



## PRIME MINISTER

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### BUDGET DEBATE

Mr. Speaker, the Budget brought down by the Treasurer consolidates and advances the achievements which the Government has already made in fighting inflation and restoring a healthy economy.

For the second time, we have a Budget which reduces the deficit by over half a billion dollars, firmly controls the rate of increase in Government spending, and creates the conditions for a further reduction in inflation and further economic growth. At the same time it increases assistance to those most in need.

Because the Government held its spending within zero real growth, Australia could afford a major tax reform, under which every wage and salary earner's take-home pay will rise from 1st February. As a result of this tax reform, taxpayers will save \$406 million this year. Together with tax indexation, their tax savings this year will total \$1371 million. In 1978-79, taxpayers will save \$1390 million from the tax reform. Together with \$467 million from half tax indexation, they will be saving \$1857 million. Had there been no tax reform, the benefits to taxpayers would have been \$973 million less in 1978-79.

This reform was achieved while at the same time maintaining our commitment to protect pensions against inflation. In their desperation, Labor tried to conceal the benefits of this Budget from the Australian people. They pretended there were no tax cuts at all. I have a simple offer to make to those members opposite, who claim to disbelieve the reality of the tax cuts. Let them volunteer to refund their supposedly non-existent tax cuts to consolidated revenue. By doing so, they will at last make a contribution to lowering the size of the deficit.

Mr. Speaker, had this Budget's tax reforms not been so fundamental, one might have sympathised a little with the Opposition's unwillingness to admit that major tax reforms could be made. After all, their experience with tax reforms when they were the Government was with the so-called Hayden tax reforms. So-called tax reforms that ripped \$1,000 million off taxpayers by not indexing the tax rates to take account of inflation. So-called tax reforms that imposed higher tax rates on many taxpayers - including many low income earners.

Let us see how these so-called reforms, made by the Leader of the Opposition's favourite Treasurer, worked. Let us see how these so-called reforms affected some of the ordinary working men and women of Australia.

Under the Hayden "reforms" a taxpayer without dependents, whose concessional allowances had been equal to 10% of his nett income, paid \$60, or 17.6% more tax in 1975/76 if his income was \$4,000. If his income was \$5,000, he paid \$120 or 21.8% more tax. If his income was \$6,000, he paid \$212, or 26.2%.

Some reform - some Treasurer.

The Hayden scheme hit the farmer particularly hard. In fact, many farmers with fluctuating incomes paid more tax under the Hayden system with its misnamed general concessional rebate than wage earners with the same average income.

Let me give an example. Under the pre-Budget scale, the indexed Hayden scale, a wage earner on an income of \$10,000 would pay \$2147 a year tax. A farmer who had been on that income for some years who then had income of nil, \$20,000 and \$10,000, maintaining an average \$10,000 income, would pay tax of nil, \$5761 and \$2147 in those three years - a total of \$1467 more tax than the wage earner.

It should be conceded that under the so-called Hayden tax reforms, all taxpayers did have something to look forward to - taxes which continually increased, because the Whitlam Government would not even commit themselves to indexing their new tax rates.

Over the past few months, the perpetrators of that tax hoax have enlightened us with further examples of their fine grasp of basic economic principles. At the Perth ALP Conference, the Leader of the Opposition - in a blinding flash of insight - uncovered a novel intellectual concept - "economic responsibility". This had unfortunately evaded him for the three years he was Prime Minister. The strain of grasping this new idea was so great that once he had given his speech and the ALP began its economic debate, the Leader of the Opposition proceeded to read the newspapers. Having thus rested, he returned to the fray a few weeks later, on July 20, at the National Press Club. He put forward the ALP's new economic plan - more Government spending and a larger deficit. What a revolutionary break with Labor tradition that was. Unfortunately, he spoiled it all by concluding that "Labor offers Australia a long haul back to prosperity". The Australian people know perfectly well how long that haul would be.

Then on August 11, just three weeks later, Labor unveiled with great fanfare their so-called "Proposal to get Australia working again". Its authors were the Leader of the Opposition and the Member for Oxley - somehow the Shadow Treasurer was lost in the shuffle. This document declared that "it should not be represented as an alternative Budget, but rather as a set of measures to be included in the Budget." This modesty was becoming - but then no party has more to be modest about. It certainly was not an alternative Budget. What it sought was an increased expenditure of \$800 million. Taken together with Labor's opposition to our policies to restrain Government spending, it is clear that they were contemplating a deficit of \$3.5 billion or more - at the least a 50% increase over the \$2.2 billion we have budgeted for this year, a deficit which would bring higher interest rates and higher inflation.

The Opposition now says such huge expenditure on Government programmes is the only way they know of reducing unemployment. But in 1975 the Member for Oxley had to terminate a scheme strikingly similar to this so-called new proposal - the notorious RED scheme. Labor terminated the RED scheme because it was inefficient and ineffective - a scheme which cost \$180 million but employed an average of only 13,000 people. The ALP's proposal is in the finest tradition of Labor economics - it holds out the prospect of gravely damaging Australia.

The next step in the Opposition's carefully thought out economic offensive took place a week later, after the Budget. On August 18, the Leader of the Opposition, and Labor's joint-divided Shadow Treasurers, the Members for Adelaide and Oxley, held a very instructive press conference. It showed the ALP's superb approach to economic policy making, the machine-like precision with which the ALP's economic manager and Shadow Treasurer work together. The Member for Oxley said that the Labor Party had no commitment to personal tax indexation, but the Member for Adelaide admitted that personal tax indexation was ALP policy. The Member for Oxley said that the Labor Party did not commit itself to our tax reforms, but the Member for Adelaide seemed to rule out the scheme entirely. The Member for Oxley said that he could make some definite calculations. The Member for Adelaide said he could not. One commentator who was present was unkind enough to say that "Messrs. Whitlam, Hayden and Hurford resembled not so much the three wise monkeys as Donald Duck's nephews, Huey, Dewey and Louey". Well, after all, the ALP has been living in fantasyland for so long that a touch of unreality was only to be expected.

But the high spot of the ALP's contribution to economic theory and practice had not yet been reached. The climax was the Leader of the Opposition's reply to the Budget - a reply that contained nothing constructive, nothing of substance. A reply that some people described as full of tired and empty rhetoric. The Leader of the Opposition's speech was full of yesterday's delusions - yesterday's words uttered by yesterday's man. But to dismiss the speech as completely devoid of meaning is to ignore the Leader of the Opposition's most revealing remark, that Labor's alternative to the Budget was "implicit" in all that he had been saying; implicit in all his criticisms of our restraint in spending Australian's tax dollars.

It is clear that the Leader of the Opposition wants a return to the days when Government spending was unrestrained. He wants a return to the unrealistic, the destructive policies Labor pursued for three years, policies which increased Government expenditure by 115%. Policies which resulted in unemployment being trebled in one year. Policies which in three years trebled the rate of inflation.

At the National Press Club, the Leader of the Opposition said that the Labor Government had made mistakes, that the ALP would henceforth walk the path of economic responsibility - what responsibility? He and the Party he leads are economic incompetents. That is why the Australian people voted them into opposition. That is why the Australian people will keep them in opposition.

In this Budget, we have again re-examined Government programmes to ensure that funds raised from taxpayers are being used with the greatest efficiency, to the greatest effect. All Australians have a big stake in making Government more efficient and less costly - for efficient Government means stronger more highly motivated Government, and lower taxation for all Australians.

The Budget represents a major step in making Government more efficient, and achieving the lowest taxation possible consistent with sound strong Government.

Through our vigorous efforts in reappraising Government programmes, we have held the real rate of growth in Government spending to zero. Yet at the same time we have provided large increases in payments to the states and local government, given high priority to programmes for relieving unemployment, especially for the young, and increased social security and welfare spending by 13%. The Budget gives high priority to providing effective assistance to those most in need. The automatic adjustment of social security pensions and benefits will result in increases in November, and again in May 1978, and repatriation disability pensions and service pensions will rise in the same way.

We have achieved all this, and reformed the tax scales, without increasing postal charges or the duties on beer, spirits and cigarettes. This is the second consecutive Budget in which these charges have not been increased.

Contrast Labor's record. It increased indirect taxes in two out of its three Budgets. As a result in 1975/76, collections of indirect taxes were \$2.2 billion - about 90% - greater than they had been in 1972/73. It was our firmness in restraining Government expenditure which enabled the Government to introduce substantial cuts in personal income tax. Australians want to have greater freedom to make their own decisions about spending and saving, and this Government is committed to providing the conditions under which the best efforts of all will be encouraged - not stifled by excessive taxes. That is why we promised to reform the tax system.

Last year we brought in personal tax indexation and major reforms for corporate taxpayers. This year we have made the most revolutionary change yet made to Australia's system of personal income tax. The new personal taxation measures restore the incentive to work harder and more productively and earn more. They give people the power to decide how a greater proportion of their income is spent.

The new tax system accords with the views of most taxation policy experts. The Labor Government received many reports from committees, commissions and task forces bearing on taxation policy. Overwhelmingly, they support the main features of the personal tax system introduced in this Budget.

The new tax system's first feature is that there are tax cuts for people at all income levels, and, for the vast majority of full time workers there is also a reduction in the excessively high marginal tax rates, that is, a reduction in the extra tax payable on each extra dollar of income earned. These changes accord with the main

finding of the Asprey Committee - the most comprehensive review of Australia's taxation system for forty years - that the Australian tax system relies too heavily on personal income tax. The changes accord with the Mathews Committee's conclusion that rising marginal tax rates encourage tax avoidance and evasion, and may lead to substantial economic waste because tax avoidance becomes a basis of investment and employment decisions.

The House will I hope recall that the ACTU's industrial advocate was a member of the Mathews Committee.

The new tax system, by fostering skill and encouraging the acceptance of responsibility, heeds the warning of the Jackson Committee that a society "neglects at its peril rewards for skill and responsibility." The Jackson Committee concluded: "We have a general impression that reward differentials after tax are decreasing, and may no longer be sufficient to encourage individual effort and enterprise in industry." The House will recall that the President of the ACTU and of the ALP was one of the authors of that report.

The new system's second feature is that it introduces a tax-free area at the base of every taxpayer's income of \$3750, or about \$72 per week. This replacement of the so-called "general concessional rebate" introduced in the Hayden Budget of 1975, accords with the Asprey Committee's recommendations.

Just a few months before the previous Government introduced the notoriously misleading "general concessional rebate", the Asprey Committee had described such rebates as confusing. They reported: "The amount of tax to be levied on low incomes should not be obscured by artificialities". Artificialities were what the Opposition's last Budget was all about - artificialities that tried to hide the massive tax increases which the Hayden Budget inflicted on many taxpayers on low incomes. There are no such artificialities in this Budget.

The new tax system's third feature is that it establishes one tax rate - 32% - as the basic rate of taxation paid by the vast majority of taxpayers. The Leader of the Opposition's claim that this abandons progressive taxation is completely untrue. Under the new tax system the higher a person's income, the higher the proportion he will pay in tax. Because the first \$3750 of everyone's income is tax free, a taxpayer on any given level of income will pay a higher proportion of his total income in tax than a taxpayer who has a lower income, but whose circumstances are similar in other respects.

A taxpayer with no dependants and no other deductions or rebates, at an income of \$5,000 will pay 8% of his income; at \$10,000 he will pay 20%; at \$15,000, 24%; at \$20,000, 29%; and at \$50,000, 44%. At the same time, under this system, 90% of taxpayers pay the same amount of extra tax on each extra dollar of income. This principle was supported by Professor Henderson's Commission of Inquiry into Poverty, by the priorities review staff report on social welfare policy.

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Moreover, the Asprey Committee took the view that "Over the middle band of income and wealth, the band in which the great majority of them spend their lives, most Australians will accept as fair and convenient an approximately proportional taxation system."

Fourthly, the new system imposes tax surcharges on taxpayers with the highest incomes, but reduces the rate on the highest incomes from its present 65% to 60%. This also accords with the recommendations of the Commission of Inquiry into Poverty, and 60% was in fact the maximum marginal rate Professor Henderson suggested.

The Asprey Committee went even further, and suggested that an appropriate long term target would be reducing the highest marginal tax scales to 50%.

Mr. Speaker, the new tax arrangements are in line with professional opinion on the best tax system for Australia. Those who clamoured for reductions in marginal tax rates before the Budget, but who now complain because taxpayers on high incomes get the largest reductions, are refusing to face an inescapable fact - the fact that reductions in rates of taxation for those with low taxable income, automatically reduce the taxes paid by those with higher incomes.

Those who believe that tax reductions on high incomes should have been less, should tell us at what income levels they believe marginal rates should have been higher.

It may be helpful if I mention that the cost to revenue of a reduction of one percentage point is over \$300 million in respect of the standard rate of tax of 32%, less than \$30 million in respect of the 46% rate, and about \$11 million in respect of the 60% marginal tax rate. Had the Government rejected the recommendations of expert inquiries, and left the maximum marginal tax rate at 65%, at best, the amount saved would only have enabled us to reduce further the standard 32% rate of taxation by one-fifth of a percentage point, from 32% to 31.8%.

The Opposition's wilful misrepresentation of the tax reforms, its attempts to set Australians against Australians by talking about a "class Budget", will not alter the fact that all people will benefit, and proportionately, people on the lowest incomes will benefit most of all.

Taxpayers with a dependent spouse earning \$7,000 a year will save 33% in tax. Those earning \$8,000 a year will save 25%. On \$18,000 a year, they will save 20% in tax. Taxpayers whose incomes fluctuate will be more fairly treated, and primary producers will have the added benefit of the new tax averaging arrangements announced recently by the Treasurer. Primary producers with fluctuating incomes, who were disadvantaged under the Hayden tax system, will no longer pay more tax than other taxpayers with the same average income.

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As the Asprey Committee pointed out, the averaging system has operated harshly on farmers with falling incomes. The Government's new tax averaging system will especially assist these farmers. For example, a farmer with taxable income of \$4,000 but with an average income of \$10,000 would have paid \$453 tax under the pre-Budget scale. Under the simplified scale and the new averaging system, his annual tax will be \$80 - the same as a wage earner with an income of \$4,000. A farmer with a taxable income of \$8,000 but with an average income of \$10,000 would have paid \$1583 in tax. Under the new arrangements, his annual tax liability will be \$1360, the same as a wage earner with an income of \$8,000. This is a reduction of \$223 in tax.

These savings are significant. They will remove the harshness identified by the Asprey Committee which farmers with falling incomes have experienced. At the same time, these measures will have negligible cost in 1977-78, and will therefore not affect the Budget's economic strategy.

The new tax system is simpler and fairer than any system of personal tax Australia has had before. The Opposition's campaign to confuse taxpayers will fail. Taxpayers will of course learn about the new tax system in the most direct way.

On 1 July 1976 and 1 July 1977, all wage and salary earners became very aware about tax indexation when there were reductions in the tax deducted from their pay. On February 1 1978, there will be another reduction in tax deductions from pay packets. On July 1 1978, there will be yet another reduction in the tax deducted from pay packets, and every wage and salary earner will benefit.

Let me emphasise again the simple truth of the historic tax reforms this Budget has introduced. No individual taxpayer will lose. Every individual taxpayer will gain. All taxpayers are protected against inflation.

The Budget brought down by the Treasurer is a Budget in which efficiency and sensitivity in Government administration are at a premium.

With one decisive stroke, the Budget reforms and simplifies the personal tax system in such a way as to benefit everyone, to reward initiative and enterprise for everyone, to encourage harder work and higher productivity by everyone. It further reinforces the constant pressure against inflation which the Government has exerted ever since coming to office. It provides a stimulus to the economy through a large increase in the disposable incomes of all taxpayers, particularly after 1 February when PAYE deductions will be reduced. It protects the disadvantaged by increasing pensions and benefits to keep pace with inflation. The lower deficit sets the scene for lower inflation and lower interest rates.

Mr. Speaker, this Budget represents a further stage in the economic policies we have employed throughout 1976 and 1977. These policies will continue to establish the sound foundation for sustainable economic growth and prosperity.