



177
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PRIME MINISTER

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ADDRESS TO THE ANNUAL NEW SOUTH WALES LIBERAL PARTY STATE CONVENTION

It is very good to be able to speak at this Liberal Party Convention so soon after this Government's second Budget has been delivered - a Budget which takes decisive and dramatic steps towards establishing the kind of Australia that the overwhelming majority of Australians want; a Budget that encourages the best efforts of all to endeavour to achieve in the knowledge that achievement will be rewarded; a Budget that assists the poor and the disadvantaged.

This Budget demonstrates beyond all doubt that our commitment to a fresh start, a new direction is being fulfilled. This Budget demonstrates that a responsible and effective Government can attack inflation - and at the same time it can aid the disadvantaged; it can provide people with greater freedom to make their own decisions about working, spending and saving; it can provide the greatest impetus to Australian's confidence in the future.

This Budget demonstrates the relevance of Liberal philosophy to Australian society. It underlines - if any underlining was necessary - the stark contrast between the philosophy of Liberalism, and the doctrinaire approach to the Labor Party - a doctrinaire approach which restricts individual choice, maximises Government control and stifles the energy and enthusiasm of Australians.

Some say that memories are short, but the disastrous Labor years are indelible. The Labor Party knows that the Australian people won't forget the damage the A.L.P. government did Australia. That is why the A.L.P. is pretending they have changed - that is why Mr Whitlam - of all people - is saying that Labor made mistakes; and that from now on they will be economically responsible.

Yesterday we saw what they meant by economic responsibility when Mr Whitlam, Mr Hayden, the Labor Party's economic manager, and Mr Hurford the Shadow Treasurer gave a press conference. Mr Hayden said that the Labor Party had no commitment to personal tax indexation, but Mr Hurford said that personal tax indexation was A.L.P. policy. Mr Hayden said that the Labor Party did not commit itself to our tax reforms, but Mr Hurford seemed to rule out the scheme entirely. Mr Hayden said that he could definitely calculate some figures, Mr Hurford said he couldn't.

That is the way they ran the Labor Government.

Labor are still the party of economic irresponsibility, higher taxes, higher inflation, higher unemployment. The evidence is there for all to see in Labor's latest excursion into economic irresponsibility - the economic strategy statement published here in Sydney a week ago.

That Labor document implies a deficit of \$3.5 billion, a 50% increase over the \$2.2 billion deficit we have budgeted for this year. They obviously want to get back to the deficits of the Labor years. They pretend that they can increase the deficit, lower interest rates and cure unemployment all in one breath. But to finance their deficit they would have to resort to the printing press again, and raise taxes and interest rates again. This would undermine the exchange rate, give a boost to inflation, provide no real hope for the unemployed, and put an end to growth and increased prosperity. Labor's "strategy" is quite simply a recipe for economic disaster.

Since our government was elected we have made significant progress in restoring the economy. After just 20 months in office inflation has been markedly reduced, real growth has been restored, the expansion of big government has been halted, and government spending has been contained.

These actions have made it possible progressively to reduce the burden of taxation. Indexation announced in May last year stopped the big tax rake off, it provides a cut in tax on 1 July every year to protect against inflation; the investment allowance and the stock valuation adjustment reduced tax payable by companies .

All in all, last year's tax reforms put \$2000 million extra in the hands of individuals and businesses. In addition, last year saw greatly improved social security programmes - automatic indexation is now protecting pensions and benefits against inflation; the family allowance scheme is the largest and most effective single innovation in our welfare system for many years.

Our second Budget has consolidated on these achievements and represents a further major step forward. First and foremost the Budget will further advance our fight against inflation. The deficit for the second time has been reduced by over a half a billion dollars - government expenditure has been contained to around zero growth in real terms.

Because we have exercised stringent control over government expenditure, we have been able to introduce revolutionary reforms to the personal tax system.

The government had a choice to make - whether it would spend more on its own programmes, or whether it would provide tax relief for people. We chose to help people.

Our tax reforms directly reduce the tax payable by every taxpayer. They constitute a most far-reaching overhaul of our burdensome, complex tax system; they simplify the tax scales; they restore incentive to work harder and more productively - and to earn more; they give people the power to decide how a greater part of their income is spent.

As from February 1, there will be just three tax rates. By raising the tax threshold 225,000 additional taxpayers including many pensioners, students, and other low-income earners will pay no tax. A single person earning less than \$3750 will pay no tax; and a married person with a dependent spouse earning less than \$5485 will not pay tax. 90% of taxpayers will pay only the standard tax rate of 32%. These taxpayers will no longer be subject to escalating marginal rates, until their income exceeds \$16,000. They will all, in effect, have the benefits of tax averaging, which will protect them from the disadvantages associated with fluctuating incomes.

The reductions in tax resulting from tax indexation and our latest reforms are very substantial. For taxpayers with a dependent spouse, earning \$7,000 a year will save 33% in tax; earning \$8000 a year, will save 25%; on \$18,000 a year they will save 20% in tax.

The benefits to taxpayers of the reformed tax system being introduced on 1 February next will be \$406 million in 1977-78. This is in addition to the further benefits of \$965 million brought by this year's tax indexation. In total this year, therefore, the benefits to taxpayers from tax indexation and the tax reforms will be \$1371 million.

In 1978-79 the benefits to taxpayers from the tax reform will be \$1390 million, plus a further \$467 million from tax indexation - this adds up to \$1857 million.

Had there been no new tax reform the benefits to taxpayers would have been \$973 million less.

Because these tax reforms have been achieved within a budget which further strengthens the fight against inflation and significantly reduces the deficit, circumstances are also conducive to a much-needed fall in interest rates.

Other features of this budget are that it announces moves towards an energy pricing structure which should encourage the search for new energy sources and ensure greater efficiency in the use of existing resources. The total effect of the increase in petrol prices on the C.P.I. is estimated at 0.9%, and this effect will be spread throughout the year.

The Budget provides for a small increase in company tax to help finance the reform of the personal income tax system. Company incomes have risen rapidly over the last two years, and the estimated yield of \$203 million from the company tax increase is small compared with the \$600 million which companies gain this year from concessions introduced in 1976.

It should be noted that the Federal Government has not raised indirect taxes this year in a way which will have heavy impact on the December quarter CPI. We expect the States to follow this lead.

The increased allocation from the Commonwealth this year - the 14% rise in untied grants and loan funds to the States and the 18% rise in grants to local government provide adequate scope for them to hold their charges.

The budget provides over \$100 million to fund employment training programmes designed particularly to alleviate youth unemployment. These programmes have achieved an encouraging degree of success and so far a total of 101,000 people have benefitted from them. If necessary, we will increase our spending on these employment training programmes over the year - because we are determined to assist every eligible applicant who seeks support under any one of these programmes.

The Budget reflects our philosophy of providing effective assistance to the underprivileged and those most in need.

While government spending overall has been kept under tight restraint, every social security benefit and pension has been protected. There also is a very large boost in special assistance to the handicapped. The terms of eligibility for assistance have been liberalised, and spending will increase 33% on last year.

Our historic reform introduced last year of family allowances continues to assist directly all mothers in our community, and overall expenditure on programmes of direct assistance to Aborigines is up almost 10%.

This Budget charts the course for a further expansion of the economy during 1977-78. Gross Domestic Product is budgeted to grow at a moderate rate over this financial year.

As the year progresses and the government's policies bear down further on inflation activity will strengthen further.

This will be assisted by the large increase in everyone's disposable income flowing from the reform of the personal income tax system. This opportunity for further economic progress and a greater reduction in inflation will in large part depend on moderation in wage increases.

The Government has consistently argued before the Arbitration Commission for substantial wage restraint. Yet in the financial year just ended, the rise in average weekly earnings outstripped inflation.

It is essential that a firmer line is taken in moderating wage rises. This is the fastest way to reduce inflation and restore employment opportunities. The tax cuts we have introduced should greatly assist in achieving this moderation.

We heard a lot earlier this year from union leaders who said that they would exercise restraint in wage claims if tax cuts were made. Well substantial tax cuts have been made, and union leaders should think hard about the statements they made earlier this year. They have a major responsibility to ensure that wage claims are kept to a minimum. A sense of responsibility is vital for the success of the national fight against inflation, and it is vital to prevent further unemployment.

As a recent survey showed, large wage rises compel businesses to reduce labour or obtain supplies from overseas. A wage rise may seem to confer a short-lived benefit on those employed, but it is of no use to those who become unemployed as a direct result. A responsible union approach to industrial disputes is also vital. And we have legislated to bring greater justice, common sense and consultation to industrial relations. We have established the Industrial Relations Bureau, and the National Labour Consultative Council. We have legislated to provide for secret postal ballots for the election of officers of unions registered under the Conciliation and Arbitration Act, and to limit their term of office to four years. We have amended the Trade Practices Act to ban damaging secondary boycotts by employees which do not concern disputes over conditions of employment. Our firm but fair Industrial policy has achieved a significant reduction in the level of industrial disputes.

This year, we have had by far the lowest level of industrial disputes this decade. During the first five months, 559,000 working days have been lost, compared to almost 4 million days lost for the comparable period in 1974. But that is no cause for relaxation of our policies.

We will not stand idly by while industrial stoppages continue to damage our economy and cause grave inconvenience to the general public, particularly when these stoppages involve the Commonwealth's own employees, such as the Sydney postal workers.

Yesterday we introduced into the Parliament the Commonwealth Employees (Employment Provisions) Act 1977. Its purpose is to enable Commonwealth Government employing authorities, in the public interest, to suspend from duty, or in appropriate circumstances dismiss, government employees who take industrial action which disrupts the provision of services to the Australian community; and stand-down without pay government employees who cannot be usefully employed as a result of industrial action or who are engaged on functions, the performance of which is seriously disrupted. The Government firmly believes that these powers are in the national interest.

Many private employers already have far wider powers to stand down employees than the new Act provides, for the Arbitration Commission and various State arbitral bodies have in many cases inserted in awards automatic stand-down provisions.

These provisions typically enable employees to be stood down if for any reason beyond the employer's control there is inadequate work available. The new Commonwealth Bill is limited to work being unavailable because of industrial disputes.

The new Bill provides essential additional powers to the Commonwealth which are neither unusual nor unreasonable. And after all, unlike a private employer, the Commonwealth has the additional responsibility of looking after the public interest.

We hope that it will not be necessary to use this legislation and we intend that the Bill will be passed by the Parliament but not be proclaimed to operate unless circumstances so dictate.

As a result of events of the last day or two, the A.P.T.U. Federal Executive directed that the New South Wales Branch lift bans. Members are going back to work.

The great majority of Commonwealth employees and unions have behaved responsibly. This legislation is directed at the small irresponsible minority.

The feature which distinguishes Government employees is their responsibility for providing services essential to the operation of our community. The Government will not tolerate these services being disrupted.

The Budget brought down last Tuesday offers to Australians the incentive to work harder and increase their earnings; the prospect that the ravages of inflation will be reduced; the benefits of an expanding economy; and at the same time the provision of effective assistance to those most in need. It is a Budget we can be proud of.

It's no wonder that the Labor Party is so desperately trying to confuse the public about the facts. Before the Budget they tried to frighten the old and the weak by saying that there would be cuts in social welfare payments to individuals.

Now that these fears have been dispelled they are trying to deceive the public about our tax reforms.

It's up to all of us to make sure they don't succeed in their campaign of deception - facts are more powerful than deceptions, and the fact is that by a single decisive stroke of policy, the Government is able to provide all Australians with the assurance that endeavour will be encouraged, that skills will be worth acquiring, that initiatives will be worth taking and that effort will be rewarded.

COSTS TO REVENUE OF REFORM OF THE TAX SCALES

<u>TOTAL REVENUE COST - REFORM OF TAX SCALES AND INDEXATION</u>	<u>REVENUE COST - INDEXATION ALONE AND NO REFORM OF THE TAX SCALES</u>	<u>ADDITIONAL REVENUE COST OF BUDGET TAX MEASURES (a)</u>
\$M	\$M	\$M
<u>1977-78</u>		
Indexation	965	
Reform of tax scales (effective from 1 Feb. 1976)	406	
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Total	1371	965
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		406

<u>1978-79</u>		
Indexation	467 (b)	
Reform of tax scales	1390	
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Total	1857	884 (c)
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		973

1979-80

Full indexation will apply

Summary: In 1977-78 as a result of the reform of the tax scales, the additional costs to revenue (over and above the cost of full indexation) will be \$406M.

In 1978-79 as a result of the reform of the tax scale, the costs to revenue will be \$973M greater than they would have been in the absence of reform, but with full indexation.

- (a) These figures are given in the Budget Speech on page 20.
- (b) The amount of \$467M represents full indexation of dependant rebates and half indexation of the rate scale.
- (c) The amount of \$884M is the cost of full indexation of dependant rebates and the rate scale.