

# COMMONWEALTH OF AUSTRALIA.

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## SPEECH

BY

Rt. Hon. R. G. MENZIES, C.H., Q.C.,

ON

# BUDGET 1959-60.

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*[From the "Parliamentary Debates," 20th August, 1959.]*

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Mr. MENZIES (Kooyong—Prime Minister) [8.0].—Mr. Chairman, the Budget speech delivered by my colleague the Treasurer (Mr. Harold Holt) emphasized at the beginning and throughout and at the end that the twin purposes of this statement of financial policy for the year were expansion and stability. I want to repeat that expression—expansion and stability—because it seems to me that unless it is borne in mind a great deal of the significance of this Budget may be unseen.

Let me take the words in their reverse order. The purpose of stability is to avoid inflation and so ensure an adequate volume of investment in government securities—a type of investment that is not attractive if inflation is on—and of capital investments from overseas, which I rather gathered this afternoon is not very well regarded by some honorable members on the other side of the chamber but which is admirably regarded by people in this country. Not only is the purpose of stability the doing of those things; its great function is to preserve the value of money internally, because the preservation of the value of money, that is to say the value of wages, salaries and income of all kinds, is essential for social justice and also clearly essential for a spirit of confidence in the country.

Recently, Sir, when I was in France I had an opportunity to have a discussion with Monsieur Rueff, who had prepared a report for the French Government upon French financial and economic reconstruction. The report of his committee was adopted by the Minister for Finance and the President of France. Those recommendations have been put into operation, and the financial and economic recovery of France in the last eighteen months has been most remarkable. If any one has an opportunity to read that report, he will find that at its very centre is the whole idea of stability. France had been suffering grievously from runaway inflation, unrestrained and incapable of being checked because of political instability. Within the last eighteen months, as I have indicated, the recommendations made by this committee have been put in hand. Those responsible have set about arresting inflation, and the result has been quite phenomenal.

Inflation, although it has not been unrestrained, although it has come under a very remarkable degree of restraint in Australia in the last few years, remains a constant danger as long as increased production does not cope with increased costs. I should just like to say, apropos of this, that in the welter of comments and criti-

cisms about the present Budget I found the very thoughtful speech of the honorable member for Richmond (Mr. Anthony) very refreshing, because he directed his mind to this great central problem of inflation. I shall say a little more about it, because what has troubled him has troubled my colleagues and myself in the course of preparing the Budget. But in that speech there was a genuine and perceptive observation on the Budget. All these other observations that I shall deal with in a moment completely missed the point, the point being that stability is essential to expansion and that stability and expansion are the keynotes of the financial policy of this Government.

It is quite clear, Sir, that some honorable members may have overlooked the fact that expansion is not the product of inflation. Inflation is its enemy. Its achievement depends upon creating and maintaining a spirit of optimism and confidence in Australia's future, and upon guarding against an excessive optimism which may regard with contempt the menace of rising costs, particularly in respect of actual or prospective export markets. I say that because I want to lay a foundation for the approach of the Government to this matter. These observations I have made have never for one moment been absent from the mind of the Treasurer or the minds of those who sat with him in the preparation of this Budget.

Now I turn for a moment to the Opposition. Members of the Opposition, of course, have secured almost prescriptive rights over a long term of years to professional gloom. This gloom, valiantly maintained frequently under very difficult circumstances, has endured right through the most remarkable period of expansion in Australian history—a period that has been marked not by disaster of the kind prophesied by the Opposition but by a record investment in this country from overseas, an investment not made by fools but by shrewd people who like to see a country with a future and stability. That period has been marked also by high levels of employment, rising real wages, a phenomenal increase in the amenities of life, a remarkable expansion of productivity in basic and secondary industries, high solvency in primary industries, and under and

supporting it all a record expansion of vital developmental public works and a corresponding industrial expansion.

I pause there, Mr. Chairman, to emphasize this point: There are those who rather choose to divide the volume of investment in the country into investment on public account and investment on private account. In our country and in this age there can be no such artificial division, because without great public works for the development of power, water supply and transport there could not be the private expansion, the investment of private capital, that we have seen going on over the last ten years. The two things, to coin a phrase, go hand in hand.

The Leader of the Opposition (Dr. Evatt) overlooks the fact—it was not overlooked by my young friend from Richmond—that we are budgeting for a substantial deficit, a deficit of £60,000,000, at a time when the state of the economy is in no great need, as we thought a year ago it may be, of some special stimulus. From the viewpoint of pure national economics, and even though the Leader of the Opposition has said the dead opposite, there was much to be said for a cash balanced Budget.

Under these circumstances I think I ought to occupy a few minutes by pointing out to the committee why we did not go for a cash balanced Budget on this occasion—why we accepted a deficit. I will state the major reasons. In the first place, to balance the Budget, to bring out a dead balance on this occasion, we would have had to make no increase whatever in social services or repatriation benefits and no tax reductions of any kind, but, on the contrary, if honorable members will examine the figures, probably some increase in taxes.

**Mr. Ward.**—The Government could have taken something out of excess profits.

**Mr. MENZIES.**—My friend always has some wonderful scheme for taxing profits; but it is a tax.

**Mr. Ward.**—You promised an excess profits tax in 1950.

**The CHAIRMAN.**—Order! The honorable member must remain silent.

**Mr. MENZIES.**—That would seem most improbable. I wonder how many honorable members would have been content, or

how many people in Australia would have been content, with a Budget this year in which there were no increases whatever in social services or repatriation benefits, and no tax reductions of any kind but, as I have said, quite probably some increases in tax. That is a very powerful consideration for a Government to take into account.

The second thing I want to say is that every Budget deficit must be considered in relation to the total volume of the Budget. If, before the war, when the total Commonwealth Budget was below £100,000,000, until 1939, when I myself introduced the first £100,000,000 Budget, anybody then had said "Let us have a deficit of £60,000,000," this would have been regarded as sheerly ruinous finance. But to-day with a Budget which moves around the vicinity of £1,600,000,000 in this country, £60,000,000 must be looked at in proportion and also looked at in proportion to the total national earnings, the total national income.

The third thing is that the heavy increase in the basic wage—and there was quite a substantial increase in it only recently—in our opinion made it proper to add substantially to the social service and repatriation payments which will, in the result, this year rise by £21,000,000. We could not do that and, at the same time, budget for a cash balance.

Finally—and I think this is legitimate consideration—the willing acceptance of the Australian public, who have co-operated and behaved so magnificently in these years, and the willing acceptance by the public of past measures and their marked success as a result of public co-operation, deserved, in our opinion, some recognition in the taxation field and therefore we have given it.

**Mr. Ward.**—You have given 9d. a week to the basic wage earner.

**The CHAIRMAN.**—Order! The right honorable the Prime Minister is speaking.

**Mr. MENZIES.**—You could not be more right, Sir, and with your very kind permission I will continue. It is interesting that I should continue because I just want to make this point that when the Budget is disclosed to the committee—the Budget of the entire Government, delivered by the Treasurer—one looks to the Leader of Her Majesty's Opposition (Dr. Evatt) to deliver

a pungent and pointed attack on it. Therefore, as the Leader of the Government, I think I owe the right honorable gentleman the courtesy of having a glance at the attack, if I may so describe it, which he made on this Budget. I will begin by quoting one of his expressions. It is inimitable, but I quote it. He said—

This process of slugging the great bulk of taxpayers has been going on every year continuously since 1950-51.

**Mr. Ward.**—Hear, hear!

**Mr. MENZIES.**—On one occasion at any rate, the Leader of the Opposition has support on his own side. Having delivered himself of this trenchant expression, he then went on to say—

The single man with average earnings paid 1s. 9d. in the £1 income tax in 1950-51 . . . . He now pays 2s. 4d. in the £1 and the Treasurer proposes to reduce this to 2s. 2½d.

**Mr. Chairman,** that statement is, of course, grossly misleading and—unless I were to accuse the right honorable gentleman of inadvertence, which I would not dream of doing—deliberately misleading, and I will show how. Anybody listening in the other night—if anybody ever listens in to these lucubrations of ours—must have been struck by the statement that here was a man with a small income who must pay more tax and yet, so the Leader of the Opposition declared, this wretched Government says it is reducing the tax. Therefore, I point out this simple but cogent fact: In 1950, average wages were £575 a year; in 1959 they are £1,040.

**Mr. Ward.**—Inflation has run riot, that is all it is.

**Mr. MENZIES.**—All right; do not dig yourself a trap too soon. The first point I want to make is that the right honorable gentleman compares the rate of tax as if the income had stood still. Now that, of course, is a grossly misleading proposition to put to the people. I will further illustrate the truth by reference to the case selected by the right honorable gentleman of the single man earning average wages. In 1950-51, he earned £575 and his income tax was £47 14s. or, as the right honorable gentleman said, 1s. 9d. in the £1. His net income after tax was deducted was therefore £527 6s. a year. To-day he earns £1,040 but under this Budget he will pay

£109 3s. tax or 2s. 1d. in the £1. His net income therefore, after tax is deducted, will be not £527 but £930.

**Mr. Griffiths.**—Now express it in terms—

**Mr. MENZIES.**—I know that honorable members opposite are upset and terrified to hear a plain statement on these matters. I do not mind; the dog barks but the caravan moves on. The right honorable gentleman or his faithful myrmidons cannot escape by saying that increased average wages merely reflect changes in the cost of living. The basic wage, by reason of several decisions, has now risen to 16 per cent. more than the change in the C series index would produce while the rise in average wages, as everybody knows, further reflects the competition over a period of years for available labour.

**Mr. Ward.**—What are you quoting, the Richardson report?

**Mr. MENZIES.**—I am quoting myself. Am I to be told that the noisy gentleman who interjected has refused the salary recommended by the Richardson committee? What humbug!

**Mr. Ward.**—At least I do not get £15 a day expenses, free of tax.

**The CHAIRMAN.**—Order! The honorable member for East Sydney has not got the floor.

**Mr. MENZIES.**—He has not recovered from the rebuke he received this morning. Then the Leader of the Opposition says that our taxation changes are made to favour the rich.

**Mr. Ward.**—Hear, hear!

**Mr. Clay.**—Hear, hear!

**Mr. MENZIES.**—I knew that two of you would say that. The charge made by the Leader of the Opposition is, as usual, easily answered. The last Labour Government, which was enriched by the presence of the honorable member for East Sydney, among others, produced its last Budget for the 1949-50 year. I take again the example selected by the Leader of the Opposition, the person without dependants, in order to make a comparison. That Budget provided rates of income tax affecting all ranges of income, and presumably expressed the Labour Government's view of a proper graduation of the tax. This is a reasonable

assumption, I think, that one ought to be able to make. Our 1959-60 Budget—the one before us—lays down rates of tax which represent a reduction, compared with Labour's rates, of more than 60 per cent. at the bottom of the scale—that is on the lower incomes—ranging down to 19 per cent. at the top of the scale, on the highest incomes. And this Budget, it should be remembered, is presented by a Government which is accused of slugging the poor. I hope honorable members will follow my point. In fact, I think I might repeat it.

**Mr. Ward.**—I neither follow it nor believe it.

**Mr. MENZIES.**—I would not expect you follow it, and the rest of your remark is, therefore, irrelevant. If you do not follow it, how can you either believe it or disbelieve it? Our 1959-60 Budget, I repeat, lays down rates of taxation which represent a percentage reduction on the rates provided by the Labour Government when it was last in office of 60 per cent. on the lowest taxable income, tapering down to 19 per cent. on the highest incomes.

**Mr. Ward.**—That is a lot of rubbish!

**The CHAIRMAN.**—Order! I will not warn the honorable member for East Sydney again. If he interrupts again, I will name him.

**Mr. MENZIES.**—These are simple facts that are worth pondering on. They promote a question in one's mind. Does Labour propose—because if so we ought to know—that whenever income tax is reduced the steepness of an already steep scale should be violently increased at the cost of middle incomes and higher incomes? If so, then let us be clear that savings and investment will be impaired, and the means of future employment will therefore be lessened.

We certainly have not been unfair to the lower income earner. Let me put it in another way, so that he who interjects may read later on. In 1949-50, when Labour was in office, again taking the case of the person without dependants whom I have been discussing, the tax payable on a taxable income of £5,000 was fifteen times as much as that payable on an income of £1,000. This was under a Labour administration, an administration which, by its own profession, did not slug the poor or pander to the rich.

In the considered judgment of the Labour Government, fifteen times as much tax ought to be paid on £5,000 as on £1,000. In this Budget, so much reviled by Labour, the tax on £5,000, for the same person, is not fifteen times as much as on £1,000; it is, in fact, sixteen times as much—and this Budget is presented by a Treasurer who panders to the well-to-do!

**Mr. Pollard.**—It must have been a mistake.

**Mr. MENZIES.**—Now, Reggie, don't start giggling, because it creates the wrong impression. Taking the case of a person with a dependent wife and two children, the tax on £5,000, under Labour, was 21 times as much as the tax on £1,000; in this Budget it is 29 times as much. Yet these people with imperfect memories have the nerve to come along and attack this Budget as if we were paying off these mythical rich supporters of ours.

Now I turn to another topic—the loan market. I am interested in this topic, because the Leader of the Opposition made a powerful speech about it before the last election. He had some strong views on it. I thought they were rather fanciful, but still they were strong. One thing that will strike the informed observer on public finance is that but for a dramatic improvement in the loan market, last year's deficit, which ended up at about £30,000,000, would have been much greater, and it would have been difficult to provide any concessions in this Budget. Is the right honorable gentleman pleased about the fact that the loan market yielded over £200,000,000 for the first time in modern history? Of course he is not, because only last year his great story to the Australian people was that we were ruining the bond market, and he propounded some rather fanciful means of dealing with the situation. Now, the bond market being so healthy, he turns back to treasury-bills, those wonderful things, those IO U's, those promissory notes, as the proper source of finance for his projected vastly increased payments out of the Treasury.

Let me remind honorable members, let me remind everybody, if possible, that the right honorable gentleman has attacked every proposal in this Budget for improving the revenues. I think that is right, is it

not? He has, I repeat, attacked every proposal for improving the revenues. He has demanded increases of many millions of pounds in payments out. He has, I think, though I would not be dogmatic on the point, advocated bigger and better reductions of tax. To meet this remarkable combination of financial proposals, he is for inflationary finance, naked and unashamed. To support this ruinous policy, to justify his recourse to treasury-bills, the direct creation of funds by the Reserve Bank, what does he say? He harks back to the war, about the financing of which he ventures some very quaint ideas. He said this—

Treasury-bills were the instrument whereby to a very large extent Australia's war effort was conducted. Without the treasury-bill system the nation would have been ruined by excessive interest rates . . . . .

Honorable members will recall that he drew a charming comparison between 1 per cent. on a treasury-bill and 4½ per cent. or 5 per cent. on some other security, and pointed out how much money we were losing, how much money we were giving away. Therefore, I take it that his doctrine on this matter, which so profoundly affects this country, is that you pay less interest on treasury-bills than on bonds and therefore you should finance by treasury-bill. This has a noble simplicity about it. To what extent he is going to do it, he does not say, though he is, if I may say so, clearly in a rather carefree mood on that topic.

Well, Sir, I will make three comments. The first is in relation to Commonwealth cash and conversion loans raised from the public, and many of us can remember standing on street corners and in other places advocating these loans—very properly. I myself even made a speech at the Melbourne Zoo and for the first time had interjections made to me by a real, live lion.

**Mr. Ward.**—Is that the loan that failed?

**Mr. MENZIES.**—They all succeeded. I thought that that was your proudest boast.

**Mr. Ward.**—Not the one that you supported.

**Mr. MENZIES.**—I supported them all, and they could not all have failed, because Commonwealth cash and conversion loans raised from the public during the war amounted to £1,058,000,000. We know that because, naturally, they have been

maturing very heavily since 1956-57. As I have had occasion to say before, this country is still called upon to pay for the war, which is something that is occasionally overlooked. But there it was. The loan raisings in that period were £1,058,000,000. Treasury-bills were extensively used, as they always are, in advance of revenue and market borrowing, but the outstanding treasury-bills at the end of each financial year during the war increased, on the average, by about £70,000,000, or a total for the war period of £343,000,000, as compared with £1,058,000,000 from the loan market.

If those figures are compared, honorable members will see at once that the overwhelming bulk of the moneys raised by borrowing during the war were raised from the market on the ordinary terms of a public loan issue. Of course, on top of that—as everybody will agree and nobody will complain or did complain—taxation reached astronomical heights. There was all-round rationing and investment was controlled so as to assist bond issues, and there was conscription of labour, of course. That does not seem to support the idea that treasury-bills represent the be-all and end-all of public finance. As I had some recollection in my mind of the views of the predecessor of the Leader of the Labour Party on that matter, and as the right honorable gentleman is very addicted to quoting the late Mr. Chifley, I might take the opportunity of stating his views, as he put them to the House.

**Mr. Pollard.**—Which you ridiculed at the time.

**Mr. MENZIES.**—On the contrary. Do not start saying things like that.

**Mr. Pollard.**—You complained about every increase in taxation during the war.

**Mr. MENZIES.**—You know perfectly well that on the use of treasury-bills, as on taxation, I gave the late Mr. Chifley my warmest support.

**Mr. Ward.**—Only after he was dead.

**Mr. MENZIES.**—Ah! You know, you can say that, but anybody who reads "Hansard"—and I suppose some melancholy creature will, some day—will know how right I am in what I have been saying, and there are honorable members here who know that that is the truth.

**Mr. Ward.**—I was here.

**Mr. MENZIES.**—But I said "honorable members". Now, Sir, all I want to say is that the late Mr. Chifley did not share the theory of the present Leader of the Opposition, because, on 17th June, 1948, having had a question put to him, not from my side of the House, but from his own, he said this—

From time to time, loans are raised by the Loan Council on behalf of the Australian and State Governments. In August, the Loan Council will prepare its programme for the coming financial year. Surplus moneys, which may be available, are used to redeem treasury-bills which are really IOU's. When a loan has been over-subscribed and the money is being retained for use at a later date, the Commonwealth uses it to redeem treasury-bills, and the Commonwealth Bank has not then so many of them outstanding against the Government. In my opinion, that is the proper method of financing government. Whether in war or peace, it is not sound finance never to redeem treasury-bills.

That was the view of a man so frequently quoted, but his successor has made a speech, or has read to this committee a speech— whoever composed it, I do not know—the whole essence of which was: Why do you bother about loan issues? Why do you bother about paying these rates of interest that you ought to pay on public borrowing, when you can get it all cheaply from the Commonwealth Bank? I leave that topic. Opposition members may squirm and mutter and do whatever they like about it, but there it is. I have great faith in the good sense of the people of this country to pass their judgment.

I turn from that, because time marches on, to say something about medical health and medicine. The right honorable gentleman, I thought, was a little vague on that topic, and he well might be. I just want to say something about this Government that has no sympathy with people. Our record is clear. We have proved our goodwill by action. We are now entitled to take steps to bring our schemes under reasonable financial control and prevent obvious abuses. In the last full financial year of the Labour Government, what did it provide? Professing that its heart bleeds for people in need or in illness, what did it do? It provided £5,885,000 for hospital benefits. It provided nothing for medical benefits, nothing for any pensioner medical service, £149,000 for pharmaceutical benefits, and £151,000 in

respect of tuberculosis. That adds up, as you will see, to a substantial sum, but now let me go on.

In the latest full financial year of this Government that is supposed to have no appreciation of social needs, we have provided £14,800,000 for hospital benefits, £7,679,000 for medical benefits, £3,806,000 for the pensioner medical service, £20,972,000 for pharmaceutical benefits, and £7,261,000 for the great tuberculosis campaign. I shall put it in another way. In the last three years in office of these lovers of the distressed, they managed to find £15,000,000—taking it to the nearest million pounds—under all these heads. In our latest three years—not our last three years, but our latest three years—we have provided not £15,000,000 but £142,000,000. Sir, I do not need to say any more on that topic. These figures are more eloquent than any words of mine could be.

I now turn to the Post Office. The Leader of the Opposition attacked increased postal charges as a measure of social injustice but, Sir, the fact is that with rapidly rising standards of living and increasing population, the demands upon the Post Office are multiplied whilst scientific developments require more and more capital expenditure if an admittedly efficient organization is to hope to match demand. In the absence of loan moneys available to the Commonwealth, the Government is confronted by a choice. I say "in the absence of loan moneys", because there are those who apparently do not know that we do not have loan money. The loan raisings, over these years, have gone to the States. Therefore, this idle reference that is periodically made to carrying capital works of the Post Office on the loan account is completely meaningless because there are no loans. So, what is the use of talking about a loan account?

But in the absence of loan moneys, the Government, as I have said, is confronted by a choice. It can either maintain present postal and telephonic charges unaltered and transfer the necessarily growing burden of Post Office capital works to the general taxpayer, or it can ask the users of the Post Office to pay a little more so that the standard of service can be maintained and raised. That, put in its simplest form, is

the question that presents itself to any Government. Believing, as we do, that the Post Office must develop, and that its proper need for capital expenditure will grow, we have preferred some changes in customers' rates to a transference of the general growing burden to the ordinary taxpayer.

But, Sir, the Government has, particularly in the past few days, considered with great sympathy representations that have been made as to the effect of the proposed new charges for bulk postage. That is not one of the major items in the list that was referred to in the Budget, but it is not inconsiderable. The present rate applicable to bulk postage of newspapers and periodicals is 2½d. per 8 oz. on the aggregate weight of the papers. The proposal had been to increase this charge to 5d. for each 8 oz. with a minimum of 2d. for each article. We have been convinced by the evidence put before us—and I think we were all a little in the dark on this matter until these representations were made very broadly—that many of the small publications produced by a large number of community organizations would be seriously disadvantaged by the retention of the minimum charge of 2d. per article. In order not to penalize these organizations, we propose to forgo the proposal to charge a minimum of 2d. per article. The increase of 5d. for 8 oz. will stand, subject to what I am about to say; but it has been pointed out to us also that many newspapers and periodicals are sold on an annual subscription which, in fact, contains a postal charge. In order not to penalize the proprietors of such newspapers and to permit them to make any necessary adjustments, the rate of 5d. per 8 oz. will operate not from 1st October, 1959, as had been intended but from 1st March, 1960. I might add that notwithstanding these changes, there will still be a substantial loss to the Post Office on the carrying of bulk mail. That is something that perhaps is not very widely appreciated.

Sir, I want to say now just a word or two about pensions. The Leader of the Opposition has said that they are eaten away by creeping inflation. Over the past ten years, we have sought to meet this position partly by frequent adjustments in pension rates and, more importantly, by measures to stabilize the economy and the

currency. But what is the right honorable gentleman's prescription. His prescription is to adopt inflationary finance, and to use a depreciated and depreciating currency to increase welfare payments. The Leader of the Opposition referred to child endowment. I do not want to say very much about this.

Mr. Peters.—I would not if I were you.

Mr. MENZIES.—It was introduced by us, you know.

Mr. Stewart.—In 1951.

Mr. MENZIES.—You have your dates wrong, dear boy. It was in 1941. But what is that? A mere decade! The fact is that child endowment was introduced by us to redress some of the anomalies of basic wage provisions. Later on, in 1951, we applied it to the first child. Since then, let it be remembered, the arbitration tribunals have made large additions to the basic wage on the principle of the capacity

of industry to pay. In doing this, it is quite clear to anybody who has followed the proceedings, that the family needs of the wage-earner have not been ignored. To add substantially to the burdens of industry by raising child endowment, either by increased pay-roll tax or from the taxpayers, would have an additional effect upon the capacity of industry to pay.

Sir, I conclude by saying this: If, as the Leader of the Opposition constantly says, we in this Government which I have the honour to lead, look after the few and Labour looks after the many, I wonder how it comes about that Labour, the party of the many, has been in office—under a free democracy—for only seventeen years out of 58 years of federation. Perhaps Labour's answer is that the people are gullible fools. If so, I hope honorable members opposite will say it, in plain terms, at the right time to the Australian people.