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CHECK AGAINST DELIVERY



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PRIME MINISTER

FOR PRESS

12 SEPTEMBER, 1978

BUDGET DEBATE

The Budget which the Treasurer has brought down is a Budget of responsibility and vision - a Budget which has accepted the need to take difficult decisions because this Government recognises that failing to take these decisions would squander our hard won gains in reducing inflation and interest rates and end the progress towards economic recovery.

This is a Budget in which the long-term interests of Australians have been placed above any consideration of short-term political advantage.

The strategy which guides it is the one which this Government has consistently pursued since being elected: a strategy to revive the private sector and put Australia firmly on the path to long-lasting real growth; a strategy to make our industries competitive, tough enough to compete successfully in world markets; a strategy to achieve low inflation and high prosperity.

The only path to lasting economic growth lies in achieving the essential pre-conditions for growth. The maintenance of fiscal and monetary stability and a responsible approach to wages will bring lower inflation, lower interest rates and increasing confidence by investors, both local and overseas.

Essential to the achievement of all of these objectives was a lower deficit. We therefore had to continue our restraint of Government expenditure and make sure that Australia's taxpayers would receive full value for their tax dollars.

By rigorously scrutinising every programme, we held down the rate of growth in Government spending to 7.7 percent, the lowest for a decade. But beyond this, the low deficit demanded by economic responsibility required an increase in indirect taxes and the introduction of a temporary increase in income tax.

We took that course because we were determined to act responsibly in the long-term interests of this country, and because we did so, this Budget will strengthen the confidence of investors, employers and consumers. They know that this Budget will drive inflation down further.

Inflation at an annual rate of 5 percent is within our reach by mid-1979. This means that we will have brought our inflation down much faster than most O.E.C.D. countries in the last three years. It will also mean that, once again, Australia's inflation is significantly below that of the O.E.C.D. average. What we are determined to do is lower our inflation further.

In a world in which competition for private capital and overseas investment is intense and international trade is weak, it is essential that Australia stand out as one of the few strong economies in the world. This means we must have low inflation. We must extinguish for good the fires of inflationary expectations. Only in these ways can we earn a growing share of world trade, and attract increased investment capital from overseas leading to increased employment.

The Government's approach was wholeheartedly endorsed last week by the Secretariat of G.A.T.T. in its Annual Report. The Report said, and I quote: "The inescapable conclusion is that the industrial countries can only move towards increased growth and employment -- and towards sustainable payments positions and more stable exchange rates, by reducing their inflation rates to the levels experienced until the mid-1960's".

With lower inflation our industries will get a larger share of domestic markets, and an increasing share of export markets. Domestic and overseas investors will both be encouraged and with the increasing competitiveness of Australian goods and increased investment we will have more economic activity and more employment.

Our policies are based on a real concern for the unemployed, unlike those policies put forward by the Labor Party who try to use the unemployment issue for their political advantage, promising fraudulent, illusory cures for their own political gain.

We know that there is no quick or easy solution. We have the courage to stick to policies that will lead to lasting increases in employment and I would like to repeat the view of G.A.T.T.: "The inescapable conclusion is that the industrialised countries can only move towards increased growth and employment...by reducing their inflation rates to the levels experienced until the mid-1960's". What G.A.T.T. is saying in fact is that employment can only be improved if countries follow the kinds of policies adopted by the Government.

Some people have called for the fiscal stimulus of much higher Government spending. Today, this is not a realistic option. It would simply result in an acceleration of inflation, and the speedy withdrawal of overseas investors. Instead of taking this path of false stimulus, what we are doing is reinforcing the recovery process of the private sector by lowering inflation and hence lowering interest rates.

The Budget aims at providing a substantial sustained stimulus to the private sector in the form of further reductions in interest rates. Home buyers, farmers, businessmen, builders, consumers and investors will all benefit from this policy.

Let me demonstrate the advantage to home buyers. On, say, a home loan of \$25,000 being repaid over 25 years, each one percent reduction in interest rates will mean a saving in the order of \$17 a month -- or \$5,000 over the period of the loan. The 0.5 percent reduction achieved earlier this year presently yields a saving of \$9 a month. I am confident that it will not be long before further savings are available.

In the case of industrial companies raising debenture capital, the reductions in interest rates on new issues over the last year have been up to about 1.25 percent, thereby helping to contain costs and to stimulate investment.

The overwhelmingly favourable response in the Australian financial markets to the Government's Budget strategy should be clear to all. It is seen in the very large subscription of \$780 million to the August loan -- much the greater part of which has come from non-bank sources. This has set us well on the way to financing the 1978-79 Budget in a non-inflationary manner. It is another clear sign of market expectations of falling interest rates. The Budget has also renewed the confidence of the overseas business community in our economy.

On 21 August, at the notorious Sydney rally which dissolved into violence -- violence for which the Leader of the Opposition frantically tried to disclaim any responsibility, Mr. Hayden said that under this Budget business conditions will be much tougher.

Well, let's hear what the Australian Chamber of Commerce had to say on the Budget -- they're a rather more reliable source for estimating the Budget's effects on business than Mr. Hayden.

The Chamber said: "Business accepts the argument underlying the Budget, namely that inflation remains Australia's number one economic problem, and that the way to improve the employment situation is to reduce Government deficit financing and to give encouragement to private enterprise to expand...The smaller than expected deficit should ease the pressures on the money market, and help clear the way to lower interest rates.-- This should help stimulate demand for capital for housing and business."

It's clear that Mr. Hayden is wrong in his statement about this Budget's impact on the business community. But it must be said, in all fairness to the Honourable Gentleman, that he does concede the advantages of our new health arrangements.

In his alternative Budget, he endorses our changes. They greatly simplify the health system, provide basic universal health cover, help to contain health costs, give people a choice as to how they will meet their health expenditures, and protect pensioners and other socially disadvantaged groups.

Those in real need will not find this a harsh Budget. Expenditure on key programmes for the aged, handicapped, and children have recorded significant increases. To take only some cases: expenditure on aged, invalid, widow's pensions and supporting parent's benefits up by 11.5 percent to \$4,643 million; expenditure on subsidised pensioner housing is up 40 percent; assistance to organisations providing facilities for handicapped persons will rise by 37 percent to \$52 million. Increased funds are provided for the Commonwealth Rehabilitation Service and the Handicapped Child's Allowance is extended to students aged 16 to 25 who do not receive an invalid pension.

There is a sharp increase in funds, as a result of the Galbally Report, to meet areas of need in services for migrants. In Home Care for the Aged, even though the subsidy rate has been varied to meet greatly increased demand, total spending will still increase 14 percent to over \$10 million. That makes a rise of 83 percent in home care for the aged in the last three Budgets.

I have said that all taxpayers will be required to pay a temporary increase in income tax this year. Despite this temporary income tax increase, let me emphasise and demonstrate why this Government is a low tax Government.

This financial year, taxpayers will be paying over \$3,000 million less in personal income tax than they would have paid if the 1975 Hayden tax scales had still applied. The total personal income tax savings to taxpayers over the three financial years to 1978-79 will be about \$6,400 million.

Let's take the example for 1978-79 of a man on estimated average weekly earnings with a dependent wife and two children. Compared with the old Hayden days, he will be better off by \$13 per week: \$6 less income tax; \$7 because the family allowance is so much more than the old child endowment. His disposable income is substantially greater because of our reform of the tax rates, our introduction of indexation, and our enlightened policy towards the family.

Even with the temporary income tax increase, the growth in personal income tax collections in 1978-79 will be significantly less -- 6.7 percent -- than in 1977-78 -- 9.7 percent. In both years, tax collections will have risen more slowly than personal incomes, reversing the trend towards a rising tax burden which has persisted so long.

In addition to these tax cuts, large tax reductions have been made available to companies and businesses. This financial year -- for example -- the investment allowance and stock valuation adjustment will have a cost to revenue of over \$700 million. In the light of these figures, the temporary income tax increase in this year's Budget is relatively small -- no one could doubt that the Government has a fundamental commitment to lower tax.

For the motorist, the rise in petrol prices will be offset by the large fall in the price of new cars resulting from our sales tax cuts. As the recent barrage of advertisements indicate, the price of a standard saloon previously retailing at \$7,000 will fall by over \$500. Such a reduction, for the average motorist, exceeds five years' added petrol costs.

The decision will be a tremendous boost to the automotive industry -- a major employer. The Federal Chamber of Automotive Industries predicts that an additional 20,000 motor vehicles will be sold this year as a direct result of the cut in sales tax.

This is a Budget of responsibility; a Budget in stark contrast to the document the Leader of the Opposition pretentiously referred to as "The Alternative Budget". Never has an Opposition shown so clearly that there is no responsible alternative to the course being pursued by the Government. The Opposition cannot even be said to have learned nothing from the past -- they're now trying to re-write history.

The Leader of the Opposition, in his reply to the Budget, said -- with a straight face -- that 1974 was a "buoyant" year, and he's right -- all sorts of key indicators were floating through the roof in 1974. Inflation was up to 16 percent. Unemployment was up from 103,000 in December 1973 to 267,000 in December 1974. Average weekly earnings were up 28 percent. Commonwealth spending was up in 1974-75 by 46 percent. P.A.Y.E. receipts were up 43 percent. The overdraft rate was up from 9½ percent to 11½ percent. Mr. Hayden looks back with yearning to those balmy days of 1974 when Labor was in Government and the economy out of control. Who said nostalgia isn't what it used to be.

But still, we shouldn't complain too much about the "Alternative Budget". We have been waiting all year to know what policies Labor was coming up with. We need never have wondered. They haven't changed. They still have not learned. His "alternative" Budget is a rehash of the same old recipe for economic disaster that Labor cooked up in its three years of office: more public spending; bigger deficits; and the imposition of penal and retrospective taxes on the business community.

The Leader of the Opposition, through his usual advanced arithmetic, purported to show that the Budget he would have brought down would have a deficit of \$3.6 billion. A deficit as large as this would be irresponsible. It would accelerate inflation, force up interest rates, undermine the prospects for sustained growth and destroy the confidence of domestic and overseas investors in the Australian economy.

In fact, Labor's deficit for 1978-79 would not be \$3.6 billion, but over \$4.5 billion. His revenue proposals would raise only a fraction of the \$1,490 million he claims. He wants to raise an additional \$400 million by abolishing the investment allowance.

The investment allowance in 1978-79 relates almost entirely to expenditure incurred by taxpayers -- in good faith -- in earlier years. No money whatsoever could be raised in this financial year from the abolition of this allowance, unless, of course, the Leader of the Opposition intended to make a retrospective adjustment, penalising plant and equipment already installed and in use.

It is time the Leader of the Opposition came clean. He should tell us whether he intends to make it retrospective, or whether his figures are wrong, or whether he simply doesn't know what he's talking about.

He wants to raise an additional \$340 million from, and I use his precise words, "a levy on windfall profits flowing to oil companies because of the Government's policy of crude oil pricing". I pointed out, to his great embarrassment, that his figures were crook. He has now attempted a further explanation of his proposal. He says: "We have not suggested taxing them -- which would produce a lag -- we propose a levy". There is a very clear distinction here. He proposes to strip revenue off oil producing companies in Australia, regardless of their profitability. He says he cannot wait -- he must divert oil producers' revenue back into Government coffers "immediately". He now says he would not do this through the tax system -- which would of course involve a lag, but by an arbitrary change that took no account of the costs of exploration and development expenditure already undertaken or committed.

In brief, Mr. Hayden would not bother with the question of whether oil producing companies were or were not making a profit. As I said yesterday, we are informed that the estimated after-tax profits of oil producers from crude oil production will probably not even amount to \$300 million in 1978-79. In short, a \$340 million slug by Mr. Hayden against these major businesses in Australia would be a brutal assault. It would be guaranteed to put paid once again to the oil search in Australia.

Perhaps we should expect one of the architects of the previous attack against these companies to dream of having another go. Mr. Hayden says that he wants to raise \$300 million by imposing a capital gains tax. The Honourable Leader of the Opposition may recall that the Government of which he was a Minister, announced it would introduce a capital gains tax in 1974. Mr. Crean couldn't say how much it would raise, gave no estimate of the possible revenue yield, and admitted that its introduction would be delayed because:- "There are many complex technicalities involved and extensive anti-avoidance provisions will be required". Eventually the whole misconceived idea was abandoned.

Now, apparently, there are no complex technicalities, no difficulties in introducing immediate legislation, no problems in realising immediate large gains to the revenue.

The Leader of the Opposition blurted out that Labor would have tried to introduce the Capital Gains Tax at the time of the last General Election. Well, they certainly didn't tell the people of Australia about that during the election campaign. Not that of course, I doubt for a moment that Labor had the covert intention to impose such a tax the moment the polls were declared. But even with the worst will in the world, they could not have introduced it immediately.

There are a great many questions raised by Capital Gains Tax. Would the tax apply only to realised gains? Would allowance be made for inflation which creates fictional but not real gains? Would the tax fall only on gains accruing after the announcement? Would capital losses be deductible against capital gains?

Mr. Hayden in a stroke of genius has cut through all these fundamental questions. Given his economic audacity, these basic questions must seem mere quibbles. Now he says he wants to have a provisional gains tax on individuals. The mind boggles. But two things are clear -- it would simply not be possible to raise revenue from a capital gains tax in 1978-79 -- even given the ALP's rapacity. It is also clear that under the Alternative Budget, no one would be making capital gains for long.

Next, the Leader of the Opposition wants to raise \$150 million this year from a so-called resources rental tax. It is not clear how a tax of this sort could have been introduced in the 1978-79 Budget to yield as much as \$150 million in this financial year.

The Leader of the Opposition seems to have no conception of the difficulty of developing a complex measure of this type, enacting it, and of setting up the necessary administrative machinery.

He also appears to have a distorted view of what could be raised, particularly as he has also proposed separately to impose a tax on the so-called "windfall profits" of the oil producers.

The Leader of the Opposition wants to impose a penal tax on family trusts to raise \$100 million this year. This Government, unlike the last, has already moved to close loopholes in the abuse of such trust arrangements. So what is now proposed? When parents die, they often leave their assets in trust for their children until they reach adult age. Is this to be subject to a penal tax rate? Parents or grandparents sometimes put funds in trust to meet the expenses of their childrens or grandchildrens education. Is this to be taxed at a penal rate? A married couple who have been unable to have children of their own may invest money in trust to help meet the costs of the upkeep of their nephews, nieces or godchildren. Is this to be penalised too?

Mr Hayden says that he would raise \$200 million by increasing the taxes of the top 2-3 percent of income earners. Taxes on all incomes over \$25,000 would be substantially increased. The highest marginal rate under Labor would be 72 cents in the dollar. Even Mr Whitlam never suggested that.

The whole weight of responsible professional opinion, both in Australia and abroad, is against the imposition of penal rates of tax on high incomes. The Asprey Committee suggested that an appropriate long-term target would be to reduce the highest rate to 50 percent. The Mathews Committee concluded that "rising marginal tax rates encouraged tax avoidance and evasion, and may lead to substantial economic waste because tax avoidance becomes a basis of investment and employment decisions." The Jackson Committee (of which Mr. Hawke was a member) warned that a society "neglects at its peril rewards for skill and responsibility". Professor Henderson, in his major report to the previous Government, proposed a guaranteed income scheme under which the highest marginal rate of income tax would be 60 percent.

The Leader of the Opposition has sought to deceive the Australian people by overstating the additional revenue he could raise by all these means this year by \$1 billion or more. Mr. Hayden's deficit would turn out to be at least \$4.5 billion and you could add another billion to that because with a couple of dozen Labor Ministers intent on a spending spree, this would lead to an explosion of Government spending that no Labor Treasurer could withstand.

The Leader of the Opposition's proposals gave us an insight into the depth of his expertise and economic knowledge. An insight into his financial naivety and incompetence, his failure to think through his own policies. Even the operation of a simple pocket calculator is beyond him. No wonder he was Mr. Whitlam's favourite Treasurer.

A deficit of such a magnitude would be utterly disastrous for jobs, for confidence, for inflation, for interest rates. But what is even more disturbing about Labor's alternative proposals is the basic philosophy which lies behind them.

Labor believes that if you knock profits, destroy business incentive, shatter confidence in private enterprise, you can still increase money wages and still keep jobs. This demonstrable fallacy was the real tragedy of the Labor years.

When you look at the Leader of the Opposition's latest proposals, it is clear that they would do the same all over again. All the new Hayden taxes and levies are aimed at the heart of productive enterprise, at employment-creating industry, at the businessman, small and large, at the individual who has shown initiative and effort. These imposts would severely damage the economy and harm Australia.

Labor's set of tax proposals -- those on capital gains and higher marginal rates -- are directed at destroying the personal incentives to save and achieve. Confiscatory taxes would be imposed on those with enterprise and initiative and effort. It is Labor's continual problem. They can't stand success; they must penalise it. They are entangled by the politics of envy.

They can't stand individual success and they can't stand to see efficient private enterprise developing Australia. That is why they want to bring in an exorbitant resources tax, a tax that would stifle all mineral development. That is why they want to impose a crude oil levy of \$340 million on oil producers, a levy that would halt oil exploration, and make our future depend on overseas supplies. That is why they want to impose a \$300 million capital gains tax, which would stifle all incentive to achieve and expand. That is why they would impose a penal tax on trusts for families, a tax hitting small business and farms. That is why they would end the investment allowance to stop Australian enterprise increasing its efficiency and its competitive position in world markets.

After examining the total confusion which the Leader of the Opposition's proposals represent, it is easy to see what the Honourable Member for Gellibrand meant when on 30 June of this year he said, and I quote: "There is considerable uncertainty within the Party as to what course we should not adopt". "This...is a reflection of not only the disillusion that accompanies loss of Government and electoral defeat, but also of the recent realisation that economic issues are far more complex than seemed previously to be the case".

The dawning realisation by the Labor Party that economics is a complex subject seems to have confused them more than ever. The Honourable Member of Adelaide has called for interest rate cuts, while the Leader of the Opposition's irresponsible proposals would send interest rates through the roof.

The Government's Budget is dedicated to the growth and development of Australia. It reduces the deficit to a responsible level; for the second year running, tax collections are to rise more slowly than personal incomes; it achieves the lowest increase in Government spending for ten years; it provides simple and equitable health financing arrangements which protect everyone against serious illness, and those most in need against all medical and hospital expenses; it provides increased assistance in real terms for the aged, for the handicapped, for migrants, for families.

This Budget plays an essential part in our long term strategy to create a tougher and more competitive economy. We are not prepared to squander our hard won gains against inflation and our progress towards full economic recovery.

By bringing down a sound and responsible Budget -- by taking the tough decisions which were essential to the long term

interests of this nation, we have taken another step towards restoring long lasting growth and prosperity to our country.

With inflation down to 5% the end of this financial year; with interest rates coming down; with increasing confidence amongst investors both here and abroad; with an encouraging inflow of private capital, the Australian economy is now well on the way to overcoming the damage caused by the three dark years of Labor.

We are now out-performing many industrialised nations of the world in reducing inflation. We have already, over the past three years, instituted fundamental social reforms which have served the interests of families and those in need.

Australia is the country of opportunity, of natural wealth, of enterprise. The opportunity is now within our grasp to create a society of growth and development, of prosperity and enlightenment, of stability and security.

Our aim is nothing less than to establish in Australia an unequalled quality of freedom and opportunity for individual Australians, of compassion and effective help for those in need, of a country which meets the fundamental needs and aspirations of all Australians.

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