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MR WHITLAM'S ANTI-INFLATIONARY POLICY

We have now had over a week to asses Mr Whitlam's economic policies. Plenty of time has gone by for him to explain them, to cost them, to tell us how they would work in tackling the major economic problems facing our country. There has also been time for me to look closely at his proposals.

I now want to give my considered view on his anti-inflationary policy.

One would think that Mr Whitlam would have given the highest priority to this subject, for it was his failure on this point which led to the collapse of his other major economic policies when he was in government in 1972-75.

In fact, Labor's anti-inflationary policy receives only brief mention in Mr Whitlam's speech, and even that mention is misleading.

He claims that the abolition of payroll tax on companies would be reflected in price reductions on the goods and services produced by companies, and would mean a "reduction in the Consumer Price Index of up to two percent a year" (stress supplied).

That is his key statement on inflation, brief though it is.

My first point is this: if his proposal were to lead to any price reductions, the effect would be once for all, in the first year of the payroll tax reduction. It is quite misleading of him to suggest that this possible short-run reduction would lead to a permanent reduction in the rate of inflation. In other words, this proposal is not an ongoing anti-inflationary policy at all. It is an attempt to find what no other country has found or will find: a once- and-for-all quick "fix" to inflation.

My second point is that even in the first year of operation of such a proposal, the first-round effect on the Consumer Price Index - before other effects offset this impact - would be much less than 2 percent.

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A figure as large as 2 percent could be arrived at by assuming that the reductions in business costs were fully passed on in price recutions. This is obviously an extreme assumption - and would mean, among other things, a squeeze being put on those, predominantly small, businesses that would not benefit from payroll tax abolition.

At the other extreme one could assume that businesses would seek to use the reduction in costs to boost profits rather than to pass it on in lower prices. The more that this happened the less would be the effect on prices.

But even if there were some direct effect on prices, this is only part of the story. Mr Whitlam proposed a "package deal", with the 1977-78 Budget income tax reductions being "traded off" in Mr Whitlam's words, for the abolition of payroll tax.

This would have one immediate indirect effect on prices. It would no longer be possibleto expect wage restraint in exchange for the tax cuts.

Moreover, the "trade off" in terms of government revenue is far from a balanced one. The net cost of the Budget's personal income tax cuts in 1977-78 is estimated at $400 million - that is, $450 million less than the cost of abolition of payroll tax for the half year. This $450 million could be mostly met by effectively abolishing tax indexation for the rest of the year or by putting up the rates of tax. Alternatively, it could be added to this year's deficit, in which case it would come on top of the addition which Mr Whitlam is already proposing, of between $500 million and $800 million.

For 1978-79, there would be a similar effect. The cost of the abolition of payroll tax would exceed the increased personal income tax collections by a further $430 million. Again, this could be met by the abolition of tax indexation. Alternatively it could be met by additions to the deficit.

Mr Whitlam has not said what he would do about these additions to the deficit, if that is what he proposes. These additions would be over and above what he has admitted to.

We are thus talking about the possibility of very large expansions in the deficit - with, presumably, epxansion in the money supply of similar order. For examples, unless he is to abolish tax indexation, on the basis of his known plans, Mr Whitlam would appear to be contemplating an increase in the Government's planned deficit for 1977-78 in the order of one-third to one-half. That cannot be regarded as fiscal responsibilit

Quite apart from the long-run effect of such action of pushing up prices, there are the short-rum effects of killing confidence and raising inflationary expectations. On top of this is the apparent Labor wage policy of supporting a high level of wage indexation. Mr Whitlam has not addressed himself to these questions.

I must conclude therefore that Mr Whitlam has no on-going anti-inflation policy. He has no policy at all on this fundamental question. He has only tried to trick people that he has one, through deceptive drafting in his policy speech. Moreover. if there were any short-term, once-and-for-all effect on the Consumer Price Index through the abolition of payroll tax it would be much less than 2 percent and would quickly be undone by the build-up of inflation resulting from the expanding deficit and money supply.