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ECONOMIC DEBATE

We have had the Wran plan, the Hawke plan, the Whitlam plan, and now we have the Hurford plan - last but not least, in a long line of Labor plans to revive the economy that they did their best to destroy.

Never has the Labor Party more justly earned their label as the party of planning - one after another, they put forward facile plans, futile plans, foolish plans.

It would be hard not to have some admiration for the Opposition for through the multiplicity of plans, there is a consistency and strength of purpose. Their solution to every problem is to spend up big.

It is obvious that the Labor Party has once again panicked - as the Leader of the Opposition has now admitted they panicked in the last three months of 1974. "Of course we panicked", Mr Whitlam said on the 8 February. "The Cabinet panicked, the Caucus did, they did in the last three months of 1974."

Why did they panic - because of the effects of the 1974/75 budget. Alan Reid has discussed that budget making process very aptly. No wonder he is not the Leader of the Opposition's favourite journalist. The 1974/75 budget - as Reid describes it - "was not the product of considered overall policies. It was more like starving men surrounding a cooking pot, and under the eyes of an approving, and participating overlord, trying each to spoon out as large a share as possible, before the pot was emptied." (page 181)

That budget, which contributed so greatly to the present inflation and unemployment, was a high point in the application of Labor's consistent philosophy. In 1974/75 outlays rose by 46% in a single year, and the deficit from $293 million in 1973/74 to $2600 million - almost a nine-fold increase. Unemployment more than trebled, increasing by almost 200,000.

Average earnings rose by 22%, while GDP did not increase at all. The CPI rose by 17% - in the last quarter for which Labor was responsible it rose by 5.6%.

At the same time, business was squeezed and business and consumer confidence undermined. In the face of this situation the situation that they had created, even the short-sighted Labor Cabinet were caused to panic.

Mr Whitlam of course, with becoming modesty, omits to note that he had had the foresight to panic as early as July - leading the other members of his Cabinet and Caucus by two months.

As another of the chroniclers of the Whitlam years, Paul Kelly described the situation: After July 1974 "Whitlam became incredibly introverted... some people said he was sulking others said he did not want to intervene in the economic debate until he had a policy to espouse. Whatever the reason, Whitlam retreated to The Lodge for many weeks and his Government was left without strong leadership, in a rudderless condition, shifting from crisis to crisis, being discredited each day."

And what was the then P.M. doing at the end of 1974 when Caucus and Cabinet were panicking? He was dismissing Frank Crean because, as Treasurer, the Member for Melbourne Ports opposed attempts to raise money through Arab money lenders . He was ignoring the questions asked by the Treasury about raising money through unnamed intermediaries. And he was touring foreign ruins, to get away from the ruins he had created in Australia. On his December 1974 holidays he toured overseas for 35 days,at a cost of $497,449 for his personal party alone - exluding public servants.

The manifest failure of the Labor Party's economic policies when in Government have not stopped it from continuing,lemming-like, on its incompetent economic path. Large numbers of them went over the cliff at the last election - and the remainder of the Opposition is determined to follow them.

We thought that the best had come when the Leader of the Opposition trumpeted the Whitlam five-point plan. For once it didn't involve raising money from the Arabs and Iraquis - but it had everything else - cuts in sales tax, cuts in company tax, increased tax rebates, no Medibank levy.

The Leader of the Opposition advocated more government spending, more artificial employment schemes, full indexation and a variety of other schemes. In total, these would have added $1,000 million to the deficit.

This plan was soon forgotten, everyone realised that it made no contribution to solving our economic problems. This was not surprising. The Leader of the Opposition has told us he isn't very interested in economics.

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But not to be daunted, the Shadow Treasurer, hunted and haunted by the Shadow Minister for Defence, put forward the Hurford Plan. In the great tradition of Labor Treasurers, and Shadow Treasurers, the Member for Adelaide announced that he would launch a further big spending campaign accompanied by tax cuts. Under this scheme, Australia could look forward to another large and growing deficit, and an outsized expansion of the money supply to further fuel inflation. The Shadow Treasurer proposed to "allow the money supply to increase to the rate of inflation, plus growth."

He is thereby proposing an expansion almost identical to the one which so significantly fueled inflation in the Labor years.

From 1973/75 real gross domestic product grew at an average of 2% per year, and inflation at 16% per year - and the volume of money grew at 17%. It is obvious that the Shadow Treasurer has gone back to the policies which caused economic chaos, which caused inflation, which caused unemployment.

He is advocating the complete irresponsibility of the Labor years. The Hurford Plan advocates the resurrection of the artificial employment scheme that the Labor Government itself made the decision to abandon. The Hurford plan suggests that investment and depreciation allowances be abolished. It is clear that the Labor Party is in effect not only advocating policies which will fuel inflation, but which also stop economic growth. The tax increase that it involves would end the significant upturn in business investment in 1976. It would be a return to the position which existed under Labor. A situation in which growth stopped, and investment in plant and equipment declined two years out of three.

The "Plan" advocated that there should be a cut in indirect taxes. Here I am afraid even the Shadow Treasurer's otherwise iron-clad credibility is stretched rather thin.

The Labor Party, now the champions of reducing indirect taxes, in their three years increased their receipts from indirect taxes from $2.6 billion to $4.7 billion. Their last budget the much vaunted Hayden budget, greatly increased the average Australian's indirect taxes. The duty on a packet of cigarettes was increased by 6 cents; the duty on beer was increased by 4 cents a ten ounce glass.

Cuts in indirect taxes would compromise the fight against inflation for very little positive return. There is, however, one element in the Hurford Plan that I must admit I am attracted to, if only it were possible. The proposal that, while allowing an unrestrained increase in the money supply, a more aggressive approach could be adopted to selling government bonds without increasing interest rates. If the Shadow Treasurer can expand on how this could be done, he would dwarf all other economists past and present, and not only Australia, but the rest of the world would be in his debt - and we would not be slow to acknowledge his achievement.

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He could then rest on his laurels and do something easy - like inventing a perpetual motion machine.

The Hurford plan is as interesting for the things it omits, as for the things it includes. The subject that is not mentioned is wages policy. This leaves the disinterested observer with a number of possible conclusions to draw: Labor has no wages policy, Labor does not regard wages as relevant to a statement on the economy. Or are we to assume that the Shadow Treasurer disagrees with this aspect of the Whitlam Plan?

The Leader of the Opposition, as honourable members will remember, in his plan called for full wage indexation - a policy that would further fuel inflation. On a television interview towards the end of last year, however, the Member for Adelaide did not think full wage indexation was appropriate.

It may be, that in their usual gentlemanly fashion, the members of the Opposition have agreed not to inflame conflicts within their party by ignoring wages policy. The minor problem of wages policy aside the approach the Shadow Treasurer is advocating is the same approach that the A.L.P. adopted when it was in Government.

This approach which brought with it inflation and unemployment - a policy which brought with it increases in inflation, excessive increases in wages, increases in unemployment.

One thing must, however, be conceded to the Member for Adelaide - his almost disarming candor. In this morning's "Canberra Times" he conceded that "The dangers in Labor's approach is the possibility. of further prolonging of inflation." But as he continued: "The Labor Party Parliamentary executive was well aware of this when preparing the proposal."

What makes the Hurford Plan even more absurd than it appears to be on its face, is that it is made at a time when the indicators of economic recovery are firming.

Take inflation first. In the final year of Labor's administration calendar 1975, the rate (based on aggregate expenditure deflators) was 17.2%. In the half year ending September 1976 inflation was running at an annual rate of about 10.5%.

Consider growth. In its last year of office, Labor presided over the physical decline of most of the productive output of the economy. In calendar 1975 gross non-farm product fell. By September 1976 we had reversed that disastrous position. In the September quarter real gross non-farm product was, as shown in the national accounts, 7.6% above the level of the previous December quarter.

Private investment subject to the Government's investment allowance rose in real terms by 4.3% in the September half-year of 1976 compared with the previous half-year. This is the allowance which Labor says was "only marginally useful."

Since September there is evidence of further firming in production. In the December quarter, production of 23 of the 31 items for which statistics are available increased on a seasonally adjusted basis compared with the previous quarter. In the December quarter the value of approvals for factories shops, warehouses, and other business premises was up by 36% compared with the same period a year earlier. In December the value of retail sales was 13.5% above the corresponding month in 1975.

This recovery has seen the beginning of a reversal of the distortion of the profit-wage share which took place under Labor. When we took up office, the ratio of gross operating surplus of trading companies to gross non-farm product at factor cost was 12.4%. In the September quarter 1976, the ratio was 14.4% - still below the long run norm, but nevertheless in the process of recovering. There is, inevitably, a delay before these recovery trends are reflected in greater employment.

To begin with, companies shed less staff, then provide more overtime working for existing staff. But the decline in employment opportunities which was proceeding under Labor has been arrested.

Finally, we have laid the foundations for continuing sound expansion of production, investment and employment.

We have removed the arbitrary taxation bias introduced by Labor against the mineral industry, and the benefits in terms of heightened exploration, discovery and development are now being seen.

Labor killed off the search for oil in Australia at a time when further discoveries were vital to our future. I am glad to report that with the abolition of the $2 a barrel levy on oil from new discoveries and the tax incentives announced in the last budget, oil exploration has revived. Last year 21 exploration wells were drilled throughout Australia. This year the number is expected to be up to 44.

In the private sector we have encouraged investment not damned it and penalised it. Under the new exchange rate mining companies will enjoy better opportunities to maintain and increase their share of world trade in minerals. Manufacturing companies will similarly be in a stronger position to compete both on the domestic market and in international markets. Investment opportunities will continue to grow, leading to higher employment.

The policies underlying this improvement included a very deliberate reduction in the rate of government spending, the holding of the rate of increase in money supply to levels consistent with a progressive reduction in the rate of inflation, and a major reform in the personal and income tax systems based on indexation and cost of sales valuation adjustment.

The taxation reforms which we have made will amount to over $3000 million by the end of the second year of operation. Those who look to overseas experience and believe that other nations - particularly the U.S. and Japan - are moving ahead faster than us in the field of tax reform, should look at the facts clearly. No major tax reductions have been made or foreshadowed in Japan. The proposed but not implemented tax cuts in the U.S. the "once only" rebate are equal to less than $200 million if transposed to Australia.

Compare the $990 million saving to taxpayers we brought about with tax indexationin 1976/77 and the $1050 million savings anticipat for 1977/78. We have always been, and still are, the first to point out that the inflationary momentum built up into our economy through the Labor years must be removed before the expansion I have referred to can be regarded as having taken firm roots.

The Government is using the arms of economic policy to continue the fight against inflation and continue progress towards sustained economic recovery. Policy action is being taken in all major areas monetary, budgetary and wages.

The policy of monetary restraint we are pursuing has led to adjustments to Government security yields and raising the statutory reserve deposit ratio. Prevention of over-rapid expansion in credit will curtail inflation.

Selection controls on capital inflow are now preventing an inflationary surge of capital for non-essential purposes.

Fiscal restraint required further cuts in Government spending and a commitment to zero real growth in the next financial year. Public service ceilings will be reduced by a further 700 by the end of this financial year.

The wage restraint necessary to facilitate a reduction in the rate of inflation and provide jobs for all those who want to work will be pursued in the next national wage case.

As I have said, good progress was made through 1976. We are going to build on that achievement in 1977.