages and salaries at the same time as real Government spending was rising rapidly. In doing this, it was failing utterly in its duties. It was an undertaking a cruel and deceitful fraud which inevitably led to disastrous inflation.

It is also being now more widely recognised that those people who have jobs cannot obtain higher and higher wages without taking money which could be used to provide jobs for those currently out of work. Often higher wages and salaries are being paid at the expense of jobs, at the expense of economic recovery. Likewise, every unjustified increase in price by a business, places an added strain on the resources of wage and salary earners.

The Governments looks to business and trade unions to act responsibly in the national interest.

In the fight against inflation, we will conduct a continuing dialogue with key groups in the community. One example of this is the tripartite conference in Melbourne in January attended by trade union leaders, employers' representatives and the Government. Such discussions will contribute to better policies and to more successful anti-inflationary performance.

We have also established the Economic Consultative Group, which consists of 17 business and union leaders and which met with senior ministers on 6th February as the first in a regular series of exchanges of information and views.

Employers have duties imposed by law to their shareholders. Other laws, and common morality, give them obligations to their employees and to the public.

The Government expects employers to demonstrate a commitment to economic recovery in the national interest. The Government expects a like commitment from the trade union movement.

The trade union movement, and particularly the A.C.T.U., must be concerned with jobs and productivity. The trade union movement can no longer be too much concerned with higher money wages at the expense of other legitimate concerns such as the working environment and jobs. An exclusive concern with money wages is to pursue momentary interest at the expense of jobs and at the expense of their workmates.

Lack of wage restraint will have immediate consequences - the loss of productive jobs as employers lay off staff. It has long term consequences in that the essential conditions for real improvement in standards of living are under-mined by inflation.

Increasingly, the rank and file unionist is realising that higher money wages which undermine the pre-requisite of economic prosperity are neither in their interests nor in the interests of other Australians.

No longer can the trade union movement argue that providing jobs is the sole responsibility of employers. No longer can the trade union movement regard itself as responsible only for getting more money for its members. The power of the trade union movement must involve a broader responsibility. Unless the union movement discharges this responsibility, its support amongst its own members will be eroded. A concern that there are adequate jobs is a basic responsibility of the trade union leadership.

A concern to reduce inflation and protect jobs has been at the heart of the decisions and action taken by the Government since it was confirmed in office by the Australian electors. It was the basis of our submission to the Arbitration Commission in the National Wage Case.

In the general strategy for economic recovery the Arbitration Commission has a very significant role to play. The Arbitration Commission is not one of the anonymous commissions that proliferated under the Labor Government. It is a long established highly respected institution, one whose actions - and their consequences - are closely watched by all the Australian people.

The Arbitration Commission Act requires the Commission to take into account the impact of its decisions on the economy. In the last case before the Commission the Government took the decision to oppose the passing on of the full 6.4% C.P.I. increase into wages on the grounds that it would increase inflation and unemployment and not provide the consumer and investor confidence essential to a soundly based economic recovery. The Arbitration Commission in its wisdom did pass the full 6.4% into wages. How soundly based the decision was for the well being of the Australian economy, for the well being of the wage and salary earner will soon be discernible for all to see.

Is there anyone who has argued that the decision was positively good for the economy?

We judged that the position we took was one we had to take as a responsible Government. We told the Commission what we saw to be in the interests of the community as a whole. Australians will expect - and rightly expect - that all sections of the community will cooperate in securing a return to prosperity.

With this cooperation, 1976 should be a year of recovery. This recovery may very well be gradual, but this is all to the good. We have done with violent swings in policy. A moderate rate of growth will ensure balance, a lessening of inflation and the expectations which perpetuate it.

This is the single most important factor in ensuring that recovery is a lasting one. Our policy not only considers 1976 but the years beyond that as well.

This brings me to the third area where Australians as a people have to face the fact of limited resources.

A genuine return to prosperity will require that assistance to the disadvantaged and those in need is effectively provided.

The Government's approach to social welfare is based on the Government's commitment to the value of each person and each person's right to dignity and autonomy. It is also based on the Government's recognition that there are limited resources to devote to the general welfare area, and those resources that are available must be devoted first of all to helping those who are disadvantaged.

The Government endorses the principle spelled out by the report of Inquiry into Poverty, that "need, and degree of need, should be the primary test by which help given to a person group or community should be determined."

Failure to observe this principle must mean the diversion of resources to people who cannot be said to "need" them, at the expense of the other people and programmes from which the resources have been drawn.

The Report of the Poverty Inquiry itself drew attention to the fact that:

"Very large sums are being spent by Governments on the pretext that they are helping poor people when in fact the great bulk of the money goes to the middle class and poor people get little."

Such a diversion of resources can be positively damaging to those in real need while having substantial hidden costs in terms of opportunities forgone in other areas. It may be possible to substantially improve assistance to those in need while reducing the overall burden of some programmes.

Our aims go much further than the achievement of material prosperity.

We want to see Government assume a role in this society which is consistent to the development of personal freedom and individual initiative. To the development of personal freedom and individual initiative. To quote his Excellency, the Governor General ---- we aim to develop a "role for Governmentwhich places more reliance on the commonsense and reason of the Australian people".

We do not believe that the Australian people want a Government which takes over from them their responsibility for decisions concerning the manner in which they live. We do not believe they wish to forfeit their individualism to an all-pervading paternalistic Government.

The long term objective of the Government is to encourage the development of an Australia in which people are free and encouraged to achieve goals in life which they set for themselves.

It would be an Australia in which Governments recognise that they cannot presume to live people's lives for them. That recognising the dignity of people means valuing the independence of people to take the important decisions of their lives for themselves.

It would be an Australia where there is a genuine concern to assist those in real need, those who are disadvantaged - an Australia where effective action is taken to assist the disadvantaged.

It would be an Australia in which powerful interests recognise their responsibilities to the individuals they serve and to the wider community.

It is our unqualified policy to restore Government to a role in Australia consistent with freedom and true democracy.