

CHECK AGAINST DELIVERY

STATEMENT ON THE ECONOMY

SPEECH BY THE PRIME MINISTER, THE HON. E.G. WHITLAM, Q.C., M.P.,  
HOUSE OF REPRESENTATIVES, CANBERRA, A.C.T.  
TUESDAY 12 NOVEMBER 1974

---

Introducing the Budget in September the Treasurer emphasised the importance of maintaining the utmost flexibility in responding to economic developments. The Treasurer stated: "Should the need arise, we stand ready during the year to take action on the expenditure or the revenue side of the Budget to give a quick stimulus to demand and employment".

Our underlying purpose is to create conditions for co-operation and restraint. The measures I shall announce tonight are designed to further that aim. The Australian economy is beset by the twin problems of rapid inflation and rising unemployment. We share these problems with all comparable economies. The two problems are universal but their concurrence is unique in modern times. The Australian Government, therefore, like the Governments of all comparable countries, faces problems of economic management of unparalleled complexity, uncertainty and difficulty. For all governments and for most nations these are testing times. In the final analysis the test concerns not the basic strength of national economies - and Australia's basic strength is indisputable - but the strength of nerve and will on the part of governments and people alike.

It is essential therefore that the people of Australia should understand what is happening and why. Concern, real and genuine concern, must not give way to despair, for the situation is difficult and changes are occurring with unprecedented speed. They are not beyond control. The problems of the rapid rise in unemployment and continuing steep rise in prices and costs are interlocked. The rate of wage and salary increases has easily outstripped the rate of increase in prices. The consequential squeeze on profits has been sharp. This has in turn led to a loss of confidence by business in its ability to obtain an adequate return on capital in an inflationary environment.

Employees can price themselves out of the market as effectively as business can. There are signs that this is happening. As the Treasurer said recently, in current circumstances: "One man's larger pay packet may mean another man's job." Employers are economising on labour, scaling down their operations and their investment and hence the employment opportunities they provide. The rapid increase in wage costs which businesses have experienced introduces an element of uncertainty in business calculations which greatly increases the risk involved in making new investments.

The Government's immediate concern must be to stop and reverse the downturn. The decline in employment and overtime now evident will reflect itself in a weakening of demand in the near future. If unchecked, the downturn would begin feeding on itself. The Government has decided therefore to provide a further demand stimulus to the economy. The Government also intends to take action which strikes at the root of the cause of the present downturn, the high rate of inflation and the decline in business profitability. What is needed is a stimulus to the economy which increases demand whilst at the same time abating cost pressures and enhancing private profitability.

The Government has already taken a number of decisions on the exchange rate and on the supply of money - the most recent of which were announced on Sunday by the Treasurer - which will substantially lift business confidence.

These measures add up to a very substantial relaxation of monetary policy and financial conditions can be expected to become a good deal easier in the months ahead than they have been in the recent past. In the past week the Governor of the Reserve Bank has written to the banks requesting them to increase appreciably their rate of new lending and I would expect to see a prompt response by the banks. Some savings banks are already stepping up the rate of their housing loan approvals.

The new measures I announce tonight are designed to:

Firstly, maintain consumer demand through a substantial reduction in personal income tax.

Secondly, attack inflation by reducing the pressure for wage increases through a substantial improvement in after tax take home pay next year and specifically to break the wage-price spiral by giving business a breathing space in wage demands based on price increases in the December quarter.

Thirdly, enhance profitability by a reduction in company tax, by requesting the Prices Justification Tribunal to give particular consideration to the adequacy of return on capital and by urgently investigating the implications of rapid inflation for the taxation of companies; and

Fourthly, support particular industries where special problems are emerging.

The proposed measures together with the announcement made by the Treasurer on Sunday night represent decisive action to stimulate demand and employment, to contain the growth in money wages and to restore business confidence.

### Personal Income Tax

The Government has decided to reduce further personal income tax. Honourable Members will recall that in the 1974-75 Budget it was proposed that the rate scale be restructured to reduce income tax payable by \$370 million on a full year basis. We now propose to restructure the rate scale to apply to 1974-75 income in order to reduce income tax payable by an additional \$650 million. In total, then, the rate scale now to apply to 1974-75 incomes involves a tax cut of over \$1,000 million.

Additional tax relief was provided in the Budget in the form of a rebate of dependents' allowances for low income families and deductibility of mortgage interest payments - these will cost the revenue close to \$200 million per annum.

My announcement tonight thus brings the personal income tax cuts provided for by the Government this year to about \$1,200 million.

The new restructuring of the rate scale I am announcing tonight will have the effect of increasing the take home pay of most full-time employees earning up to average weekly earnings by about 3 per cent. There will be lesser reductions at higher incomes. The precise details of the new rate scale are being made available separately.

As a consequence of the changes to the rate scale announced in the Budget as further modified by my announcement tonight, there will be very large reductions in tax payable by the average wage-earner. Let me give two examples, both relating to a taxpayer with a dependant wife and two children and with other concessional deductions equal to 10 per cent of annual income.

Such a taxpayer, earning \$100 a week, would be liable for an annual tax of \$568 on the basis of the 1973-74 rate scale. The new rate scale and the low income rebate will reduce this liability by \$304 to \$264, or by 54 per cent. His after-tax pay will be about 6½ per cent more than it would have been without the tax cuts.

A taxpayer in similar family circumstances earning \$140 a week would be liable for an annual tax of \$1,160 on the basis of the 1973-74 rate scale. The new rate scale will reduce this liability by \$283 to \$877, or by 24 per cent. His after-tax pay will be over 4½ per cent greater than it would have been without the tax cuts.

It is proposed that the new rate scale announced tonight will be reflected in PAYE deductions on pay days after 1 January 1975. PAYE deductions made from January on to the end of the financial year will be set at levels designed as far as possible to give the taxpayer the whole benefit of the new tax reduction in respect of income year 1974-75 in the January-June half year. There will be, in consequence, an even more substantial percentage increase in take-home pay for most employees.

Housing Loan Interest: PAYE Deductions

The scheme of housing interest deductions for income tax purposes is to apply in respect of interest payments after 1 July 1974 as announced in the Treasurer's Budget Speech. It is intended that as from the first pay-day after 1 January employees will be able to arrange with their employers for adjustment of pay-as-you-earn instalments to allow for the effect of the interest deduction. This will reinforce the impact of general tax reduction by providing a further boost in take-home pay.

INFLATION

These measures are designed to achieve the first objective I mentioned earlier - namely the maintenance of consumer demand. The substantial reduction in personal income tax, however, bears directly upon the second objective - the attack on inflation by reducing wage pressures.

At present, applications are before the Australian Conciliation and Arbitration Commission for the introduction of wage indexation - in other words, the automatic adjustment of wages to price increases. The Australian Government will play an active and positive role in these proceedings to support wage indexation on the basis of full compensation for price increases on a percentage basis up to the level of average weekly earnings, with a flat rate adjustment for higher incomes.

The recent level of increases in wages and salaries, both in terms of award and over-award rates, has been due in part to the need for trade unions to protect their members against substantial future price increases.

A system of wage indexation would have the advantage of protecting the real purchasing power of wages and salaries generally. The hearing of claims coming from the ACTU and other employee organisations is to proceed during this month and in December, and the Government is hopeful for a decision from the Commission at the earliest possible date.

The Government is aware that there may be an understandable feeling amongst employees that too long a period will pass before the Commission is able to announce its decision. The Government will, therefore, make submissions before the Arbitration Commission to the effect that the changes in the rate of income tax, announced in my statement tonight, should be regarded by the Commission as compensation for the increase in the cost of living which is expected for the December quarter 1974. In other words, the Australian Government will be submitting to the Commission, in connection with the most appropriate date for the introduction of cost of living adjustments, that the anticipated increase in the Consumer Price Index for the three months October, November and December 1974, will be compensated for by the increases in take-home pay resulting directly from the reduction in personal income tax announced this evening.

The Government expects that the trade union movement, in the interests of its members, will co-operate with it by seeking the introduction of wage indexation in a way that will minimise inflationary pressures and avoid unjustified wage claims. Increases based on price movements in the December quarter, whether by arbitrated decision or by agreement would, in the Government's view, not be justified. Present trends suggest that the commencement of a system of wage indexation would be fair and reasonable if it began with the Consumer Price Index figure for the March quarter 1975.

The Australian Government will put to the Commission that it should take particular account of the tax reductions which are designed to protect the take-home pay of employees. To introduce cost of living adjustment on the basis of price increases in the present quarter would involve double counting - it would continue the dangerous cost and price increases harmful not only to the whole community but to the employment prospects of wage and salary earners.

Inflation must be restrained - to protect jobs as much as anything else. We will be making it clear wherever possible that money wage restraint is essential. Employees and their representatives will be fortified in the knowledge that steps are being taken in other areas to maintain and advance real living standards. The re-introduction of cost of living adjustments would ensure that the real wages of employees are protected in the years ahead. In the transition period the Government tax cuts will preserve the value of their take-home pay.

The Budget tax cuts took effect in PAYE deductions this month. January pay packets will in addition reflect broadly double the cut we have now made in the rates announced in the Budget. Those employees arranging with their employers for adjustment of PAYE instalments to allow for the effect of housing interest payments will enjoy a further increase in take-home pay.

These benefits and the submission to be made to the Arbitration Commission about the appropriate date for commencing cost of living adjustments, are actions and proposals which essentially go hand in hand and are meant to be related to each other. They will give the business community a breathing space from wage claims whilst ensuring that real wages are more than maintained. We have to break the vicious circle of prices chasing wages and wages chasing prices.

The Government is concerned that all employee organisations, all of Australia's employees, should understand and be fully informed of the Government's policy on pay fixation and related issues. The policies outlined in the Budget and the new measures announced tonight will improve the real wages of employees and are in this sense an alternative to wage claims. This approach will be discussed with employee organisations of all types and needs to be explained to all trade union members. In looking at the Government's proposal to offer a tax cut in compensation for the cost of living changes for October, November and December of this year, it must not be overlooked that under this Labor Government wages and salaries have, in fact, more than kept pace with price increases.

The past year has been a year in which very substantial wage claims have been granted. In the 12 months to August 1974, the average award rate has risen by 43 per cent for adult females and by 27 per cent for adult males. The latest Consumer Price Index figures available show an increase in prices of 16 per cent in the year to the September quarter 1974. The important fact is that, despite a period of rising prices, wage earners have had a good increase in their standard of living in that time.

I intend to encourage a program of visits by Ministers and Government Members of Parliament to speak at trade union forums. They will outline the policies and objectives of the Government. This program of visits is in keeping with the principle of consultation and discussion which trade union organisations have often emphasised as being desirable.

The visits to trade union organisations will be a two-way process, with Ministers or Labor M.Ps also receiving comments and questions on matters of interest and concern. It is expected that visits will be made to a variety of employee organisations including Trades and Labour Councils in each State, White Collar and Public Service Organisations, Annual Conferences of trade unions, Federal and State Executive meetings, and also meetings of rank and file members during factory lunch-time periods etc.

Members of this Government have, of course, addressed many such gatherings. The opportunity which the Government's new proposals gives us to break the wage-price spiral requires a more systematic effort in the area of contact and consultation with trade union organisations.

### The Private Sector

The third objective I stated earlier is to restore business confidence by enhancing profitability. The Government's decision to cut personal taxes for some wage increases is particularly significant for the private sector, both in terms of costs and demand.

Business profits are being adversely affected by flagging demand and by the effects of inflation on cash flows and the replacement costs of assets. One consequence of declining profitability of business generally has been that the capacity and willingness of business to undertake new investment have been eroded.

The Government recognises these problems and is determined to correct them. The measures I have already announced should adequately deal with the decline in demand, even if, as is always the case, their full impact will be felt only after a lag. However, ultimately these measures will be ineffective unless they are accompanied by restored business confidence and profitability. It is an essential part of the Government's present strategy that we should stop the profits slide, restore confidence and encourage renewed private investment.

The Treasurer announced in his Budget Speech that the rate of tax on both public and private companies in 1974-75, in respect of 1973-74 income, was to be 47½ per cent. The public company rate was already at that level and, as foreshadowed in the 1973-74 Budget, the private company rate was to be increased from 45 to 47½ per cent to bring the private and company rates together.

The Government has now decided that the rate on public and private companies in respect of 1973-74 income will be 45 per cent instead of 47½ per cent. The public company rate will therefore be reduced to 2½ per cent below last year's level, and the proposed increase in the private company rate will not take place. The Budget proposal would have applied a common rate to public and private companies; that will still occur, but the common rate will be 45 per cent and not 47½ per cent. A consequential reduction will be made to the rate on 1974-75 income of a superannuation fund that does not observe the 30/20 rule. The 1974-75 financial year rate for taxable income of co-operative and non-profit companies in excess of \$10,000 will be 45 per cent in lieu of 47½ per cent.

#### Prices Justification Tribunal

I now turn to the continuing role of the Prices Justification Tribunal. Since the Tribunal came into operation in August 1973, it has played an important part in our efforts to curb inflation. I believe that it has been very effective in concentrating the attention of companies on the need to restrain cost and price increases. Companies with wage and other cost increases in the pipe-line are now finding that these increases are being examined more critically than they may have expected. There can be no doubt that the Tribunal has been successful in restraining prices below the level to which they would have risen if the Government had not established the Tribunal.

The inflationary problem is now more complex than when the Tribunal was established. Rapid inflation is now accompanied by rising unemployment and a falling away in the private investment on which economic growth and our continued prosperity greatly depend.

One of the problems is that, in considering new investment projects, business is concerned about the prospects of maintaining worthwhile returns, not just in the immediate future, but over the whole economic life of the investments concerned, subject, of course, to normal market risks. The rapid inflation that we have experienced has added to the uncertainties.

I am therefore writing to the Prices Justification Tribunal to indicate the Government's view that, in the present economic circumstances, it should now give particular attention to the problems of sustaining and stimulating an adequate level of private investment and of maintaining rates of return on capital which will induce the new investment required to maintain economic growth and employment.

The Tribunal will of course continue to act in accordance with its statutory responsibilities to ensure that prices are not set at levels which are higher than are properly justifiable and that companies are not passing on in prices avoidable increases in costs.

### Tax Inquiry

It is well known that rapid inflation has a distorting effect on the taxation paid by persons and, in some circumstances, companies. The Government recognises that companies can be adversely affected by taxation treatment of depreciation and stock valuations. The tax measures I have announced tonight are directed towards meeting a particular situation but, in the longer run, it is important that attention in depth be paid to the question of whether there ought to be any changes in our taxation system to take account of the effects of inflation. Accordingly, the Government proposes to appoint a panel to report, by May 1975, on questions relating to the effects of inflation on taxation paid by persons and companies. Membership of the panel and the detailed terms of reference will be announced at a later date.

The fourth group of measures which I wish to mention this evening involves support for particular industries where special problems are emerging. The Government is concerned to preserve employment opportunities whilst ensuring that these interests are balanced against the nation's longer term economic interests.

### Housing

The Government has decided to increase further the availability of finance for housing.

I mention that the Government has already approved no less than \$310 million for welfare housing purposes in 1974-75 and, after carefully reviewing the situation in Queensland, we have now agreed to provide a further \$8 million for welfare housing in that State. These funds, which include \$127 million to be channelled primarily through terminating building societies, are over 40 per cent more than those made available last year.

In the private sector considerable scope for increased lending for housing by the savings banks was provided in early September with the amendments to the Banking (Saving Banks) Regulations. At the same time the savings banks were requested to increase their loan approvals for housing.

These amendments have enabled the savings banks to increase substantially their lending for housing and, on present indications, loan approvals by the banks in the December quarter could be as much as 50 per cent higher than in the September quarter.



In addition to the stimulus being provided to housing activity in both the public and private sectors by these measures, we consider there is a need to further supplement the flow of finance for housing. Accordingly, we now intend to introduce legislation at an early date to appropriate \$150 million to the savings banks for lending for housing.

The detailed arrangements will be discussed with the savings banks but the funds will be provided directly to them by the Government on terms and conditions to be agreed with the banks. They will be lent by the savings banks on the same terms and conditions as apply to normal savings bank loans financed by the banks from their own sources. They will be available to men and women for the acquisition or erection of homes and for extensions to existing homes.

I should make it clear that we gave careful consideration to the possibility of channelling some of these funds through the permanent building societies. However, in view of the more even geographic spread of savings banks and for ease of administration, we have decided to limit the scheme to the savings banks. The permanent building society movement has the Government's full support in the role it is playing in providing home finance and we hope that societies will be able to expand lending from their own resources.

The purpose of the additional \$150 million is to provide an additional quick-acting stimulus to activity and employment in the home building industry. The funds made available to them under this measure will be used by the savings banks to increase further their rate of housing lending beyond the increased rate they have already been asked to achieve following the recent amendments of the Banking (Savings Banks) Regulations.

The measure will provide an appropriate additional stimulus to the building industry at this time. It is a short-term measure geared to current circumstances. The Government is determined, however, to avoid a return to the boom conditions which were beneficial neither to the community nor to the industry.

Home builders can plan ahead with confidence that the Government intends to ensure that loans will be available to home purchasers and that the significant increase in take-home pay, particularly from home interest tax deductibility, will enable purchasers to service their loans.

### Motor Vehicles

The Government has been considering the long-term future of the motor vehicle industry for many months. The public debate and inquiry has been more open and intensive than any other industrial decision making process.

I am pleased to announce that the Government has approved in principle a long-term motor vehicle policy. In essence, the existing motor vehicle plans will be replaced by a single, simplified, lower content plan which will encourage longer production runs by both vehicle manufacturers and component producers. In addition, the Japanese motor vehicle industry has been invited to examine the new policy with a view to expanding its operations in Australia. As part of the long run policy and also because of the very high level of car imports (comprising over 40 per cent of registrations), relevant import duties will be generally increased by 10 per cent. These duties will be lowered again when imports fall to or below 20 per cent of registrations over a designated period. Details of the proposals will be announced in a separate statement.

This decision should have an immediate effect but I wish to emphasise that this effect will occur within the context of a long-term plan for the development and rationalisation of the industry.

### Textiles

The Government has paid particular attention to the present difficulties of the textile industry. It has established the Textiles Authority within the Industries Assistance Commission to examine cases, under the GATT arrangement regarding international trade in textiles, for restraints by countries exporting textiles to Australia. Following the Authority's first report in July, restraints have been negotiated for a wide range of knitted and woven apparel. I have just received the Authority's second report covering yarns, knitted fabrics and towelling and will announce action on this in the very near future. I expect to refer further textiles matters to the Authority later this week. At the same time the Commission is reviewing the whole of the long-term protective requirements of the Australian clothing industry. The textiles industry is, of course, vitally important to the economy of a number of country areas and the Government has recently announced a scheme of special assistance, including the direct payment of subsidies, to firms which have been affected by certain Government decisions.

### Beef

Another industry in which there is very great uncertainty at the present time is the cattle industry. We are aware of the very severe problems which have been caused by the closing off of many overseas markets. We are examining as a matter of urgency representations we have received from the industry seeking help for those producers who have been hardest hit by these developments. Any such assistance of course needs to be administratively feasible and directed to those least able to meet current problems.

### Loan Guarantees

The Government's adjustment assistance program is designed to assist firms to restructure their activities from uneconomic to economic areas of production. Loan guarantees are an integral part of the structural adjustment assistance measures announced on 23 April 1974. Like the Government's other structural adjustment measures, they are available to firms adversely affected by prescribed structural changes under the criteria announced on 23 April 1974.

It was the Government's original intention to introduce legislation providing for loan guarantees with the legislation to establish a Structural Adjustment Board. However rather than wait for the legislation to establish the Structural Adjustment Board, which will take some time to prepare, the Government has decided to introduce separate legislation providing for loan guarantees in the current Parliament session.

### Conclusion

The Australian Government fully recognises the crucial importance of the private sector in the development of Australia. It is not just the importance we attach to the private sector as the greatest source of employment. We are deeply aware that in a mixed economy such as ours the prosperity of the private sector is basic to the Government's social objectives. The program of social reform embarked upon by the present Government cannot be achieved without a strong and growing private sector. Nothing could be further from the truth than that we are anti-business or hostile to business; we recognise the interdependence of all sectors of the economy.

It is no solution to our current problems, as some would have it, that we cut Government spending. If we were to take such a decision now we would risk aggravating unemployment, not to mention undermining the confidence of that section of the business sector which depends on Government orders. A reduction of Budgetary expenditure would of necessity have a primary impact upon areas which provide demand for products of the private sector. Cuts in Government spending will simply aggravate our present problems. Our program of government expenditure has been achieved without excessive increases in the number of public servants. The staff ceiling control on the Australian Public Service will be retained in a modified form. This will be the subject of a separate statement.

Further, and it cannot be stressed too often, the quality of life in Australia - the real standard of living of all Australians - cannot be maintained, let alone raised, unless governments accept responsibility for community services which individuals can no longer provide adequately for themselves.

Mr Speaker:

The Government will have to maintain its close surveillance of the economy and retain its flexibility for the months ahead. We believe the new stimulus to the economy is appropriate to the problems we face. We must be wary of the possible re-emergence of excess demand pressures within our economy. The new measures announced tonight are designed to ensure that the private sector continues to grow.

Equally we believe these measures, building upon the continuing program expressed in the Budget, provide a sound basis for co-operation with all sections of the community and between all sections of the community in the undoubtedly difficult days which lie immediately ahead. The requirements of a mixed economy in a democratic society are never simple, never easy. The whole nature of such a society involves a tremendous range of competing choices in making decisions - the decisions made by government, the decisions made by organisations, the decisions made by individuals.

The pressures created by these competing demands are now world-wide. Not for the first time, an Australian Labor Government finds itself in power at a time of profound international difficulty. As in those other times, the spirit of the nation is as important to ultimate success as the policies of the elected government. Quite apart from their economic thrust, the measures I have announced tonight are aimed at strengthening the spirit of national co-operation and confidence, by showing Australians that they have elected a government firm and vigorous in meeting the challenges of our time - difficult times indeed, yet like all such times, a test for the essential great qualities of this nation, a test which together, Government, Parliament and people, I am confident we shall meet.

\*\*\*\*\*