



# PRIME MINISTER

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**\*\*\* *Check against delivery* \*\*\***

**TRANSCRIPT OF THE PRIME MINISTER  
THE HON JOHN HOWARD MP  
ADDRESS TO THE MENZIES RESEARCH CENTRE  
GREAT HALL, PARLIAMENT HOUSE**

**Taxation: Keeping faith with Australian families**

I am delighted to be back at the Menzies Research Centre, an organisation with a unique place in the Liberal family.

It was at the Menzies Research Centre, prior to the 1996 election, where I began a series of speeches setting out the principles, values and policy direction which the Liberal and National Parties would follow in government.

Tonight, I want to revisit the signature commitment which I, on behalf of the Coalition, made to the Australian people more than a decade ago – to put the needs of families at the centre of the national policy agenda.

We pledged:

- ?? to restore to Australian families a sense of confidence and optimism about their country's future;
- ?? to bring within the reach of more families the prospect of good jobs, home ownership and rising living standards; and
- ?? to open up new avenues of choice for families, especially those on modest incomes.

We also made a solemn commitment about how we would govern.

We knew that Australian families were fed up with Paul Keating's humbug and hyperbole. They'd grown tired of governments that over-promised and under-delivered. They were frustrated with political leadership that seemed to care only for the boutique interests of the few while ignoring the everyday concerns of the many.

I therefore pledged to run a government where the views of the powerful, the organised and the politically articulate would not dominate at the expense of the unorganised mainstream of Australian society.

While some commentators drew parallels with Menzies' eloquent paean to the Forgotten People in 1942, I'd be the last person here to put it in that league. Yet it was a commitment made with the Menzies legacy very much in mind.

Menzies knew that the Liberal Party would never survive as a sectional party, an elitist party or a party of privilege. He knew that to win and hold government, and to fully serve the Australian people, it had to attract votes from a broad cross-section of the Australian community, including those on modest incomes; Australians who saw in us their best hope for a better life, for themselves and their families.

This sentiment, these values are as relevant to Australian Liberalism today as they have ever been, not least in the context of debate over taxation.

Robust debate is the lifeblood of democracy. Governments, however, have a singular responsibility to filter the endless stream of demands on tax through a wide policy lens.

That lens, through 30 years of public life dealing with public finance, has ranged over how we think about fiscal policy, the level and mix of tax, constant pressures for higher spending, reform of Commonwealth-State financial relations and, more recently, the intergenerational pressures which Australia must face.

The Coalition's reforms to Australia's fiscal architecture on all these fronts have been crucial to our strong economic performance over the last decade, as I will touch on in a moment.

But if there is a lesson I have drawn from tax debates over three decades it is that elaborate models and reformist rhetoric count for very little without a concerted focus on the financial pressures that Australian families confront.

A healthy set of books is a necessary condition of good government. It is not, however, a sufficient condition for a good society. And a taxation system that fails to recognise the costs of raising children – that adopts an antiseptic, economically neutral view of the responsibility carried by Australian parents – is a taxation system without a social vision.

My Government places the low and middle income families of Australia squarely in the foreground of our policy lens. We make no apologies for that.

That is how we said we would govern. That is how we have governed. That is how we will continue to govern.

To keep faith with Australian families, to provide them with greater choice as to how they live their lives, has been our guiding principle.

Modern government is about facing up to the challenge of a globalised economy. But it is also about supporting those institutions which provide reassurance and support when society is undergoing great change.

And strengthening the family – helping them with the costs of raising children – is the best way any government can reinforce social cohesion and stability in a changing world.

### **Repairing Australia's economic foundations**

Of course, fine words about families amount to little more than rhetorical eye-wash if a government fails to get Australia's economic fundamentals right.

That is why in 1996 the Coalition set about repairing Australia's economic foundations by slashing Labor's \$10 billion budget deficit and \$90 billion debt and by restoring integrity to Commonwealth finances.

A National Commission of Audit identified all assets and liabilities of the Commonwealth. With the Charter of Budget Honesty, we established a new framework for fiscal policy based on principles of sound economic management and transparent reporting.

Most importantly, the Government took some tough decisions on government spending, achieving a surplus ahead of schedule during our first term. And we put in place what are recognised today as world best practice frameworks for fiscal and monetary policy.

We were determined to draw a line under Labor's record of boom-bust fiscal follies. And to formally make sure that no Labor Treasurer could ever again boast of having the Reserve Bank in his or her pocket.

Stable fiscal and monetary policies have underpinned a decade of strong growth in what is now the longest continuous economic expansion in Australia's history.

The Secretary of the Treasury, Ken Henry, has observed that the small range of movement over the past decade in both monetary policy and the government budget balance would have come as quite a surprise to anyone familiar with the experience of the preceding two decades.

As a Treasurer in the 1970s and early 1980s, I can certainly attest to this. And I again want to record my deep appreciation to Peter Costello for his decade of wise economic stewardship.

A medium term fiscal strategy to maintain budget balance, on average, over the course of the economic cycle has yielded substantial benefits in terms of credibility and sustainability. The Government's underlying cash balance has been in surplus for eight out of 10 years, cumulating to an estimated \$59 billion.

Our debt reduction strategy has yielded an annual saving in interest payments of more than \$8 billion in 2006-07. This discipline has allowed us to expand provision of public services and to provide tax relief while still reducing debt.

Successive budget surpluses and asset sales will have contributed roughly equally to the elimination of Commonwealth net debt this year, in obvious contrast to the positions of most OECD countries.

Strong surpluses during periods of growth have helped to take pressure off interest rates and encourage private investment. They remain necessary if the economic growth, job creation and rising living standards that Australians have enjoyed through the last decade are to continue.

Sustained surpluses are also critical if Australia is to meet the future fiscal and economic challenges associated with demographic change. Like most developed countries, Australia faces a pronounced ageing of its population.

The Intergenerational Report in May 2002 highlighted the need for Australia to act early to reduce the potential for longer term age-related and health funding increases and to provide for them.

With the Future Fund, the Government has adopted a forward-looking strategy to address looming pressures. It will free up resources in the future when fiscal pressures associated with health and ageing are expected to emerge.

Consistent with Liberal philosophy, budget surpluses have been achieved without increasing the overall tax burden. The Australian Government's overall tax share has fallen as a proportion of GDP from 23.1 per cent in 1996-97 to an estimated 21.0 per cent in 2005-06.

We have the eighth lowest tax to GDP ratio in the OECD. Consistent with responsible budget management, we must aim to do even better.

Consistent with Liberal philosophy, the Government cut personal income taxes in 2000, 2003, 2004 and 2005, with further tax cuts legislated to take effect on 1 July this year. As a result, more than 80 per cent of taxpayers face a marginal rate of 30 per cent or less.

Someone on average earnings today is paying about \$3,000 less in annual income tax than under the old income tax scales.

Company tax has been cut from 36 per cent to 30 per cent. Capital gains tax for individuals has been halved.

We have ensured that Australia, amongst developed countries, has one of the lowest overall average tax burdens on families. Between 1999-2000 and 2004-05, the so-called tax wedge on workers' incomes – the gap between labour costs and take home pay – fell across all eight different family scenarios as analysed by the OECD.

The \$21.7 billion worth of tax cuts announced in last year's budget went a long way towards making our tax system more internationally competitive. Whereas about 14 per cent of taxpayers faced the top marginal rate in 2002-03, only 3 per cent will do so from next financial year.

With the increase in the relevant threshold to \$125,000 from 1 July, Australia has moved from the bottom third to the top half of OECD member countries on the level of income where the top rate applies.

With the GST, this Government acted to address the two biggest structural imbalances in Australia's tax system – an over-reliance on taxation of income relative to consumption and the lack of an adequate tax base for State and Territory service provision.

The GST paved the way for the abolition of no less than 10 inefficient taxes, giving Australia one of the most streamlined indirect tax systems in the world. The States have now received almost six years of GST revenue, with cumulative gains in 2008-09 likely to exceed initial predictions by \$7.4 billion.

As Peter Costello has said, it is impossible to talk sensibly about tax in isolation from the spending side of the ledger.

We now have quite low government spending compared with other countries in the industrialised world – lower even than the United States and Japan.

If you told the average American policy analyst that a country could offer universal health coverage, a comprehensive public education system, introduce a national value-added tax and still keep the size of government below US levels, he or she would be nothing short of astonished.

Earlier this year, I described government in Australia as lean but not mean. Our people seem to like it that way.

A limited and prudent state, yes. A nanny state, definitely not. But Australians have always believed in something more than Adam Smith's nightwatchman state.

And in an age when civilised nations are engaged in a global struggle against terrorism, when comprehensive health and school systems are every citizen's birthright and when that citizen is living more than twice as long as one born when *The Wealth of Nations* was published, I dare say Adam Smith would not be surprised.

The Government's consistent position has been that, having met legitimate spending responsibilities in national security, health and other services and having kept the budget in healthy surplus, taxpayers deserve tax relief. It is, after all, their money.

A Liberal Government would not be a liberal government if it believed anything less.

### **Real relief and genuine choice for families**

While this larger picture might not excite today's news cycle, it is an essential backdrop to a balanced debate on taxation. More importantly, it constitutes the wide policy lens which has allowed the Government to provide real relief and genuine choice for Australian families.

It has always been part of the Liberal tradition to expand the horizons of choice for Australians – in health and education, at work and at home. Liberals instinctively believe that the task of modern government is to enable individuals and families to exercise maximum choice, not to tell them how to structure their lives.

This Government has been especially keen to give families with children greater freedom to choose how they balance work and family responsibilities, including through additional support for those families who desire to have one parent – usually the mother – at home full time with children in their early years.

Beginning with the Family Tax Initiative in 1996, we have increased total assistance to families by more than \$6 billion a year – with the scales tipped strongly in favour of low and middle income families.

The maximum rate of Family Tax Benefit assistance for a child under 13 has risen from about \$2,420 to \$4,200 a year in the last decade.

A New Tax System collapsed 12 family and childcare payments into three, with the benefits of tax reform slanted heavily in favour of families.

In 2004, we introduced Australia's largest ever family package – an additional \$19 billion to help with the costs of raising children. Withdrawal rates on family payments have been progressively reduced to improve the rewards from working – especially for families where a second earner is in part-time or casual work or where a woman is returning to work after the birth of a child.

With the Family Tax Benefit system, the Government said to Australian families: we recognise your diverse needs and desires; we know that women in particular face difficult decisions about work and family. Most importantly, we believe that governments should accommodate the choices of society, not the other way around.

The numbers suggest a fairly stable pattern among Australian families with dependants. In 19 per cent of cases, both parents work full-time. A higher percentage – 21 per cent of families – rely on a single breadwinner, with one parent caring for children at home. And for some time now, the most common arrangement – today 28 per cent of families – sees one parent (usually the father) working full-time and the other (usually the mother) working part-time.<sup>1</sup>

Diverse families and different arrangements, but the same principle of choice.

As well as helping parents negotiate the big decisions about work and family, FTB also offers choice as to how what is, in reality, a targeted tax cut is received.

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<sup>1</sup> See attached table.

Language is important here. Those who seek to denigrate what we've done constantly refer to Family Tax Benefits as 'middle-class welfare'. They are nothing of the kind. They are tax relief for a universal reality – that it costs money to raise children.

At a time when there is general dismay at our relatively low fertility rate, what possible public policy justification can there be for affording precisely the same tax treatment to a couple without children on \$80,000, compared with a couple with two children on the same income?

A little acknowledged fact is that families can receive the Family Tax Benefit in one of three ways. They can, as most do, choose a fortnightly payment to the principal carer (normally the mother). They can receive a tax rebate on their annual tax return. Or they can have fortnightly PAYG deductions adjusted to take account of the benefit.

The fact that most people choose for family budget reasons to take it as a fortnightly payment does not alter its character.

Under the Family Tax Benefit system, according to Treasury analysis, almost 40 per cent of all families this financial year will receive more in cash benefits than they pay in personal income tax. In addition, FTB has meant that working families on lower incomes have experienced greater proportional increases in disposable income than those in higher income groups.

Let me cite three examples of how the Government's policies have helped to improve the financial position of low and middle income families.

The real disposable income of a sole parent on 67 per cent of Average Weekly Earnings (ordinary time, for full-time employees) has risen from \$34,088 in 1996-97 to an estimated \$40,749 in 2006-07. With FTB, their real net tax threshold – the point at which they begin paying tax in net terms – has risen from an annual income of \$34,502 in 1996-97 to \$44,951 in 2006-07.

A single income couple on average earnings with two children (aged 3 and 8) has seen their real disposable income rise from \$38,070 in 1996-97 to an estimated \$49,213 in 2006-07. Their real net tax threshold next financial year will also be \$44,951, up from \$33,931 in 1996-97.

Or take the most common case where one spouse works full-time and the other works part-time. For a dual income couple with two children where one spouse is on average earnings and the other on a third of average earnings, real disposable income has risen from \$49,170 in 1996-97 to \$61,286. And next financial year, that couple will pay no net tax on the first \$47,891 they earn.

Of course, the Labor Party has exhibited only unremitting hostility to the Family Tax Benefit system. It has become a very small-minded political outfit, almost resentful when the Coalition looks after low and middle income families better than they do.

Time and again, Labor has signalled its intention to take the axe to FTB. At the last election, its family tax plan would have left some of the least affluent people in

Australian society worse off, including single mothers and large, single income families on modest incomes.

Last November, the architect of this vicious policy and now ALP Treasury spokesman, Wayne Swan, said that Family Tax Benefits for what he terms 'high income single income families' should be 'rolled into a reformed tax system'. In January, Labor's Family and Community Services spokesman, Senator Chris Evans, complained that the Government 'has been gradually and quietly pushing up the value of family benefits'. And that 'there has been no real debate on the implications of this'.

You don't have to be a Bletchley Park code breaker to see where they are going! Labor wants to undermine the Family Tax Benefit system.

The thin edge of the wedge is its proposed family income test of \$250,000 on Family Tax Benefit Part B.

This benefit largely supports couples who choose to have one parent remain at home to care for children. It is designed to compensate single income families for the fact that they have access to just one tax-free threshold, while dual income families benefit from two thresholds and the lower rates of taxation applicable to incomes under a progressive tax system.

The bulk of recipients (nearly three quarters) are on incomes below \$50,000 a year. With FTB B, a family on a single income of \$35,000 with two dependent children (one under five) currently receives more than \$10,000 per year in family tax benefits.

Once a means tested threshold applies to FTB B, there is nothing to stop that threshold being whittled down. And the fact that Labor's means test saves a paltry \$6 million a year can mean only one thing.

In government, Labor would have a much tighter income test which would affect tens of thousands of single income Australian families who could by no stretch of the imagination be described as rich. To illustrate: a family income test of \$125,000 per annum would yield savings of less than \$100 million.

The Labor Party is also hopelessly confused. It rails against so-called effective marginal tax rates. Yet in relation to FTB B, it proposes an extension of them.

There is much hypocrisy on this issue. The effective marginal tax rate of which we are speaking could only ever be totally eliminated through either the abolition of the Family Tax Benefit system, or the removal of all income tests on benefits under that system which could only be achieved at significant extra cost.

The Family Tax Benefit system symbolises the great philosophical divide in Australian politics between a Labor Party which thinks government should direct peoples' behaviour and a Coalition which sees its role as letting families make up their own minds.

Whether it is FTB or funding for independent schools or support for private health insurance, Labor's old ideological agenda can never be killed off.

So that when it comes to choice: Don't trust them. Don't believe them. Because they don't believe in it themselves.

Now let me turn to a commonly heard complaint about the tax-transfer system – that the Government is engaged in nothing more than a giant 'churning' exercise, taking peoples' money with one hand and handing it back to them with the other.

Income tax raises revenue according to an individual's capacity to pay, while the family payments system is focused on need, assisting families according to their income and number of dependents. Some so-called churning is the inescapable result of a tax-transfer system where both policy instruments do their respective jobs.

Australia operates what is regarded as the most targeted social security system in the OECD, and probably in the world. Research by Peter Whiteford at the OECD has shown that we also have the lowest churn of any developed country.

As the Whiteford research points out, many of the supposed solutions to churning favoured by the Government's critics would likely have adverse distributional consequences for low and middle income households. And because income taxes represent a relatively small component of churning for the bottom 40 per cent of households, they would be unlikely to solve alleged incentive problems.

Again, I don't want to imply that more cannot be done to improve incentives in the tax-transfer system. But critics can't have it both ways – simultaneously railing about effective marginal tax rates and against middle-class welfare.

Let me make a final point. If the anti-churn advocates get their way, and the Family Tax Benefit system is dismantled in favour of tax cuts for individual taxpayers, the people who will suffer most will be Australian women.

One of the distinguishing features of FTB is that it is paid to the principal carer – overwhelmingly the mother. If simply rolled into a reformed income tax system, the bulk of individual tax cuts would go to men, financed by the withdrawal of direct fortnightly payments to women.

What our critics are really advocating is redistribution from women to men.

## **Conclusion**

When this Government came to office, Australia's economy was struggling to create jobs and to raise living standards. Today, it is almost impossible to pick up a broadsheet newspaper without reading a social commentator fretting about the consequences of too much affluence.

Faced with a choice, I know my preference. And I think I know what Australian families prefer too.

But I also know that we would not have survived as a government if we had not worked hard to spread the benefits of prosperity across the community.

Our record shows that we have been exactly the government we said we would be – a distinctively Australian synthesis of economic liberalism and modern social conservatism. A government that appreciates the virtues of markets, but also the values of family, community and country.

As I told the Menzies Research Centre in June 1995, I have never seen economic liberalism as an end in itself or a stand-alone political credo. Sound money, responsible budgets and efficient markets are nothing more than the mechanisms to support resilient families, cohesive communities and a stronger Australia.

A country, as Edmund Burke observed, ‘is not a thing of mere physical locality’. Nor is it just individuals in a market place. A country is also connected by a hidden chain of social obligations.

By keeping faith with Australian families – their interests, aspirations, hopes and values – we have kept faith with Australia at its best.

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