

Australian Families: Prosperity, Choice and Fairness

To Tom Harley and the Menzies Research Centre, thank you for hosting this evening's function. I want to focus tonight on the welfare of Australian families and the next phase of the Government's reform agenda.

Let me begin by acknowledging the contribution of the Menzies Research Centre to these debates. With bold proposals in recent years on issues such as expanding home ownership, education reform and family assistance, the Centre is part of the constant search on our side of politics for ways of helping families in their daily lives.

It's impossible to discuss the circumstances of Australian families in isolation from trends in our economy. If we look at Australia today and compare it with a decade ago, we see that:

- unemployment is down from 8.4 per cent to a 28-year low of 5.1 per cent;
- 10 million Australians are now in work, compared with just over 8 million ten years ago;
- Families are saving more than \$500 a month in lower interest payments on today's average new mortgage of just over \$200,000;
- Medicare is stronger, primarily due to the Medicare Safety Net (which the Labor Party would abolish);
- Real household disposable incomes are, on average, up by 30 per cent; and
- Average household wealth is more than 80 per cent above the level of a decade ago.

According to the OECD, Australian workers enjoy either the highest or second highest disposable income in the industrialised world (taking account of after-

tax income and benefits). Since 1996, their international ranking has improved or been maintained across eight different scenarios – low paid and high paid, single and married, with children and without.

Of course, aggregate statistics never tell the full story which is why tonight I want to focus on how low and middle income families have fared under this Government.

And we should always aim to do better – as a government and as a society. No government can rest while ever there are Australians failing to share in the bounty that this country has to offer.

Next week's budget will include reforms to help more Australians on income support move into paid employment.

Over the last decade, Australia has been transformed from a country with a shortage of jobs to one with a shortage of workers. But too many people of working age remain on welfare in too many jobless households.

At a time of strong labour demand, we should be a country where all people with the capacity to work, and the desire to work, are able to work.

Australia's social safety net is strong and sustainable and it will remain so. But it is just that – a safety net. Along with our skills agenda, welfare and industrial relations reform are vital to ensuring more Australians find dignity, fulfilment and higher living standards from paid work.

As always, I believe that the Australian public will accept sensible reforms provided they are explained; provided they meet the test of fairness; and provided they are in the national interest.

Economic security and choice for families

The reforms in the budget will embody this Government's distinctive blend of liberal economic policy and modern conservatism in social policy.

For the Liberal Party, economic freedom and individual enterprise are the wellsprings of a more prosperous, creative and self-reliant society – the engines of wealth creation that support jobs, better living standards and the high quality services that families rely on.

We welcome a society where people are demanding greater freedom and choice than ever before.

We believe passionately in giving more Australians the opportunity to start and run a small business in our more entrepreneurial culture.

We mark the fact that in Australia today almost twice as many people own shares directly as hold trade union membership.

At the same time, the Liberal Party has always been willing to temper the raw outcomes of market capitalism to support the institutions that stabilise our society and that embody the values that Australians share.

Part of what makes Australia a good and decent society is our willingness to tilt the playing field in favour of low and middle income families with dependent children. This has been a defining philosophic commitment of mine for the past 20 years, not least in the area of taxation reform.

It is also part of maintaining broad support for economic reform; ensuring it goes with (and not against) the grain of fairness which is such a part of the Australian ethos.

A strong family is the single, most important building block of our social stability. It is, as I've said before, the greatest social welfare system mankind has ever devised.

Family, neighbourhood and the voluntary sector are the pillars of what Burke famously called the 'little platoons' of society – the mediating institutions that are the object of our loyalties and affections away from the reach of governments and markets.

Society entrusts families with the toughest and most important job of all – the physical, social and moral development of children. For this reason alone, governments should first pay heed to the old dictum: 'Do no harm'.

Stable, secure and loving families cannot be created by governments. But bad government can do much to undermine a family's capacity to perform its vital functions in society.

The Coalition recognised this explicitly in last year's election campaign with our proposal for Family Impact Statements in the Cabinet process.

I also believe that government has a clear responsibility to help families struggling with the challenges of modern life. Last year, we announced a major investment in early childhood programmes as part of the *Stronger Families and Communities Strategy*. We have significantly increased support for carers, recognising their enormous contribution to Australian families.

Shortly, the Government will be detailing arrangements for Family Relationship Centres across Australia with a focus on helping separating couples avoid adversarial and costly court procedures. The Centres will not

just be for separating families. They will also help couples access pre-marriage education and help families who are experiencing relationship difficulties.

Government's broader role is to support families in the choices they wish to make. It is not for government to impose some preferred model of behaviour. We are not in the business of telling people how to arrange their lives.

The Liberal Party's philosophy is to maximise choice. Choice has intrinsic value in a free society, separate from all the dry and technocratic discussions of public policy.

As I said in last year's election campaign, choice is the golden thread that connects all our party's policies – from the private health insurance rebate, to funding for schools, to workplace relations, to giving families choice about the work and family arrangements they desire.

On the day I returned to the Liberal leadership in January 1995, I called for a 'new compact' for Australian families, one that took account of the constant juggling act between work and family responsibilities.

From March 1996, we set about developing and refining this compact in a way that targets the needs and aspirations of low and middle income families.

We recognise that families face many key choices over time – when to have children, how long a parent might stay at home with a young child, when a parent might return to paid work and also how to manage the ongoing work-family balance.

No one policy fits all. The diversity of families calls for a range of policies for a range of family situations.

Rather than mandate preferred behaviour, our policies have sought to reflect the life experience of Australian families in the early 21st century. They have been designed, for example, to take particular account of the enormous growth of female participation in the part-time workforce.

Families are diverse. Of the roughly 2.7 million families with dependent children in Australia, we find two adults working full-time in about 17 per cent of cases. In roughly 23 per cent of cases, one parent works full-time and the other is not working.

The single, most common arrangement – 27 per cent of cases – is where one parent (usually a father) works full-time and one (usually a mother) works part-time.

The Government's workplace relations reforms, as well as promoting strong job growth and higher wages, have encouraged flexible working arrangements to assist parents in balancing work and family responsibilities. Legislative protections also assist parents in the workforce to achieve balance between paid and unpaid work.

Clearly, choice must include access to high quality and affordable child care. Since coming to office, the Government has increased the number of child care places by 83 per cent – from 306,500 to 562,000 places. Outside School Hours Care has increased by 275 per cent – from 72,000 to over 270,000 places.

We have also increased child care affordability by introducing Child Care Benefit and the 30 per cent Child Care Tax Rebate worth a maximum of \$4,000 per child per year.

Tonight, however, I want to focus especially on how the Government's Family Tax Benefit system has improved the living standards of low and middle income families.

The Government began in 1997 with the Family Tax Initiative which delivered \$2 billion in increased payments to both double and single income families.

In 2000, as part of taxation reform, the Government further increased family support by \$2.5 billion a year, in addition to delivering large personal tax cuts. The New Tax System also improved work incentives for low-income families.

In 2000-01, the first year of the operation of the new system, families receiving Family Tax Benefits were, on average, about \$1,000 a year better off than they were under the previous system.

At the same time, tax cuts – including in last year's budget – have ensured that over 80 per cent of taxpayers face a top marginal tax rate of 30 per cent or less.

Last year's budget also delivered additional assistance for families worth more than \$19.2 billion over five years. The package included additional increases to Family Tax Benefit Part A payments – including the \$600 per child payments which the Labor Party claimed were 'not real' – and the relaxation of the FTB Part A and Part B income tests.

In addition, the Government has addressed the loss of income that families suffer when a child is born – first through the baby bonus and now through the Maternity Payment of \$3,000 to families with the birth of a new baby (rising to \$4,000 in July 2006 and \$5,000 in July 2008).

In all, since coming to office, the Government has increased total assistance to families by over \$6 billion a year. The base rate of family assistance has

increased from less than \$600 per child in January 1996 to almost \$1,700 per child – a real increase of over 100 per cent.

The combination of tax relief and increased family tax benefits has delivered significant growth in disposable incomes to low and middle income earners.

For example, 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. They pay no net tax until their income reaches \$41,808. Some dual income families with two children now enjoy the equivalent of a combined tax-free threshold of up to \$43,000 a year.

In other words, for many families all of the tax they would have paid is rebated by the Family Tax Benefit.

Although family tax benefits appear on the expenditure side of the budget, in reality they represent tax relief. If they were to appear on the revenue side of the budget, this would reduce the reported tax share by more than 1 per cent of GDP.

Advancing Australia Fair

The family tax benefit system has been an effective means of ensuring that a decade of economic prosperity has delivered broad-based increases in living standards and greater economic opportunities for low and middle income families.

It has been both a fulcrum of fairness in Australia and the means by which the Liberal Party has kept faith with the hundreds of thousands of battlers who grew increasingly disillusioned with a remote and arrogant Labor Party.

My proudest boast in last year's election was at the opening of our campaign in Western Sydney when I said that the Liberal Party has been a better friend of the Australian worker than the Labor Party could ever dream of being. I referred to the quadrella we have delivered for workers – low unemployment, low interest rates, low inflation and rising real wages.

But I could easily have made it a quinella by including Family Tax Benefits.

We can see the results of our policies in some recent research by the National Centre for Social and Economic Modelling (NATSEM).

This independent body examined how low income families have fared under this Government. The research shows that as a result of strong economic growth and falling unemployment, low income households have enjoyed the strongest growth in private incomes over the period from 1997-98 to 2004-05.

Between 1997-98 and 2004-05 (including the effects of the 2004-05 budget measures), the real disposable incomes of low-income families grew by an average of \$87 per week – a rate of growth similar to that of middle-income families.

The other main conclusion from the NATSEM research is that Australia's social welfare system is skewed very strongly in favour of low income households.

Overall, the bottom 60 per cent of households are all net gainers from the tax system and government programmes, with these gains being financed by the top 40 per cent of households. For the top 20 per cent of households, final income is 73 per cent of private income. For the bottom 20 per cent, final income is 10 times private income.

This substantiates what the Secretary of the Treasury, Ken Henry, has called the ‘extraordinary progressivity’ of Australia’s tax and welfare system.

In effect, the NATSEM research exposes nine years of Labor hypocrisy, distortion and misinformation about the treatment of low income earners in Australia. The sort of lazy scaremongering that Kim Beazley, Simon Crean, Mark Latham and now Kim Beazley again have traded in – and that Wayne Swan has turned into an art-form – has been shown up as empty rhetoric.

In other research, NATSEM finds that it was the early 1990s recession – the recession that Mr Keating said Australia had to have – which notably widened the gap between rich and poor in this country.

In other words, the Labor Party consciously deserted the workers and low income families of Australia long before so many of them deserted Labor for the Coalition in 1996.

Fast forward to last year’s election and what did we see? After nine years of policy lethargy, Australians were treated to the spectacle of the Labor Party ripping money away from low income families.

No-one should forget that under Mr Swan’s tax and family policy, Labor would have gouged more than \$800 a year out of the family budget of a three-child, single income family earning \$30,000 a year from full-time work.

It would have deprived a three-child family earning \$25,000 from two part-time jobs around \$600 a year. If this family had lifted their income to \$30,000 with some extra work they would have lost more than \$1,300 a year.

In many ways, this encapsulates the rather sorry state of the modern Labor Party – the party of Curtin and Chifley – at the start of the 21st century.

Labor today is a party bereft of policies whose major contribution to Australian politics is to complain and oppose. Once again, Labor is led by a man, Mr Beazley, who thinks that the only role of an Opposition, for all but six weeks leading up to an election, is to criticise a Government looking to implement difficult reforms.

Welfare and Industrial Relations reform

For many years, the Government has argued that Australia can only maintain strong growth and sustain prosperity by increasing workforce participation and improving the productivity of the workers we have. Welfare reform and further workplace relations reforms are crucial to these tasks.

We approach welfare reform with two straight-forward and fair propositions.

Firstly, that the best form of family income comes from a job rather than welfare. And secondly, that people on income support who have the capacity to work should be required to seek work to their level of capacity.

People with no capacity to work will not be affected by any measures the Government may take. A strong safety net will remain in place for those who are unable to support themselves (for example, because of a disability), as well as those with young children or significant carer responsibilities.

Reform is not about punishing welfare recipients or cutting the budget. Indeed, our reforms will be a drain on the budget in the short to medium term.

Our aim is to ensure that people on welfare support have incentives to move into work; have access to better services; and can pursue work voluntarily, even if they are not obliged to do so.

A steady job remains the best means of overcoming disadvantage in our society. People in work are financially better off, they acquire skills and experience, and they are more closely connected with their communities.

The employment of a parent is not just important for family income, it is critical to the environment children are brought up in. Studies have repeatedly shown that children in jobless households are more likely to leave school early, become unemployed, have children at too young an age and come to depend on welfare themselves.

The Labor Party will soon face a choice – whether to be constructive or to oppose this good-faith attempt by the Government to tackle the problem of jobless households in Australia.

The question I pose to Mr Beazley is this: will Labor be the sort of party that 60 years ago produced a White Paper on full employment? Or will it be the party it has been for the last nine years – a party of White Flags?

Unfortunately, based on his record, Mr Beazley prefers the White Flag. He not only presided over 10 per cent unemployment when he was Employment Minister, he basically put up the White Flag when it came to making any sustained inroads into unemployment.

His period as Employment Minister will be remembered for him: firstly, telling Australians that ‘*anything like full employment, however defined, will be desperately difficult to recapture in this country*’; and secondly, attempting to redefine full employment to hide the Keating Government’s policy failure.

The same sort of defeatism permeates the Labor Party today. Last year, when Deputy Leader Jenny Macklin was asked whether a casual job is preferable to

no job, she replied: *‘Well, I don’t think that’s the case, especially if you’ve got a family to feed.’*

We see in such remarks a curious ambivalence about the economic and social value of paid employment in the modern Labor Party. Is it any wonder that thousands of traditional supporters find it almost impossible to say what Labor stands for?

To create jobs for those on the margins of the workforce and to sustain the productivity growth in our economy, Australia also needs a new round of industrial relations reforms.

This is an essential part of breaking the chains that have stopped us becoming a more fully employed society. The Government is determined to tip the balance in our industrial relations system in favour of those who want to get into the workforce.

Our reforms will help further to enshrine workplace bargaining as the key determinant of wages and conditions. Still greater workplace flexibility will encourage small business, the engine-room of our country’s wealth creation and job growth, to employ more staff.

Unfortunately, without having actual policies, Mr Beazley is again reduced to waving White Flags. In his only incursion into the policy debate since resuming the Labor leadership, Mr Beazley fell at the first hurdle.

In what was billed as his great reform speech to the Melbourne Institute’s *Sustaining Prosperity* conference last month, he maintained that the *‘scope for productivity gains from the old reform agenda of deregulation, privatisation and industrial relations reform is largely exhausted’*.

This was a remarkable admission. Further workplace relations reform is vital to creating more jobs and to sustaining higher real wages at a time when Australia's unemployment rate is close to a thirty year low.

It is Mr Beazley who is exhausted, not the cause of industrial relations reform. He is the only leader of a major party in living memory to have acquired reform fatigue while sitting around in Opposition.

Conclusion

Ladies and Gentlemen, there are few higher goals in public life than giving people greater control over their own lives.

Through good economic management, generous support for families and policies that widen their horizons of choice, the Coalition has kept faith with low and middle income earners in Australia over the last nine years.

We embark on further reforms in coming months mindful of the kind of leadership that the Australian people look for.

Australians want governments that get the big things right – a strong economy, a well defended country, good health and education services and a decent safety net – and then let people get on with their own lives.

This can prove uncomfortable for our opponents who always seem to have a preferred model of behaviour or a new cultural obsession. But not for the Liberal Party – a party that trusts the Australian people to make the right choices for themselves.

If you want to skimp and save to send your child to the school of your choice, we'll support you.

If you want to maintain your family's private health insurance, we'll give you an incentive.

If you want the right not to belong to a trade union, we're on your side.

The late Manning Clark produced a powerful piece of historical mythology when he cast the Labor Party as the 'enlargers' of Australian horizons and our side of politics as the 'straighteners' of our national life.

It was always a myth, but never more so than today.

We in the Liberal Party are the enlargers of choice and opportunity in Australian society. We are the friends of freedom and initiative over compulsion and conformity. And we are the party that respects the accumulated wisdom that resides in every Australian home.

In this, I believe, history is on our side.