

# ECONOMIC POLICY 1989

## 1. PREAMBLE

1.1 Congress reaffirms its commitment to the economic policies of the Accord and endorses the continued operation of the Accord policies of:-

- (i) an agreed prices and incomes policy for Australia;
- (ii) the prime importance attached to the objective of full employment;
- (iii) a comprehensive policy approach designed to engender sustained economic growth and the simultaneous reduction of inflation and unemployment;
- (iv) the protection of living standards of all groups in the community;
- (v) the application of Government policy to prices and all income groups rather than to wages alone;
- (vi) an equitable and discernible redistribution of income;
- (vii) the recognition of the need for continuous consultation and co-operation between the parties involved;
- (viii) the recognition of the need for accommodating and supporting Government policies at all levels.

1.2 Congress reaffirms that full employment is the prime goal of economic policy, consistent with the prime importance placed on that objective by the parties to the Accord.

1.3 Congress believes that every Australian resident who is available for, and willing to work should be able to enter into full-time, paid employment.

1.4 No single problem facing an Australian society in the 1990's can equate with that of unemployment, the significance of which must be assessed in social and economic terms. Accordingly Australian economic strategy must be directed primarily at reducing unemployment.

1.5 It is necessary to pursue the prime objective of full employment in a manner consistent with the attainment of other important objectives, including:

- (i) relative price stability and increased output and productivity;
- (ii) assurance that the benefits of Australian economic activity flows to Australians on an equitable basis;
- (iii) a reduction in the present inequalities in the distribution of wealth and income;
- (iv) the maintenance of industries which a nation should

have or is able to build quickly to minimise the risk of undue pressure from other countries;

- (v) the maintenance of balance in our external accounts;
- (vi) greater economic independence and the minimisation of the control and influence of multi-national corporations.

1.6 Whilst recognising the great challenge involved in achieving full employment, the trade union movement does not resile from that objective. However, whilst unemployment remains we have a responsibility to understand the sociological environment and the social consequences of continuing unemployment.

1.7 Sound economic policy should be directed towards simultaneously lowering unemployment and inflation and concentrating on these goals rather than creating artificial targets such as the size of the budget deficit/surplus and money supply growth.

1.8 Congress believes that the objective of simultaneously lowering inflation and unemployment can be best achieved and maintained by the comprehensive policy approach of the Accord.

1.9. Congress notes that appropriate macro economic policy whilst a necessary element of a total economic policy approach is not a sufficient approach and needs to be supplemented by an active industry development policy and targetted unemployment strategies as part of a total Accord approach.

1.10 Accordingly, Congress believes that economic management should be coordinated around the development of:

- i) An open Government approach to economic management and economic information involving both the private and public sectors of the Australian trade union movement in the Australian economy.
- ii) A comprehensive policy approach supported by appropriate fiscal, monetary and exchange rate policies.
- iii) Effective mechanisms to combat inflation.
- iv) Industry Development Policy including specific industry policies.
- v) Specific Employment and Training Policies.
- vi) The longer term transformation to an economy base on open economic planning.

## 2. OPEN APPROACH TO ECONOMIC MANAGEMENT AND ECONOMIC INFORMATION

2.1 Congress reaffirms its support for an open and honest approach to the economic and social problems of our society. The Prices and Incomes Accord is posted on this approach which has been vindicated through its contin6al implementation whereby consultation has occurred in a range

of bodies and on a variety of issues.

2.2 Congress reaffirms the need for an effective forum through which all aspects of the Accord are objectively reviewed, monitored and communicated to the trade union movement specifically, and to the community in general.

2.3 Congress re-emphasises that sound economic policy making requires a comprehensive and timely information base. It therefore welcomes the acknowledgement in the Accord that Government for its part will give a higher priority to the collection and publication of relevant statistical data and the public dissemination of information.

2.4 The ACTU should continue to press for greater resources to be devoted to establishing a more accurate statistical information base.

2.5 Consistent with its emphasis on a comprehensive information base, Congress believes that companies and public enterprises should be encouraged to make available to their employees and relevant union substantial details of their financial position, their assessment of future profitability and their investment and employment plans.

2.6 The ACTU must continue to monitor the construction of the CPI to ensure that the cost increases as measured by the CPI effectively cover cost increases borne by all wage and salary earners.

### 3. COMPREHENSIVE POLICY APPROACH

3.1 The achievement of lower unemployment and lower inflation requires a comprehensive economic policy approach, based on an effective prices and incomes policy and supported by appropriate fiscal, monetary and exchange rate policies.

3.2 The attainment of those objectives demands a policy approach which involves the implementation of direct process to ensure a reconciliation of conflicting income claims at lower levels of unemployment than currently prevail. To achieve this it is essential to develop policies applying to prices and all incomes, and designed to reach agreement that the objective of such an approach should be to protect the living standards of Australians including wage and salary earners and non-income earning groups. This will require a different approach to Prices and Incomes Policy than has prevailed over the past 6 years. In particular greater attention must be given to how prices, dividends, profits and managerial/executives salaries can be restrained when such restraint is required of wage and salary earners.

3.3 The far reaching and inter-related set of conditions which we must deal with in turn require a comprehensive and integrated economic management strategy. As such the prices and incomes approach must be reinforced by appropriate fiscal, monetary and exchange rate policy if the objectives of lower unemployment and lower inflation are to succeed.

3.4 Recent economic history, including the balance of payment problem, has underlined the need to reject

prescriptive, piecemeal or ad hoc policy changes in favour of continual reassessment of the collective impact and role of major variables - fiscal, monetary, prices and income policy.

3.5 The arms of policy should be balanced in a way which enables the maximum possible growth in economic activity, and employment consistent with the over-riding goal of sustainable long term economic growth.

### 3.6 Monetary Policy

- (i) Congress declares that economic management requires the use of a package of measures and cannot rely on over-emphasis on tight monetary policy with its consequent effect of extremely high interest rates.
- (ii) Congress believes higher interest rates have a major detrimental effect on our members and believes that continued upward movements in interest rates will not solve Australia's economic problems. These will be solved more by regulation of money flows and our commitment to an internationally relevant industry policy.
- (iii) Congress deplores the position of the banks whose profits have vastly increased during this period of high interest rates.
- (iv) Congress recognises the need for careful management of the money supply. However, we reject the setting of targets which inhibit growth of output, place upward pressure on interest rates, or are designed to suppress inflationary expectations by increasing unemployment.
- (v) Monetary policy should be not unduly relied upon to regulate the economy but should be used constructively in line with other aspects of policy. As such the pursuit of quantified monetary targets per se is outdated and inappropriate.

### 3.7 Fiscal Policy

Congress stresses the importance of the Government sector as a productive contributor to total output and the role this sector can play in economic management. Fiscal policy plays an integral role both in promoting and sustaining increased activity as a means by which the redistribution role of the Accord can be continuously achieved.

### 3.8 Inflation

- (i) Congress supports the efforts of the Federal Government to reduce the current level of inflation and reverse the present dangerous upward trend. Congress rejects the approach of seeking to reduce inflation at the expense of real wages and living standards.
- (ii) The Federal Government must tackle the problems which arise from the profit motivated and prices-led increase in the rate of inflation which is being aggravated by huge increases in executive salaries and in the cost of professional services, government charges and indirect

taxes.

- (iii) Inflation is also aggravated by unbridled business takeovers and empire building which artificially bids up the prices of shares with borrowed funds. This artificially increases the debt to equity ratio, increasing company instability and increasing pressure to maintain viability with further price increases of products. In many cases viability cannot be maintained, resulting in enterprise closures and loss of what otherwise what would have been effective Australian production capacity.

### 3.9 Review of Taxation Policy

- (i) Congress reaffirms Its commitment to a taxation system based on the criteria of ability to pay and urges that the criteria be central to tax reform.
- (ii) While Congress recognises and endorses taxation changes such as increased antiavoidance activity by Government, Congress maintains its support for further change in taxation policy which would reflect:
  - (a) the introduction of a broadly based wealth tax, exempting small wealth holdings such a personal effects, consumer durables and owner occupied homes;
  - (b) the further development of tough new measures to smash the tax avoidance industry, including corporate tax loopholes, including use of retrospective legislation against blatant tax avoidance schemes;
  - (c) provision of adequate resources to the taxation office and insistence of their rigorous application against tax avoidance and evasion;
  - (d) application of full penalties by the tax office against serious breaches of the tax law through tax avoidance or evasion;
  - (e) amendment of provisions regarding tax avoidance by transnational corporations through transfer pricing by substantially increasing penalties for such activity and establishing a code of conduct for TNC's operating in Australia, including a requirement to make available to the Tax Office all relevant information in relation to their pricing policies;
  - (f) deregistration of tax agents promoting tax avoidance schemes.
  - (g) the fullest consultation with the trade union movement or any changes to the taxation regime, including general rise in taxation necessitated by economic and social circumstances.
  - (h) ensuring the effectiveness of the capital gains tax exempting owner occupied houses.
  - (i) the pursuit of tax indexation as a factor in the protection of the purchasing power of wage and salary earners, noting the agreement in the Accord that in the

context of a fully operational prices and incomes policy, the Government, in conjunction with the trade union movement, will annually review the tax scale so that the tax burden will not rise automatically with inflation.

- (j) continuation of the individual as the unit of personal income taxation.
- (k) the further immediate broadening of the tax base in order to increase the equity of the system as a whole, involving redistribution of the income tax burden and an expansion of the taxable income base.
- (l) review of the structure and base of indirect taxation and a reduction in the relative incidence of indirect taxation and complete opposition to any broad based consumption tax in lieu of income tax or other progressive taxes.
- (m) the imposition of an excess profits tax where appropriate.
- (n) company taxation levels consistent with equity and employment growth.
- (ii) Congress notes the growing regressive and unstable tax system in the states and believes that a comprehensive review of states financing should occur with a view to creating a more equitable and stable states tax system.
- (iii) Congress recognises that consistent with its policy on social welfare, the community must accept that in the long term, the development of an effective community welfare system including income maintenance provisions will require increased resources. This, in turn, may necessitate increases in taxation both in the form of normal redistributive measures and additional taxation payments which may be achieved by way of specifically directed levy charges or surcharges on income and /or profit to ensure these support systems are provided.
- (iv) Congress notes the Government's decision to further reduce the top marginal tax rate to 47 cents in the dollar, despite trade union opposition. Congress reiterates that there is no justification for further reductions in the top marginal tax rate for high income earners, and determines that trade union priority will continue to be directed at achieving significant improvements for low and middle income earners.

### 3.10 Exchange Rate Policy

- (i) The ability to maintain some control over exchange rates and the maintenance of exchange rate stability remains the preferred position of Congress.
- (ii) Congress recognises the circumstances which led to the floating of the Australian dollar, specifically the pressures, both national and international, for exchange rate deregulation and the enormous pressures on the Australian dollar at the time of the float.

- (iii) However, those circumstances do not constitute proper grounds for maintaining a floating exchange rate for all time, particularly in view of the increased economic uncertainty resulting from the continuing float and the rapid devaluation of early 1985.

### 3.11 International Pressures

- (i) Congress asserts that where the balance of payments and current account are constantly in deficit and private corporate foreign debt and its servicing requirement is growing, that specific regulations in the national public interest are essential. Such regulations to include:
  - (a) Limiting the powers of the money markets to create large and sudden outflows of capital. This may require the establishment of a National Development Fund as advocated in Australia Reconstructed.
  - (b) Requiring Australian corporations and institutions, including statutory authorities to guarantee ready return as required, of funds held overseas. Effective management and controls over leads and lags in payments are essential.
  - (c) Controlling the extent of profit and dividend repatriation and imposing tighter F.I.R.B. guidelines on buying overseas equities so as to cover reinvestment requirements in Australia as well as meeting exchange rate management objectives.
  - (d) Controlling the extent of overseas corporate debt (both principal and interest) repayment.
  - (e) Limiting the raising of any further foreign loans for corporate takeover operations.
  - (f) Creating criteria for positive employment and local procurement guidelines on raising foreign loans for corporate investment, apart from takeover operations and re-apply a withholding tax on purchases from the foreign exchange markets.
  - (g) Establish guidelines that require shareholders of Companies in Australia that are taken over, to bring receipts arising from the takeover into Australia for reinvestment.
  - (h) Conduct an enquiry into the effect on corporate pricing brought about by takeovers and associated debt servicing requirements particularly arising from foreign debt.
  - (i) Eliminate all tax concessions on interest payments incurred from financing debts entered into for company takeovers and the buying of shares.
  - (j) Eliminate tax concessions on debt interest and losses arising from corporate takeovers from being distributed across associated conglomerate groups of Companies.
  - (k) Limit and provide guidelines for the extent and purpose of outlays for imports. Particularly for capital goods.

- (1) Require a significantly increased proportion of Shipping, Insurance and Handling Commission outlays to be conducted through Australia subject to criteria in the capital movement guidelines outlined above.
- (ii) These regulatory measures to be operative within the fixation of appropriate floor and ceiling rates of exchange managed through the Reserve Bank.