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**TRANSCRIPT OF THE PRIME MINISTER
THE HON. JOHN HOWARD MP
SPEECH TO RYDE BUSINESS FORUM, SYDNEY**

E & OE.....

Thank you very much Ian for those very warm words of introduction and to Cath King, to Jim Hull, the Mayor of the city of Ryde, other very well known and distinguished guests, ladies and gentlemen, it's a great pleasure to be back at the Ryde Business Forum wearing my new hat and carrying my new responsibilities. Some things of course go on from year to year and one of those is the dedication of John Booth to the community of Ryde and I want to congratulate John and TWT on its anti-unemployment initiative. The more small businesses that can do that, the better. The more small businesses who commit themselves out of a sense of social obligation and civic pride to reducing unemployment the better.

Of course it would help ladies and gentlemen if we could even further reform the unfair dismissal laws which have acted as a barrier for a long time against small business employing more people and if I can say at this stage one of the small business initiatives of which I was particularly proud after we were elected was the implementation of our commitment to reform the unfair dismissal laws that we had inherited from the former Government, laws which actually worked as a disincentive against small business taking on staff. We reformed them a lot and then a few weeks ago when I announced a package of measure for small business we decided to go even further and to completely exempt all small firms employing fewer than 15 people in relation to staff they'd had for less than 12 months, a proposal that I think every man and woman in this room who runs a small business would see the great common sense of and something that would make it easier for you to take a punt about employing one or two more people in your business, and as you all know, the solution really to Australia's unemployment problem lies more in the small businesses employing three and four, making that five and six than in any sort of expectation that the large corporations of Australia that are still into downsizing are going to pick up the unemployment slack.

The only problem is that our political enemies in the Senate say they are going to disallow the regulations to bring in that under 15 rule and I have to say that if that regulation is disallowed then we will roll it back in the form of a bill and it's an illustration of some of the road blocks that lie along the path to economic reform and change in Australia.

But John, again congratulations on the TWT initiative. It's a great example of a public spirited commitment to things that really matter about the community of Ryde and also the broader community of Australia. I am delighted to be here today to say a few things about the business climate, not only here but throughout Australia and also about some of the responses to the Federal budget. Can I say, I hope without any real

hyperbole but a natural tone of optimism that I believe general business conditions in Australia now are good and they are strengthening. If you look at the fundamentals we do have a much lower rate of inflation than we've had for many years. We do have significantly lower interest rates although they are not as low for small business as they are for housing and I know that's something that is in the minds of many people in small business all around Australia.

What is more we have the prospect of maintaining low inflationary conditions in this country for some time into the future. I don't think it's an exaggeration to say that we appear as a community in common with other industrialised countries, we appear to have turned the corner and moved away from those years when we seem to have entrenched in our system high inflation and high inflationary expectations.

We do have by world standards a very high level of economic growth. The Economist will argue about it. It's 3.5 - 4%. Some will say it's 3 and a quarter. The best advice we have is that by year's end in budget terms we will be looking at a rate of about 4%. Now historically, that's very good. We're into the sixth year, I think, perhaps the fifth of recovery out of a very deep and a very damaging recession. The omens internationally are strong. The Asia Pacific region where we send most of our exports is still growing at a very strong rate. The American economy is very strong indeed and the news this morning that the Federal Reserve had decided not to increase interest rates in the United States has given a great deal of confidence to not only the markets in the United States but also the markets here in Australia. And the rate of growth in the US is good. Japan is not growing as strongly but certainly better than was the situation several years ago. The scene in Europe is more mixed, with the British economy being by far in gross terms, in inflation terms and unemployment terms the strongest of all the major European economies.

Now I paint that international picture to put the point across that the general climate is quite conducive. There are of course a number of areas where there are still major concerns. Unemployment in this country remains high, and unacceptably high and the focus of policy must remain on unemployment and every time we think of reform, every time we think of change, we have to ask ourselves, will it make a contribution towards reducing Australia's level of unemployment? Generally speaking, it is a good, positive, optimistic climate for business. Now I don't deny that in some areas of the Australian economy, particularly in the small business sector, it's a mixed scene. I talk to a lot of men and women in small business and I get a different feedback. I wandered around today. Just about every second person I spoke to, I said how's business, and I got a mixed reaction, some very positive, some doing all right but it's tough, others not so good. Now I understand that and one of the great values of a gathering like this is to actually hear people making those comments and to feel that you are in touch with what they're saying and what are their concerns.

The Budget, ladies and gentlemen, was designed to reinforce the fairly positive optimistic outlook for business. It wasn't a budget that went for gimmicks and rabbit out of a hat tricks. We didn't need in this budget, because of the expenditure reductions that we had made in the first budget, we didn't need to repeat that. I mean, there has always got to be a purpose to economic change. There's no such thing as economic reform being an end in itself. You don't change the industrial relations system to make yourself feel better. You don't change the tax system to make yourself

feel better. You change it for a purpose and the purpose of economic policy is always to generate jobs, to improve the competitiveness of the Australian economy and to lift the living standards of the Australian people.

Now they're the three things that you should judge every measure against. Does it help to generate jobs? Does it improve the competitiveness of the Australian economy and does it build the living standards of the Australian people? Now the greatest thing that I think the budget that Peter Costello brought down last week did, the greatest thing it did was to lay down a pathway to this country being back in the black at the end of the third year of the first term of my Government. I mean, we did inherit a deficit of \$10.5 billion and by year three of my Government's first term, we will have a surplus of \$1.6 billion and of all of the, and as I went around the business community, whether it was big or small, before the last election they had a lot of advice to give me. I always get advice and I understand that - it goes with the territory and I don't object to it. I welcome it but one of the things that I was always told before the last election is that we can't live beyond our means. There's a limit and somebody bells the cat on us and so it ought to be with the Government. In 1995 just under 20% of the annual wealth generated by Australia each year, just under 20% of our gross domestic product was represented by the accumulated national debt of this country and that is all the money that over earlier years governments have borrowed to make up the difference between what they have raised through taxation and what they have spent on the various responsibilities of government and in 1995 if you said our GDP was something like, you know, let us say, for example, I can't hold myself to the exact figure, if it was \$400 billion, then 20% of that would be, what, \$80 billion this year, roughly what the debt was.

Now the message I bring you today is that by the year 2000 that almost 20% will have been reduced to 10% and in proportionate terms it would be exactly half of what it was in 1995. Now that is not the sort of thing that gets people dancing in the streets. It's not the sort of thing that gets people popping the corks out of the champagne. It's not the sort of thing that gets people absolutely lyrically but in the long run it does more for stability and it does more for a prosperous, stable Australian future than just about anything else that a Government can do. I mean, your first responsibility as a Government is to make sure that the accounts of the nation are in order because without that you can't help people. I mean, you can't help pensioners. You can't help the underprivileged. You can't attack the fundamental problems of say, Aboriginal health unless you've got the wherewithal to do it and you don't have the wherewithal to do it unless you are living within your means so I am very proud of the fact that we did that and I would defend on that ground alone the enormous contribution this budget has made to the future economic stability of this country and I am very happy to say that by the turn of the century on present projections we will have the spending levels of the present government back to what they were in proportional terms in the early 1970s, just after the Whitlam Government came to power and given the added responsibilities of Government through higher levels of unemployment and greater social and family disintegration than was the case 25 years ago I think that's a quite remarkable achievement.

I am also very proud of the fact that the Federal Budget contains something that the rest of the Australian community, as well as the business community have been asking for for years and that is an incentive to save. I mean, I listen to the radio, I go around

the community and over the last 20 years people have been saying to me year after year, meeting after meeting, lunch after lunch, lecture after lecture, they've been saying to me, why don't you do something to relieve the double taxation on savings? They've been saying to me, it's ridiculous, I pay tax when I earn my money, I put it in the bank or I do something else with it and I pay tax on the interest. That's double taxation. Now people have been saying that to me for years and for the first time we've got a government that's actually done something about it and it's not limited to savings.

If you make a personal contribution to superannuation you can claim the 15% on that. If you get a rental return from a business investment you can claim the 15% on that and so the list goes on. It's an across the board, comprehensive savings initiative and for the first time you've had a government that's nailed its colours to the mast and said we believe in savings, we believe in encouraging and procuring a savings culture and that is why we've done it.

And in another area that I'm particularly proud of, that this budget has looked to the future and that is the establishment of the Federation Fund. One of the things that I recognise both in my present position and in past positions, one of the things I have recognised for a long time is that some of the basic infrastructure of the Australian community is starting to wear out. We do need some more capital investment and one of the responsibilities of government is to make certain that we have a strong level of basic infrastructure and that is why we have established a Federation Fund which in the lead up to the centenary of federation will make available about \$1 billion for major capital projects.

It's not going to be a slush fund for a thousand provincial and municipal obelisks. Now I am sorry, there may be some people in this room who are disappointed about that but I have got to tell you, this is a fund about large projects. This is a fund which is meant to support major projects that are going to change some of the basic infrastructure services of the Australian community.

So I speak to you today therefore ladies and gentlemen as somebody well pleased with the important job that the budget has done. It has put us in the pathway to being back in the black. It has turned around a \$10.5 billion deficit into a \$1.6 billion surplus by year three, and that's a monumental achievement by any measure. Yet at long last has broken through in relation to giving a broadly based savings initiative. And also it will look to the future particularly to the centenary of the federation of our nation in recognising the need for additional infrastructure support and infrastructure spending.

I am of course somebody who has spent a lot of years of his political life campaigning for the cause of small business. I came out of a small business environment and one of the things I learnt as a child was the belief in the importance of small business and the notion that there's nothing you can do more nobly in your life than to start with absolutely nothing and build up a business through the efforts and entrepreneurial flair that you might have.

I do want to share with you for a moment some of the important initiatives that we have introduced for the small business community. Our industrial relations changes are very valuable to small business. They significantly reduce the role, the compulsory role of the trade union movement in the negotiation of workplace contracts. They have

encouraged the development of workplace and enterprise agreements and contracts which are far more amenable to the average small business enterprise than the more complicated and cumbersome awards system. We have reformed the unfair dismissal laws. We would like to go a lot further if only the Senate would allow us to do so.

From the 1st of July we will introduce, from the 1st of July this year - that's only a little over two months, indeed only a little over one month - we will introduce what is the biggest single change to the capital gains tax system since it was introduced in 1985. And this is a provision that will give enormous rollover relief to every small business in Australia. And under this provision if you sell your small business you can invest the proceeds of that sale up to a maximum of \$5 million, up to a maximum of \$5 million in the purchase of another business, it doesn't have to be the same kind of business. In other words you can sell a computer software company and buy a newsagency or buy a little manufacturing business, whatever you like. And up to \$5 million of the proceeds of sale will be completely exempt from the payment of capital gains tax.

Now that will over time, it will completely alter the attraction for investment into small business. What it effectively means is that in some many areas of small business there can be an indefinite deferral of capital gains tax liabilities. And on top of that we have a more modest but nonetheless valuable measure that says when you retire up to \$500 000 in relation to the sale of the business will be completely exempt from any kind of capital gains tax.

Now that fulfils, more than fulfils the commitment we made before the election about what we were going to do in the area of capital gains tax. We have through responding to the recommendations of the Bell Report, we have brought about major reductions in the paperwork burden, particularly in the area of fringe benefits tax where from a date soon, any firm that has less than \$5000 of fringe benefits will not have any obligation to keep any records at all and we are exempting another number of areas completely from any obligation in relation to fringe benefits tax.

We have of course in the small business area implemented a number of other changes and reforms including our commitment in relation to the provisional tax uplift factor back to where we reduced it from 8 per cent to 6 per cent in relation to last year and this year.

So I go over those things ladies and gentlemen, some of you would be aware of them, I hope many of you are, some of you would not be aware of them. But they do in a period of 14 months tell a very strong story and represent a very solid list of achievements in the area of small business. And when you add to that those who have received the benefit of reductions in official interest rates of about 1.5 per cent over that period of time. All of those things are together will be very valuable to small business. And in the last budget we announced as from the 1st of July next year, we will be extending up to a period of three months the time in which small businesses may remit the proceeds of deductions in relation to PAYE tax payments and other payments of a similar kind. And in cashflow terms that will be of very great benefit to small business. I think the period of time now is less than a month and it will go to three months from the 1st of July 1998.

We are trying at every point, we are trying to make changes that are of benefit to the small business community, because I remain very strongly of the belief, ladies and gentlemen, that energising small business, giving small business more initiatives, taking the paperwork burdens away from them, reducing where you can the taxation burdens, all of those things will contribute to the capacity of small business to employ people. And going back to what I said a few moments ago, it is all about measuring what you do against the benchmarks, the three benchmarks, the first and most important of which is job generation.

Now ladies and gentlemen in the last few days there's been a little bit of debate about taxation reform in Australia. And I make no apology for talking about and recognising the need for taxation reform in Australia. I'm very proud of the reforms that we have already implemented. The capital gains tax reforms in the area of small business. The \$1 billion family tax package that gave a great deal more justice to low and middle income families brought in on the 1st of July. The personal tax incentives for private health insurance that will come in operation on the 1st of July this year. And oh what a shame it is that those incentives weren't brought in 5 or 6 years ago when we had about 40 to 41 per cent of the Australian population holding private health insurance. It is now because of the lack of incentive for people to take out private health insurance to climb to a figure of about 34 per cent. Now I believe that those measures will begin to turn that around and they'll be highly beneficial and they'll provide a very strong incentive.

But it's an enormous pity and an indictment on my predecessors that the advice of the former Labor health minister, Senator Richardson, in 1990 that something should be done about giving people incentives to go into private health insurance wasn't taken up on that particular occasion.

I don't think anybody would argue that we have a perfect taxation system in this country. I've not met anybody in business or in the professions who believe that. We have made some improvements and some reforms. And if we are thinking forward, if we are to be a forward thinking nation, if we are to be truly competitive, if we are to maximise the incentives for job generation in this country well you can't leave out of that examination or leave out of that picture a taxation reform.

Now I made certain commitments about particular taxes before the last election and I intend to honour those commitments in full. But I do believe that we need as a nation to talk about and to think about and to debate the desirability of tax reform and the form that that should take. And in doing so, we should always remember those three benchmarks. We should ask ourselves will the reforms help to generate jobs? Will the reform improve the competitiveness of the Australian economy and will the reforms contribute to an increase of the living standards of the Australian people?

Tax reform in its own right is not a goal. What is a goal is reform to the taxation system that matches those three benchmarks. We need a tax system that makes it easier to create jobs. We need a tax system that improves the competitiveness of the Australian economy and we need a taxation system that improves the living standards of the Australian people. Now what we do on this issue in the years ahead will be judged against those three benchmarks. I think it's profoundly disappointing that the reaction of the Labor Party on this issue has been so negative and backward looking.

People who say there is no need for any taxation reform in Australia are indicting themselves as yesterday's men chained to yesterday's taxation system. Because anybody who understands the competitive pressures that are weighing in on the Australian economy, despite all the changes that we have made, and others that are in the pipeline must recognise that if you are to compete effectively in an increasingly global economy, you must be absolutely certain that the taxation system that we have is adequate to that task. And that is why I have quite openly and deliberately embraced and talked about the need for debate on the future of Australia's taxation system. And I invite people whether they're in the business community, whether they're in the welfare sector, as private citizens, those in academia and those in the government service, and I invite all of them to participate in a very important debate.

We do have to be sufficiently courageous and mature as a nation to recognise that although we have come a long way in the reform area, and although by in comparison with the rest of the world we are very richly endowed nation, that if we are to maintain that position we must be willing to examine and where necessary change some of the economic structures of our country. But don't change it out of some kind of blind commitment to ideology. I'm not interested in that. I'm not interested in an econometric model of an Australian taxation system, I'm interested in a people's and job generating model of an Australian taxation system. And if we can design over the years ahead a system that matches those three great benchmarks then I think we will be doing ourselves, the future of our nation and the future generations of Australian people a very great service.

It is the role of the Government, it is the role of those who have been elected to leadership positions to combine a patient understanding of the concerns of the Australian community with a need on occasions to point a goal and point to an end direction to which the community should strive and aspire. And I believe we do need a debate on this issue and I invite people who are concerned about a positive future for Australia instead of a negative, backward looking, smug, complacent, 'she's all right' approach, of complete lack of realism. I invite people to join in that debate.

And finally ladies and gentlemen, can I say as the Member for Bennelong how pleased I am to be here, how pleased I am to share a few thoughts about the budget and about the future of the Australian economy with people who represent the commercial and small heart of my electorate. I mean this is a cross section of what small and medium size business in Australia is all about and it's a great privilege to be amongst you again. I wish you well. I congratulate the Ryde Business Forum on what it's achieved and what it's doing to represent the small business and commercial aspirations of the City of Ryde.

Thank you.