



Mr. Yeend

14

PRIME MINISTER

FOR MEDIA

29 MAY 1979

STATEMENT TO THE PARLIAMENT

The package introduced by the Treasurer last week was one of economic responsibility. It puts the economic health of Australia and the well-being of all Australians wherever they may be, whatever their occupations may be, foremost in the Government's mind.

The Government's commitment to responsibility is critical to economic recovery. Because of our policies inflation has been substantially reduced. The competitiveness of Australian industry has greatly improved. New private fixed capital expenditure is up 26 percent in the year to March 1979. In mining capital investment is particularly strong - 46 percent up in the year to March of this year and the mining industry expects a further 32 percent throughout the course of 1979.

Oil exploration and development are taking off. The rural economy is having its best period for a very long while, making up for some of the very lean and difficult times it has had over recent years. Business profits are rising. Private civilian employees, seasonally adjusted, have risen for seven months and that's the best result since 1974. Retail sales for the March quarter were up significantly.

The Treasurer's package continues the thrust of economic responsibility. It consolidates the gains that we have made over three and a half years. It will strengthen confidence in the Australian economy - strengthen control over our own expenditure. There will be substantial savings in health, in education, in payments to primary industry and transport and in other areas. These expenditure reductions show the determination of the Government to control its own expenditure and they also foreshadow stringent control at the Premier's Conference in June and at the Budget in August.

The full year savings and the forward estimates and the new policies for the programmes already announced include \$290 million or a little more in health, and over \$60 million in primary industry. Further savings in other portfolios can clearly be expected.

The Government's record of expenditure control is clearly shown by the fact that today's deficit as a percentage of Gross Domestic Product is significantly less than it was under the Labor government.

The Government has also acted to raise further revenue. OPEC induced price increases will be reserved for the community and not for companies. New oil to be discovered will be unaffected and therefore exploration incentives will be maintained. The coal export levy at the reduced rate will be continued. The trading stock valuation adjustment, applied by firms to increase after-tax profits rather than to adjust their internal stocktaking accounts, and therefore being used in a way not foreshadowed by Mathews is being removed. Of course, the liquidity position of companies is infinitely better than it was when the adjustment was first allowed. So in many senses it has achieved a real purpose.

The carry forward of paper losses under tax avoidance schemes which Labor did nothing to prevent is not going to be allowed, and of course we are extending the existing PAYE schedules to 30 November 1979 or to some earlier date to be proclaimed. That plainly means that there is no change in current PAYE rates and no change in current weekly deductions.

One of the deceits of the Australian Labor Party is that they sought to have people believe that there is going to be a tax increase from the 1st of July. A tax increase of course was never in mind. It's a question of whether tax reductions foreshadowed at the time of the earlier budget could in fact be consummated.

Personal tax rates for the whole of 1979-80 together with a decision on indexation will be announced at the same time as the Budget. I would like to emphasise what the Treasurer said. There is no prospect of removal in full of the surcharge together with full implementation of tax indexation when that announcement is made. And the final decision will not be possible until we have the complete information available to us at the time of the Budget.

The package introduced by the Treasurer is balanced and is equitable both on the expenditure side of the account and on revenue. It protects those in need. The health changes will continue to protect pensioners and the socially disadvantaged and will establish the circumstance where people can pay the small bills for themselves but be protected against the major accounts that can completely break the individual or any family. And I indicated earlier that if there was a virtue in regular Medibank I as opposed to the programme that had been introduced or maintained earlier, it was that the original Medibank scheme together with the changes that have been introduced since, established universal health cover for all Australians. I suggest that the price paid for that was a high one by the Australian community as a whole. But it's worth noting that we have preserved that universal health cover for all Australians with changes now introduced.

The 4 percent wage decision was more than hoped for by the Government. At the same time inflation in a number of countries is running much higher. In the six months to March of 1979, inflation is running at an annual rate of 10.1 percent in the United States, 10.7 percent in the United Kingdom, 10.5 percent in Canada, 15.4 percent in Italy, 10.1 percent in New Zealand. Even in Germany, which has a very good anti-inflationary record, the inflation rate has about doubled during this year. All of these figures show that inflation prospects in many countries are much less favourable than in Australia.

Many of these factors, especially prospects for the rural community and miners have healthy effects on the economy, but they also have an impact on inflationary pressures - they have an impact on the money supply. And, as a result of these changes, inflationary pressures increase and there is a clear need for Government action to maintain control over the economy. Particularly so since the 5 percent inflation forecast in Budget Statement No. 2 will not be obtained.

Before last week's package the Government had already acted to adjust interest rates to changed circumstances; to introduce changed methods of financing the wheat crop; and to make calls on SRDs. These actions alone were not enough. They had to be strengthened by further actions if undue strain was not to be placed on monetary policy.

In the total picture of economic recovery with its consequent inflationary threats, a lower deficit is all the more important. The Budget must give total confidence so that there will be a downward pressure on prices on inflation. In all these circumstances a tax cut of over \$1,000 million on 1 July would have been irresponsible and would have destroyed that confidence.

The Government plainly is disappointed that it has not been possible to remove the surcharge immediately, as forecast at the time of the last Budget. But I must say unequivocally that our anticipations proved to be wrong by later events. That's a cross that the Government must bear. We regret the fact that we are unable to remove immediately the surcharge and introduce tax indexation. We certainly make no apology for it, because we have taken the right course for the economy and for the people of Australia.

The step we have taken will build confidence in the Australian economy and there should now be no pre-Budget doubts about the Government's resolve. There will be no pre-Budget doubts about investment decisions; about the value of the Australian dollar and about the growing confidence throughout all sections of the Australian community.

The package brought forward by the Treasurer responds to improved business and rural conditions. We provided help to rural industry when it greatly needed it and if the same circumstances arise again we will certainly do so again.

For example, there was special beef assistance for the beef industry in 1977-78 but quite plainly that special assistance is not required under the current circumstances.

In addition, the stock valuation adjustment followed the liquidity difficulties that many industries and companies were experiencing at earlier times. Today business liquidity has greatly improved.

We make no bones about the fact that the last Budget committed the Government to taking off the surcharge. That commitment as I have made plain, as the Treasurer has made plain, was made in good faith. But after tightening expenditures and raising more revenue it was clear that the only responsible course was to keep open options on tax indexation and on the surcharge until the Budget in August.

I stress that this does not involve any increase in weekly PAYE instalment deductions on 1 July. It was never a question of an increase over and above current rates. It was a question of the possibility of a decrease. There will be no change in take-home pay as a result of the decisions that the Treasurer announced.

Many figures in the Budget are predictions; based on the best advice and knowledge at the time. The forecasts for the 1978-79 Budget were in the context of two years of falling inflation and of falling monetary growth.

Certain Budget forecasts are critical, but if they do not eventuate the Government has no responsible option but to compensate by other Government action. And since the Budget a number of things have happened which put some of the Budget perspectives out. The economy is not static - it is not fixed by words in a Budget. It's a living thing affected by the actions of changes within and without Australia.

And much has changed since the Budget. I mentioned before the deteriorating strategic situation in Iran and Indochina. That was not foreseen by anyone. Accordingly this Government has properly made decisions to spend more in real terms on defence.

Oil prices have increased because of Iran, more than anticipated at the time of the Budget. There is therefore a greater push for inflationary expectations. Beef price increases are 35 percent higher than the Bureau of Agricultural Economics forecast at the time of the Budget. The Wheat harvest is more than 50 percent above last August's forecasts. There has been a dramatic improvement in some commodity prices in this financial year -- aluminium over 20 percent, copper over 30 percent, lead over 100 percent and zinc, over 40 percent. Moreover for the second successive year, estimates of revenue in the Budget appear likely to exceed the revenue outcome.

The Government is determined to take the right course. We will respond to changes and to influences as they arise and will change policy as necessary.

The package that was introduced by the Treasurer is a mark of strength and determination to act in the interests of all Australians. It is the mark of a determination to respond to new conditions that arise either here or overseas.

The judgement of the Australian people will go far beyond the petty actions of the Opposition in this Parliament because the package will be respected. It takes the right course for Australia as a document of economic responsibility.

The Government will not sacrifice economic management for political expediency. We will keep fighting inflation. We will keep fostering economic activity that will provide lasting jobs; will keep taxes at the lowest possible level.

It's been a long fight to strengthen the Australian economy and to achieve our goals. We never disguised this. And we never have.

But now there is an upturn in the Australian economy and recovery is under way and that's not doubted except by the blind men of the Australian Labor Party.

The vision that brought this Government to office has not been dulled. That vision keeps us on our path and gives us the courage to respond to reality effectively and in the interests of Australia.

Under Labor the Government deliberately and constantly raised false expectations. It bred a greater dependence by people on the Government. Labor destroyed the capacity of Australian industries to employ. They destroyed the independence of people by breeding the view that the Government only had to be asked and it would provide. They established the philosophy that Governments have unlimited resources because they could go to the printing press and that Governments have to provide the answers to all problems. They established the false view that people could be paid according to their own estimates of themselves. They set about destroying Australia by creating a web of deception by deluding Australians that living from tax dollars without contributing to Australia does not hurt fellow Australians.

Labor tried to put Australia on the path that throughout history has taken once strong and vibrant nations to their very destruction. But Labor failed. Their philosophy was overwhelmingly rejected by the Australian public in two elections. The task of this Government has been to rebuild the strength and the independence of this nation: to reassert the fundamental principle that Governments can establish the circumstances, the opportunities for people to achieve and create and that ultimately it's only an independent, self-reliant society that can develop Australia.

We've been working to establish the circumstances in which Commonwealth and State Governments live within their means; the circumstances in which Australian industries will once again be independent, excell in the Australian market, move out into export markets and employ more people.

We've been working to establish the circumstances in which people can be self-reliant; the circumstances in which the weak and the poor can be protected; where families are protected when illness strikes and which they can't be expected to cope with from their own resources.

We've been working to strengthen the life, the vitality, the vigour of the Australian people.

That's what we've been working to. And that is what we have been achieving.

We have a vision of a Liberal society of free, independent people with a pride in being able to do things for themselves - an Australia of growing strength, unequalled as a place to bring up a family; unequalled in freedom and unequalled in opportunity. A nation creating our own distinctive culture, our own identity out of the culture and history that so many people have brought to us from so many different lands.

This can only be achieved by a Government that established the circumstances which enable individuals and businesses to work out their own future in their own way. A Government which recognises that it should not seek to do for people what they ought properly to do for themselves.

The Australian Labor Party sought to destroy the initiative of Australians. The inflation created by Labor undermined industries; the inflation created by Labor degraded individuals; it weakened the old and harmed the weak, more than anyone else in the community.

Repairing the damage of Labor was a great task but we are well along that road and we are doing this by facing up to economic realities and by not allowing expediencies to determine our action.