

BUSINESSMEN'S BREAKFAST, BRISBANE, ADDRESS AS DELIVERED.

.... on a regular basis, but that will probably be once a year for Federal Cabinet meetings in Brisbane. I certainly find them valuable...inaudible... and meet in a more informal way than is generally the case if we are coming to Queensland for a particular function, and then going out again. I welcome very much the opportunities that have been available.

I said yesterday at this kind of function, two, three or four years ago, it would have been a necessity to argue our economic policy quite hard and to try and demonstrate the facts and figures that the policy was working, that it was right, there was no alternative policy, and that we just had to persist with it. But, I don't believe there is a need in Australia and certainly in Queensland for remarks of that kind at the present time because this State is moving forward very strongly indeed. Investment is going ahead rapidly and employment in Queensland grew by nearly 5% over the last 12 months.

I haven't taken out comparisons with earlier years, but I think it must be the best growth in employment for many, many years and it is much better than many countries overseas.

This all is a result of policies. None of it has happened by accident. It has at times, been a hard grind in ..inaudible.. back expenditure and getting inflation down and helping to establish the circumstance for Australian industries and enterprises to again be competitive. But that has been done.

It is not only in the resources area. There is the optimism and the enthusiasm and activity in Queensland or in Australia. The manufacturing industry, as many of you here would know, have been doing much better and have been getting out into export markets in a way which four or five years ago they would have believed to be quite impossible. We see the results of that, of the cost of an export incentives scheme which has probably cost them four times more than the partners(?) estimated when it was first introduced. That is because of the success and growth of exports.

The priorities we have as a government - our tactics obviously change from time to time as circumstances change and the settings of policy obviously have to change - but the strategy doesn't alter. It is just as important as it ever was, to keep bearing down on inflation as a prerequisite for profitable enterprise and for growing employment. We intend to do that.

That obviously has consequences for expenditure. It has consequences for monetary policy, and for total levels of government activity. There has been a good deal of discussion about tax over recent days or weeks or months - depending on whatever perspective you want to look at it I suppose. I don't think it has been adequately understood that over

the last five years, while the Commonwealth expenditures have grown by about 1% a year in real terms, State expenditures and local government expenditures have grown very much more than that. I don't know how many people are aware that States and local government end up by spending over 50% of all the dollars collected by Australians in tax. State levels of government spend more than does the Commonwealth. If there is to be expenditure restraint of a kind that will make reductions in income tax of a reasonable and useful kind - and I don't want to be dramatic about that - reasonable, and useful kind possible, expenditure restraint will have to be exercised by State governments as well as by the Commonwealth government.

I always believe that the best measure of restraint in a government is what it does with its own employees. Over the last five years, our employees have been reduced by about 10,000, while State employees, not just Queensland but all States, have increased by the best part of 100,000. That doesn't seem to me to be the hallmark of the government activity that is particularly restrained in its expenditure.

If you look at the levels of expenditure in the States, compared with 10 years ago, and if you projected forward the same real level of expenditure as States had been involved in years ago, you would find that in this State - and in fact, at the level of expenditure today, instead of a much higher level - you would find that the citizens of Queensland would have taxes reduced by \$900 million a year.

Now, that would be a substantial sum. It has nothing to do with the Commonwealth or Commonwealth taxes. It indicates the extent to which government has grown, and the extent to which taxes have grown over and above the real levels that existed a decade ago.

Queensland is not by itself in that. I think the equivalent figure for New South Wales is \$1,700 million, for Victoria \$1,500 million. In the first five years of the decade, under our predecessors the Commonwealth was a pretty fierce sinner in the area as well. Over the last five years we have done a good deal to seek to redress that, as the employment figures indicate.

But the point that I do want to emphasise, is that if there are to be tax cuts which I know, as I have said before, the good Premier wants, there also has to be expenditure restraint. I am not quite sure that any of the States want to hear that side of the story because at every Premiers conference that has ever existed, on every item that has ever been raised, Premiers have asked for more money. If we said yes to all the requests of all the Premiers there would be no point in employers paying their wages to employees, they could post them straight to the Federal tax man, because even then it would not be enough to meet the requests and aspirations of the States in terms of expenditure.

It might seem odd that that is so, but that is just the way it is operated. One of the greatest disappointments for me over the years at Premiers conferences is that in terms of expenditure restraint, in terms of putting some kind of limit on what the markets can bear for loan cuts, it always has to be the Commonwealth, and generally it ends up by being some kind of unilateral decision as to the maximum that can be taken from the tax payers of Australia or the maximum that we take out of the markets, because obviously, if we press too hard, it does have an impact on interest rates, and it absorbs funds and resources that would otherwise go to the private sector.

Now, in circumstances in which the private part of this economy is growing much more strongly than before, if we are to avoid the inflationary pressures and a resurgence of those pressures, it's perhaps more important for governments to be restrained in their expenditure because otherwise there will be greater competition for resources that are inevitably finite. That competition would put up the price of money and re-establish inflationary pressures of a kind that we wouldn't want. That is only to say that restraint in government expenditure this year is just as important as it was five years ago, and on some counts, more important than it was then.

That is what the Premiers conference in April is going to be all about - the level of funds that are going to be made available to the States from the Commonwealth. It has nothing to do with the split up of funds between the States. In 1977 the Premiers all agreed that the distribution of funds between the States was something that ought to be examined. The formula between them was set in 1959 and this is something the Commonwealth can be pretty relaxed about because it doesn't affect our budgets as it was set in 1959, but it is still heavily influenced by the end of State taxation and the introduction of uniform taxation going as far back as 1942, by the distribution in those days.

Obviously circumstances have changed. All the Premiers recognise that they have, that there ought to be a look at the relativities between the States to see whether the break up of funds that are available to the Commonwealth is just and fair equitable in the interests of all Australia. That is what the Grants Commission is all about. I don't know what they are going to report. I don't know what evidence the States are putting in front of the Grants Commission.

I hope that the various things the Premier has been saying about resources over the last couple of days has been said to the Grants Commission because that is where they ought to have been said. If he hasn't even at this late stage I would urge him to.

But we need that Grants Commission report and then hopefully we can look at the in the clear and careful manner to see what changes if any ought to be made in the distribution of the quantum which the Commonwealth is prepared to make available.

That report won't be available, as I understand it, until June. There hasn't been an interim report as was reported a couple of days ago, certainly not one that I have seen and not one the Treasurer has seen. It will be available in June so it can't be part of the discussions that are taking place in April which will be relevant to the total sum that we are prepared to provide, and that obviously will have a very high relevance to our capacity to make adjustments to income tax.

I think you probably understand now why we didn't move to much greater indirect taxation. It could have been done, but if you were going to reduce the tax scales by say seven points each, each scale, to make the standard rate 25 cents and take 7 cents off the two higher rates, that would cost \$3.5 to \$4 billion. To collect that money by indirect taxation would add on direct and indirect affects and much more depending upon the reactions of the Arbitration Commission in relation to wages. It would add 6% to 7% to inflation. We know what that would do to businesses, exports, overseas investment - it seemed to us that it would put the progress of Australia back a considerable distance and in the circumstances that were still far more inflationary than we want, and more inflationary than you would want, that we shouldn't have taken that step.

That then does force us back, with adjustments I have ever made on income tax, to expenditure restraint. There is, I believe, plenty of room for that.

There are concerns in the community at the present time. We are particularly concerned in relation to the 35 hour week and the Federal Government has made decisions to make sure that the wider Australian community will fully understand the costs of a 35 hour week, or fully understand that trade unions that press for a 35 hour week are in fact pressing for higher unemployment, reduced sales of Australian made goods, and reduced activity in this country.

We will obviously be lending continuing and full support to the industry associations, through Arbitration Commission cases, and we will also be undertaking a public campaign on our own account to make sure that the costs of a 35 hour week are fully understood by the wider Australian community. I believe that it is tragic that sections of the trade union movement and the ACTU in its official policies so avidly press for policies whose only practical result can be much higher unemployment than would otherwise be the case.

It is especially so against the circumstance in which last year average wages went up between 13% and 14%, nearly five points higher than inflation over the same period. That again indicates that there is need for greater efforts by all of us, I think, on that account, because with the enormous prospects open to us, unreasonable union activity lack of control over wages and wage adjustments - I think they are the only two things that run any possibility of marring the prospects ahead of us. There is no doubt that union activity could destroy Australia's future. I don't believe

it will happen because I have much greater confidence in the general common sense of the average Australian and the average Australian trade unionist. It is common-sense that a number of union leaders give their constituents little credit for.

I don't believe the activities of the ACTU as we have seen over the last month win any support amongst the rank and file of unionists, or amongst the generality of the Australian public. It is going to be up to governments, State and Federal, and all those with a real interest and concern about what is happening to their own enterprise to make sure that in terms of industrial relations, wage changes, reductions in working hours, the great future which is within the grasp of all Australians isn't significantly damaged. That will take considerable effort.

But that aside, the prospects ahead of us, and the prospects for this State, are good indeed.

I would like to thank you for coming here this morning. I would be happy now to react to whatever you might want to say or to any questions you might like to put.

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