



~~195~~

18

## PRIME MINISTER

FOR PRESS

OCTOBER 27, 1976

### ADDRESS AT THE HOBART PRESS CLUB

From time to time, it is useful to set the daily rush of events into perspective - to review the ground we have covered and what lies ahead.

I would like to take this opportunity to talk about the national perspective which has guided the government in its policies this year and which marks out our future course.

There is increasing evidence - still early and tentative to be sure - that the fight against inflation is being won. That fight is still a long way from being over, but we can take heart from the signs of progress, which are now emerging.

The gains that have been made have been hard won, and we must not throw them away. Inflation is the greatest single threat to jobs, to savings, to the young, to the retired, to the poor. It is the greatest single threat to individual security. Until it is under control it will remain a threat to our national future.

That is why, throughout this year, we have given top priority to the attack on inflation - so many of the other objectives we all have for ourselves, and for Australia, depend on success in that.

The successes so far achieved have been won through the restraint of all sections of the community. Government has lowered its demands so that resources can be freed to the productive private sector. I believe there has developed widespread appreciation among the great majority of wage and salary earners, and rank and file trade union members, that by restraining wage demands costs can be contained and more jobs created.

Such restraint is frustrating in the short term but it is the best possible guarantee that real growth in production will take place so that real wages will start rising again.

A new wages spiral - such as the one provoked by the Labor Party during its term of office - will ensure that inflation will revive and consequently unemployment will remain high, recovery will be delayed and uncertainty and insecurity will continue.

.../2

This restraint has made possible the introduction of full personal tax indexation.

This year, the tax reduction under indexation for a taxpayer with dependent spouse on average weekly earnings is \$4.60 per week. Next year, tax indexation will mean a further reduction in tax compared to 1975/76 rates. Just how much will depend on the rate of inflation.

At 12% inflation next year, the saving for this same taxpayer would be a further \$3.96 per week compared with this year, and \$10.60 per week compared with the 1975/76 rates. At 6% inflation, the taxpayer with a dependent spouse on average weekly earnings, would be paying \$7.50 per week less than if 1975/76 rates still applied.

This year personal tax indexation is worth \$990 million to Australian taxpayers. By next year taxation revenue will be some \$2 billion less as a result of indexation adjustments. It is an important aspect of our total attack on inflation.

In setting this year in perspective it is very important that we understand why Australia has suffered so high a rate of inflation and why unemployment is so high.

The fundamental reason was a particular approach to the role of government in our society. The nation's leaders know - or ought to know - that at any one time the wealth of Australians is limited - if more is spent in one direction, less is available to spend in another.

What happened in the year 1972-1975 was that this basic reality was ignored. There was a massive transfer of control over national production to the government. In one year federal government spending increased its share of gross domestic product from 24 to 30 percent. At the same time the government encouraged massive wage claims among those organised into strong unions.

The Whitlam Labor Party encouraged grossly exaggerated expectations about what government could do, failing to tell the country about all the hidden costs which have now become apparent.

All that money the Labor Party collected in ever higher taxes had to come from somewhere - all that money that went into excessive wage claims had to come from somewhere. It came out of the savings of the retired; it came from those on fixed incomes, those not organised into strong unions; it came - as the poverty report points out - by depressing further the condition of the poor; and finally it came from the earnings of private enterprise which were needed to provide jobs. At the end of Labor's term in office, despite large increases in the number of people looking for jobs, there were no more jobs in private enterprise than there had been three years before. Inflation, in part through the above mechanisms, had destroyed job opportunities.

Perhaps the most shocking aspect of this experience is that there were not more vigorous protests about what was happening at the time.

How could this happen? I suggest the reason was that over the years we in Australia - and people in other western countries as well - had lost sight of some basic realities about government and our way of life. We began to take it for granted that the economy would keep on producing more and more, regardless of what anyone did - two decades of prosperity made it seem as if growth would go on forever. After years of slowly rising government spending too many began to assume that the way to solve all problems was simply to increase government spending a bit more - it didn't seem credible that more government spending could actually be counter productive. The further idea grew up that any worthwhile activity was entitled to support out of public funds, and that public funds were so vast that it wasn't necessary any longer to set priorities.

The result was a doubling of the size of the federal budget in three years, a huge increase in the number of people employed by government, a tax burden which increased by 20% on the person on average earnings, an economy producing less rather than more, and an increase in unemployment of 180,000 in one year.

An economy which has historically coped better than average with inflation, turned in one of the worst performances of any industrial country. Certainly there was world wide inflation but since the Second World War the changing structure of the Australian economy had improved Australia's capacity to absorb overseas economic fluctuations without large domestic effects. Our export base had broadened; unlike most OECD countries we were spared any significant direct impact from the large rise in oil prices overseas.

Inappropriate domestic policies were the principal cause of the economic setback we suffered. Moreover, it became very obvious that government couldn't keep growing bigger without also becoming more powerful. Power became more and more centralised in Canberra. As government took an ever-increasing proportion of people's earnings, people began to realise they were gradually losing control over their lives and becoming more and more dependent on what politicians chose to provide.

Throughout the western world there has been a fundamental reappraisal of the course that has been taken. The path of rising taxation, expanding bureaucracy growing regulation and centralisation of power is no longer seen as the path to a better life - it is more clearly seen now for what it is: the path to a 1984 kind of society.

It is widely recognised now that government spending which becomes too high too rapidly, simply feeds inflation and unemployment - more spending makes the problem worse, not better.

Virtually all major countries have now proposed reductions in the rate of growth of central government spending between their last fiscal year and their present one. In the United Kingdom from 28 to 17%; in Canada from 19 to 13%; in Germany from 19 to 4%; in New Zealand from 29 to 5%; in the United States from 13 to 11%; and in Australia from 23 to 11%. As I said earlier there are now clear signs that this strategy is working.

But beyond the present crisis there are some fundamental questions we need to answer as a nation. We cannot simply take up once again, the attitudes we held before this crisis - because those attitudes - the ones I have mentioned - were significantly responsible for the problems we now face.

Take the attitude I mentioned towards government spending. In recent years, government has been able to spend on many things because inflation brought a vast unlegislated windfall to revenue. Inflation produced hidden tax increases each year which helped supply the funds for these programmes. It is just not possible to keep increasing the tax burden without significantly affecting incentives - and expectations and policies based on the assumption that taxes can be raised indefinitely must fail.

The approach we have seen in recent years is not a viable approach for the longer term. Indeed, taken to the extremes of the last few years, it is not even a viable approach in the short term. It is the easiest thing in the world for a politicians to promise some great new scheme of government spending. No such promise can be made which does not have to be paid for by the work and effort of the Australian people. It is time we looked with scorn at the politician who promises expensive panaceas for all our national problems - who acts as if government revenue were manna from heaven rather than the product of labour and effort.

Every promise to spend must be backed by the energy, the initiative, the capacity to create of the Australian people. The politician produces nothing himself - he relies on the work, the product of others.

In the end our standard of living as well as our capacity to introduce new government programmes, depends on how much we produce ourselves, by our own efforts - on how hard and how well we are prepared to work. Japan has few natural resources - she imports her coal, her iron ore, much of her food. Yet the Japanese people have guild their nation into one of the most prosperous in the world.

Australia has great natural resources - massive reserves of coal, iron and other minerals; huge areas of fertile land for primary production. We perhaps need to ask ourselves where we would be without these resources - what our stand of living would be - what our capacity to help poorer countries would be.

The only way we can pay for major new social programmes, to help those in real need at home and abroad, is to produce more. Producing more doesn't necessarily mean working harder. It means working better, more effectively; it means improved organisation better relations, between labour and management; it means better use of equipment, better training.

If our national production had grown in the last two years at the average rate of the previous decade, our G.D.P. would be \$3,000 billion larger in real terms than it was in that year.

We would be that much more able to offer assistance than we are now. Since our wealth as a people tends to rise in real terms by an average of about 5% per year, this is the limit of viable average increases in Government spending. If we want Government to spend more without inflation, we have to produce more.

This requires a much more reasonable set of expectations than some have evidenced in recent times. It is not the Australian people who have been unreasonable, but politicians - politicians who have either not understood the consequences of their own actions or have deliberately misled the Australian people about what they - the politicians - could provide.

---

Moreover, we should certainly not take it for granted that in any year a real increase in government spending is desirable. There are clearly occasions when it is desirable to hold the real value of government spending constant, or even reduce it so that reductions in taxation can be made.

We must not allow ourselves to get into the situation where taxes can only be increased - never reduced. It will always be possible to point to problems where more government spending could help. What needs to be kept much more clearly in view than in the past is that people tend to know their own needs much more clearly than government ever can. Proposals for more government spending have to be measures against their impact on the independent capacity of people to meet their own needs most effectively.

A willingness to make vast promises is not a mark of social responsibility. It can be most irresponsible if the cost is a further erosion of people's capacity to meet their own needs in the way they think best.

Personal independence or autonomy is not something to be taken lightly. It is one of the most important foundations of self-respect and at a social level, it ensures that people are able to give effect to their real priorities and not priorities which a few politicians determine for them.

This point was made very strongly by the poverty report. It said:

"An adequate income is fundamental to a person's security, well being and independence. It enables him to provide housing, education, food transport and other essentials for himself and his family.

An adequate income allows him freedom of choice and freedom to participate in activities of his choice."

Government spending which is too high erodes freedom, independence and security. As we have seen only too clearly, people do not necessarily become - or feel - more secure simply because government is spending more.

That is why, for example, in the welfare area we are stressing reforms which are aimed to help those in need with the independence and opportunities those on higher incomes have long enjoyed. This is in accordance with the principles of the poverty report, but quite contrary to the Labor Party approach which emphasises vast costly universal schemes which inevitably mean less for those in real need. The radical family allowances scheme we introduced earlier this year - one of the most important welfare reforms since federation - shifted assistance to families towards those in most need.

Over 300,000 families and 800,000 children who were debarred wholly or partly from benefiting from the rebate system, are now being assisted by the family allowance. The family allowance scheme does not add to bureaucratic overheads, and it places money in the hands of people. It does not increase their dependence on the government, but lets people make their own choices about what their needs are and how best to meet them. It is a scheme which both assists the disadvantaged and increases their independence.

The same approach underlies the housing allowance voucher experiment we have initiated. As the Treasurer said in his budget speech:

"Should the experiment prove successful, implementation of such a programme would give low income families the financial means to select their own rental accommodation on the open market.

It would provide a new mechanism to make welfare housing sensitive to the needs of the users.

It takes into account the view of the Commission of Inquiry into Poverty. "

Protecting the security of individual income against ever rising government spending requires that we continue our concern with the scope, structure, and efficiency of the government sector.

This year we have set the course by a number of major measures. We have reduced the size of the Federal Public Service significantly, and will be continuing this policy through this next year. Under guidelines now established the Federal Public Service by June next year will be thousands lower still than the levels projected under the Labor guidelines for 1975-76. As you will be aware, we have also begun a major decentralisation of government power and functions through the Federalism reforms.

Hobart, of course, has an important place in these reforms as the location of the Advisory Council for Inter-Government Relations.

Working under the Premiers' Conference the Council is expected to make through its studies a valuable contribution to the efficient operation of Government in Australia. The Federalism policy reflects an entirely different attitude to the important regions of Australia. It is an historic reversal of the trend towards centralism. A recognition that Australia cannot be a strong and prosperous country if its regions are neglected.

Before the election last year, we made a number of firm commitments to help the development of Tasmania.

Those commitments have been honoured. We undertook to introduce full freight equalisation for Tasmania in the light of the Nimmo Report. The scheme we announced - and which has been in operation since 1 July this year - goes beyond the Nimmo recommendations. The new federal financial arrangements will bring some \$4.7 million more to Tasmania than the old scheme.

We have been very much aware of the needs of Hobart following the bridge disaster. So far some \$24 million has been spent by the Commonwealth as a result of the disaster. Very substantial assistance will be made available this year as well.

The Commonwealth is also assisting in the establishment of the South West National Park through the provision of funds and through the Australian National Parks and Wildlife Service.

More important, our reforms will greatly assist Tasmania to meet its needs in the way Tasmanians think best. Australia this year, has set out on a new and exciting course.

We have a remarkable opportunity in Australia to try a new approach to many problems. Australia is a country with certain unique characteristics. Incomes are more equally distributed in Australia than in almost any country in the world. Australians, on the whole do deal with each other on a basis of mutual respect. Australia has never suffered the exploitation of more unequal societies. Australians are more educated, better informed than ever before.

This is a nation pre-eminently suited to the intelligent exercise of freedom and individual choice.

But restoring prosperity to Australia, enabling Australia to play the role in the world we would like her to play, depends ultimately on what we as individuals are prepared to do.

Our own efforts are going to be the main determinant of the kind of Australia we create. If we develop the attitude of trying to get as much as possible for as small a contribution as possible, Australia is never going to become the great country we know it can be. Such an attitude is neither socially responsible nor in our own interests as a people. We cannot evade our responsibilities by trying to leave it to the Government.

Governments alone cannot promise security - security for the elderly, the sick, the poor, those without jobs. Security must be backed by the productive wealth of the nation. Ultimately the security of all Australians depends on what all of us do. Any Government, any political party which fails to make that

plain is misleading the nation and evading its responsibilities.

Socially responsible action in these circumstances - action which builds a strong basis for individuals security - is action directed to helping us work more effectively.

That is reality. We have to fact up to it. I am confident that most Australians are well aware of this. It will be their efforts, in the end, that will make Australia a stronger and more compassionate society than it has ever been before.

000ooo000