

inflation. Earlier last year, the Government conducted negotiations with trade unions and employers on a wage/tax trade-off which could have resulted in a much lower rate of wage increase, while maintaining living standards. The unions finally rejected the Government's offer. In order to lower inflation the Government was obliged, on 22 June 1982, to introduce a twelve month freeze on prices and wages, along with controls on a wide range of other incomes in the economy.

It will be the principal aim of economic policy over the next twelve months to ensure that the gains made during the freeze are not lost. If it is to be successful in the longer term, the freeze must break inflationary expectations, and change the behaviour of those who determine prices and wages. Regrettably last month's devaluation of the New Zealand dollar, a step taken reluctantly by the Government, will make that problem more difficult to solve.

The Government is engaged in a series of talks with employers and unions on the best methods of dismantling the current restrictions and on possible revision of the wage fixing system. All parties must understand that the Government will take whatever action is needed to hold the gains that have been made.

The income tax changes of last October were in part designed to assist the maintenance of living standards during the freeze. They were also the most important reform that has been made to the tax system for many years.

The new scales ensured that the majority of taxpayers faced the same marginal tax rate. The difference in tax paid by families with the same total income but earned by either one or both of the partners was substantially reduced, and the incentive for greater effort was increased through the effective lowering of taxes on extra earnings.

HONOURABLE MEMBERS, the Government has adopted several measures to make New Zealand more internationally competitive. The signing last month of the Australia New Zealand Closer Economic Relations Trade Agreement has created the prospect of much freer trade across the Tasman and a better use of resources.