



## PRIME MINISTER

ALP LUNCH - LAUNCESTON, 23 OCTOBER 1984

E. & O.E. - PROOF ONLY

P.M. . . . . Now, let me say that having dealt with those two issues of direct importance to the people of Launceston and this region, that I would like to spend some time now in talking with you - about what has emerged as a fundamentally important issue in this campaign in the light of yesterday's release by Mr Peacock and Mr Howard of their so-called Tax Policy. We have been told as Australian citizens over the last 18 months that the Liberal and the National Party would produce a tax policy - as part of their general economic policy. And so, we were all I believe waiting breathlessly, for some detailed exposition of this policy. Now, of course we have all been disappointed because the policy is exceptionally short on detailed exposition. But, it is not short, if I may put it this way on basic concept and philosophy. And I want today, here with you, to spend some time in analysing with you what that basic concept and philosophy is, what the economic implications are for every Australian, and I will be doing this together with my friend, Paul Keating over the days ahead. People of Australia are entitled in these next few days to have a concentration of attention of analysis by us, the Government, by the media, on these proposals of the Opposition. And I certainly intend to undertake my responsibility to the people of Australia, to analyse with them, these implications.

Now, let me say at the outset that what is basically clear as to the concept and intention of Mr Peacock and Mr Howard is that there shall be a substitution to a considerable extent from direct tax, income tax on some people towards significant increases in indirect tax for everyone. Now, that's the essence of what they are about. We are entitled therefore to ask ourselves precisely what this means. Now the first thing that I want to say to all of you - to every concerned Australian, is that what this necessarily means is a significant increase in inflation. What we did in Government, and I put this by way of background, is that our great contribution has been that in a very short period of time, relatively, to break the vicious cycle of inflation, wages chasing prices which meant further inflation which had afflicted the Australian economy through the period of conservative rule. Whenever the economy had got moving, when there was sudden growth, then it broke down through inflation which was fuelled by wage demands of unions wanting to see that the increase in prices which had taken place - under their unco-ordinated policies of the conservatives, would pick up in wages. Now we broke, that vicious circle. I remind you of the

P.M. cont.. facts. When we came to office in March 1983, this country was on it's economic knees. We had the worst recession since the great depression of the 1930's. But, it wasn't a recession with an oppressed level of economic activity like the great depression in one respect. - because remember then, that there was no inflation. But, with the conservatives of these latter days we had the worst of all worlds. - We had recession and very high levels of inflation. We inherited 11.2% inflation, and that was about twice the average of the rest of the world. So you had soaring unemployment, jobs disappearing, economic growth had gone, economic stagnation, but inflation had doubled the rate of the rest of the world. And it had that, because you didn't have co-ordinated economic policy planning. You didn't have planning which co-ordinated wages policy, tax policy, general Budget policy, general macro-economic policy. And because you had this lack of co-ordination you had the worst of all possible worlds. And particularly you've had high and rising inflation. And that was their pattern. Everytime it had any sign of recovery, it broke down with this break-out of wages chasing prices and inflation going up.

Now, let me remind you in this respect, of the views that was very explicitly put to the people of Australia quite recently by Mr Howard. Mr Howard in 1981 addressed himself to this question of the impact of increases in indirect taxation upon the inflationary situation. I read to you from what Mr Howard said in the House of Representatives on 12 March 1981. It referred to practical difficulties. It said ..important, though his practical difficulties & future revenue considerations were - the fundamental reason for the Government's decision was it's concern at the impact on inflation and inflationary expectations in any significant shift towards greater reliance on indirect taxation. And that's pretty clear. No qualification about it. Let me read it to you again. The fundamental reason for the Government's decision was it's concern at the impact on inflation and inflationary expectations on any significant shift towards greater reliance on indirect taxation. And yet that's what the very essence is, of what they unleashed upon Australia yesterday. Mr Howard went on, and I'll just read this final sentence in this section of his speech to the House of Representatives. He said therefore, and despite obvious advantages from many other points of view, the Government came firmly to the conclusion that the inevitable squandering of the gains made and the maintained in the fight against inflation in recent years was a price it was not prepared to pay. Now, I ask you and I will be asking all Australian citizens to ponder what Mr Peacock and Mr Howard are now saying out of their own mouths, they are prepared to do to the people of Australia in the light of that exposition. Mr Howard, unequivocal in March 1981, that if you had any sort of concern about inflation, then you had to be certain that you didn't move to a significant increase in indirect tax, because that would mean further inflation. He was right. Of course, what went further wrong however was, that in the period after 1981, they steadfastly refused to adopt a range of economic policies that would contain inflation any rate. They refused to have any wages policy at all. They tried then, right in that period, 1981. Right in the middle of that period they abandoned any wages policy at all, for centralised wages system. They said, let's throw it open, let the trade unions and the employers of Australia fight one another. Let the

P.M. cont. unions use their power. Let the employers use their power and let prices in the market, including the price for labour be determined by that process. And that's why by the time we came to office by the beginning of 1983 you had inflation at double the rate of the rest of the world. Now, what you have therefore yesterday, delivered to the people of Australia, as a so-called tax policy was not a policy at all, it was a nebulous paper which was no substitute for policy at all. It was a real pig in a poke. We will vaguely say that we will cut direct taxes by increasing indirect taxes, directly against the specific warning that Mr Howard had properly given in 1981.

Of course, as it quite clear, it had no relationship to general economic policy at all. Let me just briefly again refer to the opening portions of Mr Howard's speech in March 1981 when he then did seem to realize the relationship between tax policy and general economic policy.

This was what he had to say in the early stages of his speech in March 1981. He said this, and I ask you as I will be asking every Australian man and woman between now and 1 March, to understand this. This is the truth according to Howard in 1981. I quote him: "The taxation system is an integral part of our economic structure. As such tax changes cannot take place in a vacuum. Taxation", he said, "government spending and budget deficits and inflation", he had them all - "taxation, government spending, budget deficits and inflation are all directly connected. Coping with them is part and parcel of the task of running a modern economy." He said this: "the Government's views on taxation cannot be divorced and are not divorced from its underlying philosophy". And he concluded that section by saying: "Unless taxation changes are consistent with and achievable within the existing economic framework, they will frustrate rather than serve the Government's economic objectives."

Now let me spell out the implication and the truth of what Mr Howard was then saying. He points at this nebulous bit of paper on Australia yesterday as though that was some significant self-contained statement about taxation. But it was nothing of the kind. It had no details, but it was totally unrelated to the broad areas of economic policy as he had said in March 1981, any tax policy had to be.

Now let me spell out to you as citizens, not in terms of sophisticated esoteric economic analysis, but in simple straightforward terms which explain what that policy would mean for Australia if misguidedly the Australian people were to begin to give them the chance of implementing it.

There would firstly be a situation in which a minority of the people through income splitting would get an income tax reduction. The great other sector of the Australian people would get none, but all of us, including those who got the direct tax cuts and those who didn't, would be immediately faced with a significant increase in the tax they paid as a result of the increases in indirect tax.

But what would happen then? Once you had the increases in indirect tax, prices would rise. Naturally that is what follows. That is what Mr Howard said in 1981. That is why then the then government decided against that approach.

What happens then when prices go up. Then naturally the trade union movement, as it historically has done, moves to have compensation through way of wage increases for that increase in prices. And so you get the wage price spiral which inevitably produces that higher level of inflation.

And there is no way - and this is what must be understood by each and every Australian - there is no way that a conservative government would have any basis of negotiation with the trade union movement to prevent that wages outburst.

The distinguishing feature of your government today, ladies and gentlemen, is that we have achieved an historic accord with the trade union movement which allows the condition in respect of pay and other conditions of employment to be satisfied at times other than by simply looking at money wage increases. And that is relevant to our realistic tax policy, the benefits of which will be going to the pockets of all Australian taxpayers in the next few days.

You are going to get the largest real tax cut that Australians have had for very many years. The figures I repeat - they should be clearly in every Australian's mind - that if we had given you a tax cut which was only necessary to cover you for inflation which had brought in bracket creep - the costs of that in a full year would have been \$1.3 billion - the cost of the tax cut, the benefit of which you will soon be getting, will be \$2.1 billion. Now that is what we have done, and that is equivalent to an \$11 a week wage increase and that has been an issue which has been worked out in consultation not only with the trade union movement by this government, but also in discussion with broader sections of the community.

But Mr Howard and Mr Peacock have said they will smash the Accord - no consultations. That is not on. I go back to this business of saying, let the fight take place in the market place. If the fight takes place in the market place then that means, as I say, wages, chasing prices, higher inflation.

So Mr Howard was right in 1981 when he said tax policy must be related to the whole panoply of economic management and the great mistake they made yesterday is to believe that the Australian people are going to buy a return to the misery of the past, to the unco-ordinated policies of the past which brought this great country to its economic knees, where we had the worst recession since the 1930's, stagnation. Now it is no accident that we turned that round. We turned it round with your co-operation, with the co-operation of the whole community, and particularly through its great organisations, the business organisations and the trade unions.

And we realised the truth. And you, the people of Australia, accepted it - that if you are going to turn the economy round then you have got to co-operate and consult together and have integrated policies, your tax policy related to your budget strategy, related to your wages policy.

In the result, Australia has turned around from recession to having in the last twelve months the highest rate of economic growth in the world has turned around from having double the inflation rate of the rest of the world to a position where now we as Australians can boast the fact that our inflation rate has been more than halved and brought back in current underlying terms to somewhat less than the world average. We have turned it round from a loss of 200,000 jobs, an increase of a quarter of a million in unemployment, to a reduction in unemployment, and an increase of 260,000 jobs.

To interest rates having been brought down - and all that happened, my friends, because you, the Australian people, not just as individuals, but through your organisation, the business men and women, and as workers in the trade union movement, decided rightly with us that the time has come to do two things - to work together rather than fighting one another - to put Australia first in that sense - and because you accepted the truth of what we were saying that you had to have integrated policies - tax policy integrated with budgetary strategy, government spending and the like.

Now, there is one other aspect that I want to go to and that is that Mr Howard said in what will now become that famous speech of 12 March 1981 - he said - I remind you, he said this: "The Government's views on taxation can not be divorced, and are not divorced from its underlying philosophy".

Well that is true, and that underlying philosophy of the conservatives came through yesterday. Because according to my Treasurer's calculations, not disputed by Mr Howard last night on the program they shared together - I would stand, at my level of income as Prime Minister - I would stand to benefit by \$66 a week to me out of this philosophy of the conservatives and that would be paid for by the relatively lower income people in this country.

Now we just don't happen to believe that if we are going to have a cohesive society which is going to continue to work together to produce the great economic results that we have under this government, you are going to continue to do that if Prime Ministers should get \$66 a week cuts out of a tax policy while people lower down the list, not only get nothing, many of them, but would in fact in net terms be worse off because of the significant increase in tax they have paid through the increases in indirect taxes.

So my friends I repudiate, and I believe you will repudiate, and I believe the overwhelming majority of Australians will repudiate this nonsense, this regressive backward, unacceptable philosophy which was put to the people of Australia yesterday. It will mean as I say, inevitably a return to the days of ..... inflation which made our economy uncompetitive, which produced economic stagnation, which produced loss of jobs, and inflation at double world levels.

Under the approach of this Government we have shown that tax policy must be integrated with economic policy generally and we are not - and I believe you are not - going to accept that return to the unacceptable days of the past.

My friends, I have taken some time in dealing with that issue because I believe that you as concerned Australians want to know what it is that has happened in the past. I have explained that to you. I think you share our pride in the fact that Australia is winning again, that we have turned the economy round, importantly that we have turned it around together with the great elements of Australian society working together - the trade unions, the business, the States, local government, working with the Commonwealth Government. We have shown that there is a better way to put Australia at the top of the world's economic growth table and we have done it in a way which combines economic efficiency with a consideration of equity.

I believe it is appropriate that under the tax cuts that will be coming in in a few days time that I only receive about \$2 and a bit, whereas the average wage and salary earner in this country will be receiving \$7.60. I think that you think that that is fair. I certainly think it is fair. And I think it is totally unacceptable philosophy that the alternative should be that I should get something like \$66 a week increase out of the new social tax policy and people lower down the level would not only not get a tax cut but in net terms would be worse off.

That is not the way you create a cohesive society. That is not the way you get Australians working together. That is not the way you have Australians winning as it is now under this Government.

So, my friends, (tape ends)