

COMMONWEALTH OF AUSTRALIA

SPEECH

BY

The Rt Hon. W. McMAHON, M.P.

ON

APPROPRIATION BILL (No. 1) 1971-72

Second Reading (Budget Debate)

[From the 'Parliamentary Debates', 7 September 1971]

Mr McMAHON (Lowe—Prime Minister) (8.26)—This is the twenty-second Budget since the Liberal-Country Party Government took office in 1949. Since then we in Australia have enjoyed a period of sustained economic growth combined with full employment which has not been rivalled in any previous period of our history.

Let me illustrate by reference to the progress we have made in the last decade. Ten years ago our gross national product, at constant prices was around \$17,000m. Last year it was \$28,000m—an increase of about 60 per cent or an annual rate of increase of over 5 per cent. Ten years ago our workforce was less than 4½ million. It is now over 5½ million—a growth of about 30 per cent. Our international reserves have more than doubled and now stand at over \$2.3 billion. These facts, I suggest, speak for themselves.

We are, I agree, now facing problems because cost and price inflation has recently gathered pace. In the interests of the whole community, we have to tackle these problems and tackle them now. But they need to be handled in a way which will assist, rather than impede, our long-term growth goals. And a co-operative effort is needed by every group of Australians. We have one very important economic problem that the Treasurer (Mr Snedden) highlighted in his Budget Speech. Our over-riding economic purpose in this year's Budget was

to combat inflationary pressures. We are well aware that the inflationary process is most complex and that there are important elements which the Government's fiscal and monetary measures do not influence directly.

Wage rates, for example, are largely a matter for the Arbitration Commission and for employer and employee relationships, although the Government can play a role by trying to ensure that the general economic climate is not conducive to the making of wage awards that exceed increases in productivity. The problem we faced in framing the Budget was therefore to try to reduce inflationary pressures in those areas where the Government can have a direct influence. As I said in the House on 18th February, we have to distinguish between cost inflation and demand inflation. I wish that this distinction could be made abundantly clear, because of all the speeches I have heard in this House and of many of the comments I have heard too, few have been able to draw this distinction effectively.

Mr Foster—You are never in the chamber to hear speeches.

Mr McMAHON—But I listen in on the radio. In any event, I disappear the moment I see you.

I pointed out then that we were not faced with overall demand inflation of the classical type, except in three areas, namely, private

building and construction, private investment in plant and equipment, and Government expenditure. Here there was excessive pressure on resources. In addition, more recently the strong rise in the potential for demand inflation through increased personal consumption expenditure gave us cause for concern. In circumstances where prices had already been increasing much too rapidly, we felt that it would have been irresponsible to risk the possibility of superimposing excess demand on wage inflation. To guard against the development of undue demand pressures, we therefore judged that it was necessary to restrain the growth in Commonwealth expenditures by severely pruning departmental proposals and we decided also that we had to raise additional revenues. These are in the nature of fine tuning adjustments which must be seen in proper perspective.

After allowing for the transfer of payroll tax to the States the Commonwealth's domestic outlays are estimated to increase by \$900m in 1971-72—only \$90m less than in 1970-71. Similarly, receipts are estimated to increase by only about \$100m more than last year. In technical terms—I have to emphasise the word 'technical' because it has a technical meaning—these measures imply an increase in the overall domestic surplus of \$170m. Combined with a restrictive monetary policy I have little doubt that they have helped considerably in reducing the risk that excess demand inflation would develop. But these measures will not in themselves prevent the continuance of the strong overall economic growth that we have been experiencing in recent years. It is nonsense to suggest that they will result in mass unemployment. In the normal course of events registrants for employment will rise to a seasonal peak in January of next year. With the addition of school leavers, it would not be at all surprising if unemployment exceeded 100,000 at that time. That would only be slightly in excess of the numbers that were registered in January this year. I want to assure the House that we remain firmly committed to the maintenance of full employment and that the Government will be keeping a very close watch on trends in the private sector to see whether they develop along the lines forecast.

Our concern must be to try to provide an economic climate in which economic

growth can proceed without excessive cost and price increases. Left unchecked, the rate of price increases would soon erode the gains we propose for pensioner and other social welfare recipients. It could also jeopardise the strong economic growth we have enjoyed in recent years. It could threaten our export industries. It could limit our ability to improve the quality of life in Australia. In the final analysis, of course, the prospects for controlling inflation will be affected, as I have already said, by community attitudes—not by any single group in the community, but by the community as a whole. Recent experience overseas suggests that once a cost-price spiral is permitted to get a foothold in an economy, the measures then required to combat it successfully are very difficult to devise and decidedly less palatable than those contained in this Budget. Our aim is to prevent such a development in this country.

Till now I have referred mainly to measures aimed at demand control. But it is wrong to suggest that the Government has ignored the problems of cost pressures. The Treasurer referred to a variety of measures which are being taken outside the immediate Budget context and which are aimed at reducing these pressures. It should however be recognised that the full year effects of wage and other cost increases which took place during 1970-71 will continue to be reflected in the economy for some time. The levels of average weekly earnings and the consumer price index, for example, are already considerably above their average levels in 1970-71. This undoubtedly will be reflected in statistics during the remainder of 1971-72, no matter how effective the Budget and the Government's other measures may be in containing future cost increases.

Now let us speculate about what the Leader of the Opposition (Mr Whitlam) and his colleagues might do to solve the problem. The Leader of the Opposition says he notes many things which are not causes of inflation. He says that wage increases are not the cause of inflation. I will refer to these in a moment. He also says:

Great sectors of our secondary industry have not contributed to inflation.

The rural sector is not contributing to inflation; and clearly he believes that Government spending is not the cause, since

he wants the Government to spend much more on a whole range of projects. Moreover, as company incomes increased very little in the last financial year, presumably he does not find the cause of inflation in that area. What then is the cause in his view? It is important that not only we but all members of the Australian public should know. Having excluded so much, he leaves us in the dark as to what his analysis is and what the real causes might be. The Leader of the Opposition does, it is true, give us a most significant hint as to his views when he accuses the Government of refusing to acknowledge—and here I quote his own words—‘the inevitable connection between rising prices and demands for increased wages.’

I repeat his words ‘The inevitable connection between rising prices and demands for increased wages’. Does this mean that after all, he accepts wage increases as a cause of inflation? The words may be ambiguous. He is strangely silent. I accept his silence as meaning that he does accept wage increases as the cause. The fact is, of course, that wage and salary earners have increased their share of gross national product. In 1970-71, wages, salaries and supplements accounted for nearly 55 per cent of gross national product, much above the proportion in 1969-70, when it was 52.4 per cent, and in other recent years.

The Leader of the Opposition refers also to ‘half an income-price policy’ under which he suggests the Arbitration Commission has the job of keeping wages and prices down. He should know, as a once potential lawyer, that the Arbitration Commission has power to set only minimum wage rates which in neither theory nor practice amounts to setting actual wage rates. This is reflected in the fact that average weekly earnings have consistently increased much faster than award rates; for example, in the year to the June quarter 1971 by over 13 per cent as against 9 per cent in the corresponding period last year. The truth is that the Leader of the Opposition is unable to provide any analysis of the causes of inflation. Not unexpectedly he is therefore completely silent on the crucial question of what should be done to control it. We do know that he criticises the Government for not spending enough. In almost the same breath he complains that the burden of taxation is

too high. He cannot have it both ways. So we are left to the conclusion that Mr Whitlam’s cure for inflation is to increase Government spending and to reduce taxation. This is just the kind of cure we must avoid if we are to make any kind of attempt to cure inflation. As I have said, it is the Government’s firm belief that the only responsible course of action was to bring down a Budget designed to prevent the development of excessive demand inflation, superimposing itself on the existing cost inflation. I make it clear that our policy continues to be a flexible one, responsive to change and able to make adjustments needed to sustain full employment and economic growth. It is, of course, entirely possible to adopt a less restrictive monetary and fiscal policy if circumstances make that necessary.

Mr Deputy Speaker, I want now to emphasise another important aspect of our policy. We have been able to take positive action to meet the various high priority needs of the community, despite the need to restrain Government expenditure to combat inflationary pressures. The Budget in fact provides for substantial increases in social welfare, defence, education and the arts, assistance to rural industries, and other areas of essential activity. The responsible Ministers will explain in detail those parts of the Budget which involve their own portfolios. But let me just mention social welfare as one example. Reference has been made to a fundamental reappraisal of social services which I said the Government would undertake. The Government looked at various possible measures in the social welfare field. We decided, as I shall outline in a moment, to take action in the areas of greatest need. If the Opposition wants to say that this policy was wrong and that it does not believe that those in the greatest need should receive the greatest assistance, it is up to the Opposition to tell the Government and up to it to make it positive to the Australian people. It is all very well for the Leader of the Opposition to say glibly that the cost of paying pensions to all Australians would be no more than \$300m. The fact is that, on the basis of present eligibility for age pensions, the cost would be about \$440m. Now where would that money come from? Where did he get his figures from? What taxes would the Leader of the Opposition increase? Until

these questions are answered one must regard any propositions put by the Leader of the Opposition with extreme doubt.

Unlike the Leader of the Opposition, my Government has acted responsibly by matching its welfare programme to what we have judged can reasonably be raised from taxation and other revenue sources. Frankly, Sir, I did not think that we could increase revenue at all other than in the way in which we have done so. I did not want to touch to any extent, and neither did my colleague the Treasurer, indirect taxes which could clearly write themselves into the consumer price index. I repeat: We have helped where we thought the need or poverty was greatest.

The increase of \$1.25 in the standard rate of pension and of \$1 for each married pensioner provides a substantial improvement in the purchasing power of recipients. Taken with increases which were made last year and in April this year, there has been an increase of about 11 per cent in both pension rates since September 1970. The consumer price index rose by about 5 per cent in the year to June 1971. Therefore, there is a pretty healthy margin of approximately 6 per cent that can improve the real standards of the pensioners themselves. So clearly, I think, we can take it that those most in need have received the benefits and they have received considerable gains.

A further most significant measure was the increases granted in the additional pensions payable where a pensioner has dependent children. In addition, we have increased child endowment by 50c a week for each child under the age of 16 in excess of 2 in a family. These increases in pensions, child endowment and other social welfare and repatriation benefits should ensure a welcome improvement in the standard of living of those dependent on them, even after allowing for the faster rate of price rises. Mr Deputy Speaker, I have pledged my Government to do all within its power to eliminate pockets of poverty. This is and will remain our humanitarian aim. Our concern for the needy is unqualified. We will continue to keep measures to increase our help constantly under review.

The Leader of the Opposition has moved to condemn the Budget on the ground that

it contains no proposals to balance the finances and functions of the Commonwealth, States and local government. Obviously, the Leader of the Opposition could not have written the speech. Obviously he could not have been guided by any person with a knowledge of the contents of the Budget itself. The fact is that this Budget recognises the undertaking I gave when I came to office that I would give priority to making sure that the Federal system worked effectively. My two conferences with the Premiers in Canberra have resulted in a significant improvement in the States' financial capacity. First, my colleagues and I reached agreement with the States on a growth tax which is theirs to levy and which will give them an important addition to their revenue raising resources. Second, on top of the normal grants that they will receive under the improved financial arrangements settled last year, we have provided special assistance of \$60m to help the States cope with their 1971-72 Budgets. Third, while recognising the need to restrain the growth in capital spending by governments, we agree to support a substantial increase in the funds available to the States for expenditure on capital works. Fourth, in transferring payroll tax to the States, we agreed to meet the cost of exempting local authorities from the tax where it applies to their non-business activities—a move which has been widely welcomed by local government authorities throughout Australia. I now ask the question: How many members of the Opposition know of the amount of funds that have been made available to local government authorities? If they do know, why have they not referred to it in any one of their speeches? Certainly, the Leader of the Opposition did not appear to have any knowledge of this innovation or the extent of it. The Government has taken these steps to improve the financial capacity of the States and their authorities. We did so because we recognise the important responsibilities which they have in providing basic services to the citizens of this country. The Labor Party, as we all know—this side and the other side—gives lip service to the role of the States. But we all know that what it would like to do is to take over the services provided by the States and run them from Canberra and to abolish the States if it had the constitutional capacity

to do so. We believe, however, in a co-operative federalism, in which full recognition is given to the role of the States in providing the educational, housing, health and other facilities that are so important in improving the quality of life. (Extension of time granted.)

The plain fact is that nearly \$3,000m, or over one-third of this year's Budget, has been set aside to assist the States in providing these facilities. Portion of this assistance takes the form of grants for specific purposes, but some \$2,300m is available to the States for expenditure as they see fit. To suggest that this Budget excludes all mention of cities completely overlooks the fact that the major portion of this assistance would be expended by State governments in their cities. The Commonwealth recognises that State governments are being faced with demands for improvements in every field of their activity. With our help, an increasing proportion of national resources is being devoted to the provision of Government services in the State and local sectors. It is important, too, to bear in mind, however, that the resources of the community drawn upon by all the government instrumentalities that service the community are necessarily limited. Just as we have had to limit spending in fields of Commonwealth responsibility, so too are there limits to the assistance we can provide to the States to improve their services. But there is no doubt, Mr Deputy Speaker, that the increased financial capacity of the States will do much to help improve the quality of Australian life. So, too, will the action which the Commonwealth is taking directly in many fields. I have already mentioned our social welfare programme. We are also making substantial contributions to Aboriginal welfare, to education

and the arts, and we have established a department whose functions include examination of environmental problems. All this is part of our effort to give national leadership and secure national unity.

Mr Deputy Speaker, this Budget is a positive one. It is a Budget which will help us achieve our great national aims of economic strength and prosperity, social welfare, and security. It will contribute to a general improvement in the quality of life.

There are some people who seem blind to our economic progress, and the real nature of our problems. They relish playing the role of prophets of gloom. Some talk of a stagnant economy. Some see unemployment rising in an uncontrolled way. The Leader of the Opposition professes to see the Budget as a divisive political exercise. People who talk in this way seem to be mesmerised by the immediate problems of the day. It is true that some of these problems—such as the current problem of inflation—have to be taken very seriously and solutions have to be found for them. But such problems should be kept in proper perspective. It is nonsense to suggest that mass unemployment is just around the corner. Our record in maintaining full employment is second to no other country in the world. We have a strong economy; an economy with enormous and exciting potentialities for future growth; providing only we act responsibly. People who suppress or distort these facts do no service to Australia. The sooner we learn to ignore them the better it will be for the development and prosperity of this country and the better we will be able to do for every single class of Australian citizen.