



## PRIME MINISTER

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SPEECH BY THE PRIME MINISTER  
FINANCIAL REVIEW DINNER - MELBOURNE - 22 AUGUST 1984

The Labor Government was elected seventeen months ago to arrest the decline in the Australian economy, symbolised by the huge loss of employment and the explosion in unemployment in the period before we took office, and by entrenched high inflation.

The Labor Government was elected to reverse the trend towards greater inequality in Australian society after seven years of neglect of equity under conservative policies.

And the Labor Government was elected to bring Australians together : to end the confrontation and division that had marred Australian economic life, perhaps most notably in industrial relations and relations between the Commonwealth and the States.

The Government has always seen these three great responsibilities as being closely inter-related. Sustained non-inflationary growth is not possible without a greater sense of common purpose than Australia knew through the 1970's and early 1980's prior to our accession to Government. And it is not possible to build that greater sense of national purpose around the restoration of growth unless there is widespread agreement that the benefits of growth, and the inevitable costs, are being shared equitably.

So from the beginning of our Government, we saw our commitments to the establishment of sustained non-inflationary growth, to bringing Australians together and to the building of a more equitable Australia, as parts of the same great program.

And from the beginning it has been an integrated program. We have had a clear plan, we have been steadily and consistently implementing it, and it is producing the results that we promised.

The despair of the Australian people in the final years of conservative rule was greatly exacerbated by the lack of any clear strategy for economic recovery.

All Australians now have hope that there is a way out of our national failures, through our program. This in itself has been one reason why the economy has responded more strongly even, for example, than any group at the Summit last April had expected.

Each year's Budget provides an occasion to assess progress on each of our great responsibilities, and on our great program. It also provides an occasion to unveil new policies, and to assess our prospects for the period ahead.

As I explained to last year's Australian Financial Review Dinner at Budget time - on that occasion in Sydney - we do not believe that all of the conditions for sustained non-inflationary growth, for a more equitable Australia, or for a united Australia, can be built in a single Budget, or a single year.

Each year's Budget represents only one milestone on a long journey.

It is neither desirable nor possible suddenly in a single Budget to remove all the impediments to progress, and to right all the wrongs, in the Australian economy and society.

We are committed to gradual progress, without placing excessively large and sudden burdens of adjustment on any particular groups of Australians.

But we are committed to certain and steady progress.

Certain and steady progress that in seventeen months has already lifted the pessimism and despair that weighed Australia down before we took office.

Certain and steady progress that will deliver more growth, more jobs and less inflation in the year ahead than Australia has known for many years.

And certain and steady reform that each year makes our society fairer, and each year strengthens our capacity to grow strongly for the long period that is necessary to banish unemployment.

Last year I asserted that the Government had found the right balance between the provision of fiscal stimulus to promote recovery, and the curtailment of the prospective deficit that we had inherited so as to avoid destabilising pressures in financial markets.

The results speak for themselves : interest rates down a percentage point for most home loans and more for other activities; non-farm growth year-on-year over 4 per cent, more than twice the budget forecast of 2 per cent; 232,000 new jobs, more in a single year than ever before in Australian history, and in stark contrast to the quarter million increase in unemployment and 187,000 loss of jobs in the last year of conservative rule; and inflation cut almost by half to the lowest rates for a decade.

It was a matter of particular pride to me that in our first year we were able to achieve substantial reductions in the huge prospective deficit which we inherited - in the event, much larger reductions than estimated in the Budget, to under \$8 billion - while putting into place substantial reforms in job creation, housing, social security and welfare, including Medicare. These and some changes in taxation arrangements - without substantial general tax increases - represented a significant step towards a fairer and more efficient Australian fiscal system.

There was good progress, too, in building a more united Australia, as reflected in the proportion of days lost in industrial disputes over the past year having been the lowest since monthly industrial disputes figures were first published in 1970, and in the agreement and co-operation between the Commonwealth and the States on a fiscal program for economic recovery.

Last night's Budget represents another milestone on the path to sustained non-inflationary growth within a fairer and more united Australia.

Whereas our first Budget had as its primary aim the turning of the economy from decline to expansion, this year we must consolidate a second year of strong growth in output and employment with declining inflation.

Like last year's, this Budget takes further steps to reform the fiscal system in a way which assists Australians in need.

And like last year and as with all our future Budgets, and as with the many economic policy decisions which must be taken between Budgets, we have aimed to implement reforms in ways which improve the prospects for long-term economic growth.

To consolidate a second year of economic recovery, the central plank of this Budget has been to support the Accord, thereby enabling the spectacular gains in reducing inflation, and in restoring growth and expanding employment through improving business profitability, to be extended.

There are now few who doubt that the Accord, and in particular the commitment to centralised wage fixation, has played a crucial role in the progress which has been made in reducing inflation and improving business profitability over the past year.

Real unit labour costs have fallen dramatically and the profit share is now higher than at any time for a decade. This has come about because real labour costs have remained flat while average labour productivity has risen strongly. The Accord will enable still further improvements since there will be a sustained pause in wages growth between April 1984 and April 1985.

That pause could not be achieved without the commitment to wage indexation, without the recognition by virtually the entire trade union movement that sectional claims must be suppressed and without the acknowledgement and acceptance of the concept of the "social wage".

The Budget contains tax cuts amounting to \$1.3 billion in 1984-85 and \$2.1 billion in a full year.

The tax cuts which have been made in the Budget will, we believe, strongly reinforce the commitment of the trade union movement to the Accord.

For the majority of workers, the tax cut will increase take home pay by roughly the same amount as an \$11 per week pay increase.

There has been a great deal of ignorant comment about the strong forecast growth in revenues this financial year.

Gross PAYE collections, which are the tax people are paying fortnight after fortnight, will increase by 10.7 per cent.

This happens to be exactly the sum you get by compounding the average weekly earnings increase this year (seven and a quarter per cent) by the employment increase (three and a quarter per cent).

On average, the rate of tax paid out of income has not increased at all.

If there had been no tax cut, the increase in gross PAYE would have been 15.8 per cent.

The tax cut was large enough to keep the growth in tax for the year as a whole down to the growth in incomes, even though the tax cut is only to apply from November.

After November, the share of tax in income on average will be significantly lower than last year.

Of course, tax receipts would grow more slowly this year if there was less employment growth.

If employment were expected to fall by 3 per cent in 1984-85, as it did over the course of Liberal National Party's last year in office, instead of rising by  $3\frac{1}{4}$  per cent as it will, then, with our tax cut, PAYE receipts would grow only by slightly more than 4 per cent, instead of 10.7 per cent.

Obviously that would be a disastrous outcome for Australia.

Some of you may wonder why, if gross PAYE rises only by 10.7 per cent, total income tax receipts rise by 22.6 per cent?

The main reason why total income tax collections are increasing so rapidly is that the economy is performing so well.

There is a huge increase - \$2 billion or 45 per cent - in provisional tax collections. This is because the incomes of large numbers of small business people - including farmers and many others - have grown extraordinarily rapidly. For these taxpayers, as for employees, tax rates from November decline by more than the proportion that would be required to implement tax indexation up to relatively high incomes.

The huge growth in incomes and income taxes reflects only increased prosperity, including a substantial contribution from the success of our policy.

A similar point can be made about the large increase in company income tax, by \$1 billion, or 23 per cent.

Reflecting its first full year of operation the Medicare levy also contributes \$800 million to the estimated growth in income taxes. The levy, as you know, simply finances the provision of a service that was formerly paid for directly by taxpayers.

Reductions in income tax rebates contribute \$400 million to the growth in income tax receipts. These largely reflect the replacement of Government taxation concessions by direct Government expenditures of a related kind, as announced in last year's May Statement: the replacement of medical fund rebates by direct subsidies to Medicare; and the replacement of inequitable housing interest rebates by the First Home Owners' Scheme.

The reality is that from November, there will be a substantial reduction in the proportion of income paid as tax, much more than would be required by a simple indexing of the tax scales. And the distribution of the cuts strongly favours low and middle income earners.

While the tax cuts are of greatest importance, a number of expenditure commitments also assist in maintaining support for the Accord through improvements in the social wage : particularly the increased commitments to Medicare, social security, education, occupational health and safety, job creation and training.

The continued success of the Accord is the main reason why this is the only Government in recent history which has been able to enter the second year of a strong economic upturn without the spectre of destructive disputes over income shares clouding prospects for the future.

Only this Government has been able to face the second year of a strong economic upturn with firm grounds for believing that recovery will not disappear quickly in a mire of inflation; and that growth in output and employment can be sustained.

The gains that we make over the next year in reducing labour costs, containing inflation and improving our competitiveness should provide a substantial further boost to employment and enable us to make further inroads into the level of unemployment, which, despite our good progress, remains unacceptably high.

Unemployment is the single greatest cause of poverty in this country.

This is the most compelling reason why we place such great store in establishing lasting economic growth.

Through addressing the issue of unemployment by promoting growth of economic output and employment, we are making the most effective possible contribution to the alleviation of poverty. But in this Budget we are also doing a great deal directly to improve the position of the unemployed and other disadvantaged groups in the community.

Before the Budget, there was much ill-informed speculation that the needs and claims of the disadvantaged might not be adequately addressed. This no doubt set the scene for some post-Budget criticisms that we were doing too little in the social security area.

The reality is that the Budget contains substantial initiatives to improve levels of assistance for pensioners and social security beneficiaries over and above the normal indexation arrangements, and over and above the substantial steps taken in the May Statement and the Budget last year.

This year's package of social security increases, in excess of normal indexation, will cost \$430 million this year and \$683 million in a full year.

Thus the standard rate of pensions and benefits will be increased by \$2.50 a week above indexation, and the married rate by \$2.10 for each partner.

In addition, there are increased payments for child support and education allowances available to low income families, and additional rent assistance for needy pensioners. More generally, over the past two years the Commonwealth has very substantially increased its support for public housing and the alleviation of housing related poverty. In this Budget, payments under the Commonwealth-State Housing Agreement will total \$623m compared to \$406m in the last year of the previous government.

It is fair, I think, to contrast the improvements in social welfare provision during our brief period in office with the neglect and decline in the seven years of our predecessors. There were no general increases in pensions along the lines of last night's measures in the seven long years of conservative rule - even in May, 1976, when indexation adjustments were low on account of the effect of Medibank on the C.P.I. in late 1975.

The contrast is made simply with two examples.

The single unemployment benefit fell by 19 per cent in real terms between December 1975 and March 1983. With the measures announced last night, it will have increased by 13 per cent between March 1983 and June 1985.

Similarly, the total value of pension, family allowances and related benefits for a sole parent with two children in rented accommodation fell by 2 per cent in real terms between December 1975 and March 1983. It increased by 13 per cent in real terms between March 1983 and December 1984.

While we expect the recovery in activity and future growth of the economy to provide a substantial boost to employment, there remains a continuing need for labour market programs - both to provide additional job opportunities and to ensure that Australian workers are equipped with the experience and skills to match the opportunities which emerge.

The Community Employment Program, introduced last year, is providing job opportunities and hence valuable work experience for the most disadvantaged jobseekers. Funds provided for this Program will total \$410 million in 1984/85, an increase of 44 per cent.

Total expenditure on labour market and related employment and training programs will be \$1.1 billion this year, double the provision for 1982-83.

The main programs other than the Community Employment Program - such as the Special Youth Employment Training Program, the Community Youth Support Scheme and apprenticeship training programs - are currently under review by the Kirby Committee which was set up to assess how well they are meeting the Government's objectives. That Committee has been asked to report by the end of this year.

Our training programs are complemented by our initiatives in the field of education. We have recently announced an 8-year funding program involving substantial increases in Commonwealth assistance for schools, and made provision for an additional 30,000 places at universities, colleges and TAFEs by 1987.

We regard the recussitation of our education institutions as a sound and vital investment in our future, complementing our policies to restructure Australia's industrial base.

Greater funding, and rising student participation in education is not enough. My Government is most concerned to improve the relevance of the education process to employment opportunities and the needs of industry. Accordingly, with those objectives in mind, we have initiated major reviews of the quality of education at all levels. We look to industry to make an appropriate contribution to these reviews.

A skilled workforce, the more efficient use of our resources and improved competitiveness will enlarge the prospects for our achieving sustained economic growth in the medium and long-term.

Commonwealth contributions to the plans which we have developed to strengthen the competitiveness of the steel and motor vehicle industries are reflected in this year's Budget appropriations.

Another constructive step in the revitalisation of industry which is funded in this Budget is the establishment of an advisory service on computer assistance in manufacturing industry.

In addition, the increased assistance which we are providing for industrial research and development will aid new products and industries. The substantially augmented trade promotion program (up to \$3.4 million or 36% in 1984/85) will assist Australian industries to make the most of the opportunities for developing and expanding exports, especially in Northeast and Southeast Asia, thus supporting our efforts to link the Australian economy productively to the high growth that characterises economic life in our Western Pacific region.



We have been concerned to promote efficiency also in a number of initiatives which we have taken in the financial sector. We have lifted a number of anti-competitive restrictions on the operations of banks, and are currently considering the terms on which new entrants should be permitted into the domestic banking industry.

We intend to increase competition within the financial sector and thus to stimulate improvements in the range of financial services available to businesses and to all Australians.

Deregulation and any entry of new banking institutions could, however, pose a problem of interpretation for monetary policy in the next year or so.

The Treasurer indicated last night that, consistent with the forecast movements of real economic activity, prices and velocity, the M3 growth projection this year is 8-10 per cent.

We have an impressive record in monetary management.

Last year monetary growth was contained within the projection range which, in line with our announced policy had been revised to reflect the stronger performance of the real economy which had become evident without generating inflationary pressures.

Our predecessors did not hold monetary growth within their projections in any of their last five years in office.

Our success was assisted by our decision to float the \$A and remove virtually all exchange controls.

This year's M3 projection has been set, responsibly, to allow the expected strong growth in real activity while accommodating only minimal cost and price increases.

As was the case last year, the M3 projection will be reviewed over time in the light of emerging economic and financial conditions, including the impact which deregulation may have on the growth of M3.

The point, as you will all be aware, is that banks now have the capacity to compete for ranges of deposits and new types of business which previously were not open to them.

If banks compete successfully for this business, bank deposits will grow faster than usual. While the share of banks may be higher, aggregate financing - and thus underlying financial conditions - would not be fundamentally changed.

Obviously it would be inconsistent with the requirements of monetary policy to respond to a faster growth of M3 which could emerge during the transitional stage from this source by tightening policy.

However, it cannot be predicted in advance just how much of an impact this kind of structural change will have on M3 growth in the year ahead.

To allow a proper assessment of the stance of policy, therefore, closer attention will be paid than in the past to the growth of the broader monetary aggregates, which will be affected less by structural change.

I repeat that the thrust of monetary policy in the year ahead, as over the past year, will be clearly to support non-inflationary growth.

The task of monetary policy in the year ahead has been made easier by the reduction in the Budget deficit : together with the improved inflation outlook and other factors, this should create a favourable environment for the further easing of interest rates.

After striking the right balance last year between fiscal stimulus to recovery, and the avoidance of excessive pressures in financial markets, this year we are budgeting for a further cut of \$1.2 billion in the deficit, to \$6.75 billion. Again we have struck the right balance : cutting the deficit while still providing a substantial tax cut; and funding Medicare and significant improvements in social security and education in a responsible fashion.

The reduction in the deficit, coupled with the commitments made by the States at the Loan Council to hold the borrowing of their statutory authorities to about the same money level as in 1983-84, implies a substantial reduction in the total public sector borrowing requirement in real terms, in the order of 1 per cent of GDP.

Most of this will arise out of the actions which the Commonwealth has taken to reduce our own Budget deficit.

In the context of the sharp improvement in the internal funds position of the corporate sector and the winding back of inflation and inflationary expectations which our policies have produced, this should permit the downward pressure on interest rates to be maintained.

A reduction in interest rates will, in turn, provide a firm underpinning to the nascent revival in business investment which has emerged over the past 6 months.

The Government has made very clear its view that private sector investment is vital if economic growth is to be sustained and Australian living standards are to be improved in the future.

We have no illusions on this matter.

Over the past year, we have achieved very high rates of growth by any standard.

Of course, we acknowledge the presence of several temporary or cyclical factors : the pick up in the rural sector after the drought; the reinvigoration of the housing sector, assisted by policies such as the First Home Owners' Scheme; a temporary fillip from the public sector; and the stocks cycle.

In the longer term we know that business investment must make a central contribution to growth.

With this in mind, we have introduced several measures in this year's Budget specifically to assist investment and to ensure that the current momentum continues.

We have decided that plant ordered prior to 1 July 1985 will qualify for the investment allowance if it is first used or installed ready for use or put into use before 1 July 1987. This extends the present time limit by twelve months and will be particularly beneficial where large items of equipment or long lead times are involved.

In taking this decision to extend the current concession, we had very much in mind the advice given to us by the Australian Manufacturing Industry Council favouring the retention of the investment allowance.

The Manufacturing Industry Council recommended the extension of the investment allowance for three years, pending review of depreciation and other provisions of the corporate income tax. We judged it best to allow the allowance to expire on the timetable previously legislated by the Fraser Government, with an extended period for installation of plant.

We believe that further community analysis and discussion is required before we are in a position finally to settle our view on appropriate long-term corporate income taxation arrangements.

In the meantime we have decided to introduce three features into the corporate income tax, which we are confident are consistent with any long-term reforms that we might contemplate.

We have increased the rate of depreciation on non-residential income producing buildings from  $2\frac{1}{2}$  to 4 per cent. This concession will assist cash flow, especially as time passes, and in the process reduce a disincentive to these forms of business investment. It will also provide a welcome early fillip to the non-residential construction industry, which has only recently begun to feel the impact of the broader recovery in economic activity.

We have also decided that group taxation provisions should be introduced with effect from the 1984/85 income year. Following the recommendations of both the Asprey and Campbell Committees, group treatment will allow losses made by one company to be offset for income tax purposes against profits made by other companies in the group with 100 per cent common ownership.

This measure will especially improve the cash position of groups which undertake investments requiring long periods before becoming profitable. Perhaps even more importantly, it will remove an incentive to distortion of corporate structures that is inherent in the current arrangements.

Finally, we have decided to allow money spent on general mining exploration to be deductible against income from any source.

I am confident that the combined effect of our policies will be to consolidate the expansion of output and employment in an environment of co-operative industrial relations and moderating inflation.

Many of you here tonight will be as much concerned about whether the Government is willing and able to reduce the Budget deficit in the course of further growth in private investment in future years, as you are with this year's deficit.

This is a valid concern, and one that the Government takes seriously.

We will continue to reduce the deficit in the course of economic recovery.

We believe that this is consistent with continued implementation of reforms and new programs which strengthen the Australian economy and society, and improve our provision for Australians in need.

It is consistent with this continued program of reform because we are prepared to contain and reduce expenditure on low priority programs.

In this context, the real growth in outlays of 6.1 per cent in this year's Budget represents much more substantial overall restraint than is immediately apparent.

If we exclude the once-for-all increases associated with the Medicare reforms, this year's real growth in outlays is about 4 per cent compared with 6.7 per cent in 1983-84 and 6.3 per cent in 1982-83.

This 4 per cent itself is inflated by two considerations which are important this year but which will be much less significant in future.

The domestic reductions in expectations about inflation as measured by the GDP deflator by about two and a half percentage points between February this year when the forward estimates were prepared and the completion of work on the Budget, meant that a number of commitments entered in money terms early in the year were larger than would be necessary in more normal circumstances. Similarly, debt servicing commitments are set in the short term in nominal terms, and thus real terms equivalents are raised for a while by sudden and large reductions in inflation.

Further, the strong growth in outlays through 1982-83 and 1983-84 would have carried through into significant growth in real outlays in 1984-85, even if there were no growth in expenditures from the level of June 1984.

Thus it will be clear that a very substantial degree of expenditure restraint is reflected in this year's appropriations.

Following the experience of two Budgets, I am firmly of the view that we must review our traditional procedures of Budget formation with a view to utilising fully the opportunities for financing new and expanded programs while continuing substantially to reduce the Budget deficit.

When Budget decisions are taken on the eve of or even after the commencement of a new financial year, a Government's options for securing major savings without disruption and waste are severely truncated. In future Budgets, we must seek to extend the lead times in preparation of the expenditure side of the Budget, and in implementing expenditure decisions, and to improve on the traditional practice which we have inherited.

We are working towards the continuation this year and in future years, of the strong performance that began a year ago.

Non-farm GDP is forecast to rise by 5 per cent this year - a second year of extremely strong expansion by the standards of the past decade, and in line with our long-term requirements. With employment forecast to expand by  $2\frac{1}{2}$  per cent, by next June, over 400,000 jobs will have been created since the Summit - comfortably within reach of our election promise, widely thought to be unrealistically ambitious at the time, to create half a million new jobs over three years.

Consumer prices are expected to rise by only 5 per cent through the current financial year - less than the expected average of O.E.C.D. countries without any Medicare effect, after being twice the O.E.C.D. average when we took office.

None of these favourable outcomes is being purchased at the expense of our equity or long-term growth objectives. The opposite is the case, since our main initiatives to promote each of our three broad objectives are mutually reinforcing.

The Budget takes a substantial further step towards providing adequately for Australians in need.

And through the reforms in education, industry policy, financial deregulation and business taxation in particular, it establishes a firmer base for long-term growth.

The problems of Australia's economy and society that we were elected to resolve cannot be overcome with one or two good Budgets and one or two years of good economic performance.

But they can be overcome if every Budget and every year makes steady and certain progress.

There was good progress last year. There will be good progress this year.

And I look forward to building with the Australian people, over many years, the fair society within which we can realise the great ambitions which we share for Australia.

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