



EMBARGOED AGAINST  
DELIVERY

## PRIME MINISTER

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### ADDRESS TO STATE PREMIERS

This meeting comes at a very critical time for Australia.

It is a time when those of us who head the governments of Australia have a serious responsibility to consider the nation's problems and to give a lead in their solution. We are currently facing the kind of economic crisis which many of us believed could not occur in Australia.

It is a crisis whose symptoms are the worst period of prolonged inflation in our history, the highest unemployment for 40 years and an apallingly high Federal deficit. It is a crisis which will require the determination of us - and great good will - to solve.

Our national priorities must be to beat inflation and reduce unemployment. A pre-requisite for reducing unemployment is to bring inflation under control.

It is appropriate that the governments of Australia should be meeting at this time.

The role of government - of all our governments - will be vital if Australia is to return to prosperity in a reasonable time.

One of the significant sources of our current problems has been excessive growth in government spending over the last few years. In a very short time there has been a massive shift

of resources away from individuals and companies into the hands of government.

For individuals, this has been felt in an increasingly heavy burden of taxation. For companies, this has been felt in an erosion of profits and hence in their capacity to create job opportunities.

The rapid expansion of government spending has helped to create quite unrealistic expectations about the availability of resources for government funded projects. There has been increasing neglect of the basic truth that choices have to be made.

Choices have to be made between expenditure by individuals, investment expenditure, and government expenditure. If expenditure in one area is pushed too hard the others break down.

Excessive government expenditure has led to inflation. If we don't recognise that choices have to be made, we believe we can have the world and not pay a price for it.

There are a limitless number of worthy projects government might support at any time. We cannot support them all. Too many politicians have acted as if choices do not have to be made - as if we can have everything we want at the same time. That is deceptive and cruel. It leads inevitably to disappointment and disillusion.

It occurs because of an unwillingness to face the truth that responsible government frequently involves hard choices, difficult decisions.

I am sure that all those here today have a very clear appreciation of the difficult choices that must be made.

Policies to control inflation must have as a central objective, containing government spending and the resulting huge deficits.

Only if the runaway growth in government spending is halted will the resources be available to expand lasting employment opportunities in the private sector once more. Only if there is continued moderation in the rate of inflation will there be the confidence in the private sector to expand job opportunities.

In the view of the Federal Government, which has the principal responsibility for management of the economy, we have reached a critical time of decision. Either we make a serious determination to expand job opportunities by controlling inflation or we do not. If we do not we will be failing in our responsibilities.

Since coming to office we have taken a number of measures to reduce government spending and to increase the chances that recovery occurs without adding to inflation.

We have introduced a major set of monetary measures to control excessive liquidity and further encourage investment, and announce a series of reductions in government spending - so far totalling \$360 million - for the remainder of this financial year. The review of spending is continuing.

A similar restraint on the part of all levels of government will be a major element in getting Australia moving again.

If one makes allowance for those parts of Commonwealth spending which represent transfers to the States, the total spending of the States and their authorities is about the same as - or even slightly greater than - that of the Federal Government.

In terms of final expenditures on goods and services the States in fact spend very much more than the Federal Government.

It is plain, therefore, that our joint responsibility to restrain government spending must have major implications for the States as well as for the Federal Government. As governments we all have an important role to play in the fight

against inflation.

Clearly, expenditure restraint in our own Budget will affect the States. I am sure you will understand that it will not be possible to transfer additional funds to the States this year, beyond those which have already been committed. There is simply no more to spend, given that we are confronting the largest Federal deficit in Australia's history. Further, with the same objectives in view, we cannot support any increases in the borrowing programmes of the States or their authorities.

At the same time, it is the very strong belief of the Federal Government that the States should have greater flexibility in ordering their own priorities. The excessive centralisation of power in the Federal Government has led to unnecessary duplication in administration.

Excessive centralisation has made it more difficult for the States to respond to local needs as they see fit. The attempt of the Federal Government to direct in detail State and local programmes is part of the same attitude of mind which has led to the attempt by Government to control more and more of the nation's resources.

Both reflect the view that all wisdom resides in a few at the centre. We are now suffering the consequences of this attitude. We intend not merely to encourage individual and company activity. Our aim is to strengthen the independence and flexibility of State and local Governments.

We will be examining the possibility of absorbing specific purpose funds into general purpose funds, and of reducing the degree of Commonwealth supervision of detail in specific purpose grants.

The States will have the ability to provide the truly essential community services and facilities for which they and their authorities are responsible. In the longer term our policy on Federal-State relations amounts to a whole new philosophy of the relationships between the different spheres of government.

Each sphere of government should make decisions on matters appropriate to it. Matters of proper concern to more than one sphere should be decided through a process of genuine consultation and cooperation. There are many matters where the appropriate information, the readiest access to government by individuals and groups affected, the greatest opportunities for administrative efficiency and effectiveness, are in the local of State spheres.

In these matters local and State Governments must have the necessary capacity to act as they believe best. Federalism in Australia must be made to work. It is an essential feature of good and responsible government. The core of our approach is the principle of tax-sharing.

A statement is being circulated setting out in brief terms the essential elements of the scheme. We would like to receive Premiers' reactions to the basic elements of the scheme, as well as suggestions on particular points and procedures which might be followed to pursue the matter further.

I hope that at the end of this conference we will be in agreement on what the next steps should be. We want to act in this area as quickly as practicable, consistent with a thorough examination of all the complex issues involved. Our proposals, of course, include specific arrangements for funding local government on a guaranteed and continuing basis. We are determined to begin implementing a new scheme for local government assistance in 1976.77.

The necessity of improving relations between the levels of Government will be further met by the establishment of the Council for Inter-governmental Relations.

I confirm our committment to the establishment of this body.

It is high time that government put its house in order. It is up to us to give the lead in restraint. But government alone, without the whole hearted support of the people, will not be able to restore prosperity. Restraints in government must be matched by restraint in the rest of the community.

Last week we were confronted with a very difficult decision in the face of the huge increase in the C.P.I. in the December quarter. After considering all the issues we decided, in the grave economic conditions that exist, we had no responsible choice other than to argue that the commission should not carry through into its awards at this stage, the large prices increases which have occurred. We expected to be criticised for this decision - and we have been. It was a very difficult decision.

We have concluded that a revival of confidence among both consumers and private enterprise depends principally on bringing inflation under control. Consumer spending will revive when people are confident that inflation is under control. Passing on the full price rises of the December quarter will only lead to further uncertainty about the direction of the economy - about our capacity to control inflation.

The very things stopping businesses from investing are the same things discouraging people from spending - anxiety about the future. Australians have seen every increase in wages in recent years eroded in turn. They are not deluded into thinking that yet a further turn of the spiral will really make them better off.

The previous government attempted to revive consumer spending by tax concessions, without success. It is no use applying the criteria and judgement of 1930's Keynesian theory to the economy of 1976. The problems are not the same. The remedies cannot be the same. We will do whatever we believe is necessary to over come inflation.

I believe the Australian people recognise the seriousness of the situation and that they will support us.

They will know that - difficult though the decision was - we have acted in what we believe are the best interests of Australia. The Treasurer will shortly give a detailed account of our reading of the economy and our response to that reading. We will welcome your own views.

I know discussions at this conference will - as usual - be frank and to the point. As the structure of relations between the levels of government changes in response to the reforms we propose the importance of this forum will grow. I welcome the opportunity at this critical time to discuss with you the condition of Australia and to hear your views. The governments of Australia have an opportunity now to provide a lead to the whole community.

The Federal Government has principal responsibility for the management of the Australian economy. The performance of that task can be influenced by what happens at Premiers' conferences. Often in the past we have pulled in opposite directions, with governments pursuing their particular interests, at times for funds on their own account.

I hope through our policy on Federal-State relations, to change the nature of these conferences so that we can more effectively concentrate on advancing the well-being of all Australians. Neither we, nor you, are the masters of the people we presume to govern. We are their servants.

Whatever our political philosophies - and this should not be a partisan or party forum - we can recognise that the well-being of Australia must be our primary concern, not the glory or power of our respective governments. We must put ourselves in a position to advance the cause of Australia, whatever our political party. That is our determination, our objective.

I know that all of you will join us in the objective. In this