BUDGET SPEECH 1989-90

STATEMENT DELIVERED IN THE SENATE ON

15 AUGUST 1989

BY

SENATOR THE HONOURABLE PETER WALSH,

MINISTER FOR FINANCE

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It is my privilege to outline to the Senate the Budget proposals of the Government.

Mr President, in presenting last year's Budget I said that Australia was on the way to a systematic restructuring of its economy, making it more dynamic and more able to compete in the world.

Tonight, I can report that we are much further down the road of that fundamental restructuring than we were a year ago.

That is because the past year has seen the consolidation of the most significant investment phase since Federation.

And it is investment which is the key to a successful fight back on the trade front.

But we have had our set-backs and still have a long way to go - a generation of neglect cannot quickly be put right.

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We are under no illusion that there have been disappointments.

Last year inflation was too high.

And the balance of payments did not fall as we expected, leading to higher interest rates.

This has been the price we paid for the massive modernisation of Australian industry.

The challenge before us now is to get the best from this stronger economic structure.

To turn it against our trade and inflation problems - the only way we can secure sustainably lower interest rates.

Mr President, tonight's Budget takes up this challenge.

It declares a record surplus - the third Budget surplus in a row.

Real Government spending is cut for the fourth year in succession, to its lowest share in 16 years.

It tackles Australia's savings problem - the proper way, with a far-sighted restructuring of retirement incomes policy to encourage today's working Australians to save for their retirement through superannuation.

And as we promised in April, the Budget fully funds the largest tax cut and family package in our history.

Mr President, it is a Budget without gimmicks - without resort to quick fixes.

It is a Budget which puts the nation's interests first.

THE BUDGET OUTCOME

Mr President, a year ago I forecast a Budget surplus of $5 1/2 billion.

The result was even better, close to $6 billion.

The Budget being brought down tonight will deliver a surplus of $9.1 billion.

A massive deposit in the savings account of the nation.

What a contrast with the situation left to us by the Liberals in 1983!

Then Australia's Budget was in the red by a record $9 billion.

Today, it is in the black by $9 billion.

That is prudent Government the Labor way.

In six years we conquered the largest and most profligate fiscal deficit in the nation's history, reducing it to zero - we have now produced a surplus of the same enormous dimension.

And the Government has refunded more in tax cuts than if we had fully indexed the tax scales for inflation since 1983.

Of special importance, this year's Commonwealth surplus will more than offset the borrowing by all state and local Governments in Australia.

This year the Public Sector Borrowing Requirement is forecast to be in surplus by 1.2 per cent of GDP.

Every cent of the Commonwealth's $9 billion surplus will be used to pay back debt.

This will mean that over a four-year span total Commonwealth debt to GDP will have been reduced by half.

SAVINGS AND RETIREMENT INCOMES POLICY

Mr President, in recent times there has been a lot of talk about measures to boost domestic savings.

Higher national savings are undoubtedly part and parcel of overcoming our balance of payments problems.

That is one basic reason why we have moved the Budget so heavily into surplus, to increase public savings and to pay off debt.

But there is a distinction to be made between good and bad schemes intended to stimulate private savings.

The Government is not about to grasp half-baked ideas on savings simply to satisfy some passing fashion.

Rather, our approach over six years has been to plan and pursue a structured and certain path, cutting tax rates and extending the benefit of superannuation savings to the whole workforce.

The task before us now is to plan for early next century when the large post-war "baby boom" generation will be reaching retirement age.

This year about 13 per cent of the population is of pensionable age - that will rise to around 25 per cent by the year 2030.

Consequently, tonight I am announcing a comprehensive reform of the retirement income policies of this country.

A detailed statement is being simultaneously released by my colleague, the Minister for Social Security.

Our goal is to encourage those now in the prime of their working lives to provide a higher standard of living for themselves in retirement.

We will do that by maintaining and improving the age pension and by providing better opportunities and incentives to save for retirement through superannuation - to supplement rather than to diminish the pension.

A key feature of this package is a far-reaching plan to integrate the taxation and social security income testing systems.

It builds on the April Statement change which exempted the pension income test free area entirely from tax.

That change alone ensures that 80 per cent of all age pensioners will be totally excluded from any requirement to pay tax.

Tonight I announce that the tax-free income area for pensioners will in future be indexed to keep pace with the cost of living.

Beyond that, the Government tonight commits itself to an even more far-reaching reform.

From 1995 all age and service pensioners - that is both full rate and part rate pensioners - will be totally removed from the tax system.

In other words, all age and service pensioners will be subject only to the social security income test - they will not have to pay tax.

This will make it much more rewarding for retirees to have an additional source of income to the pension.

The message to today's working Australians is that saving for your retirement will be rewarded, not penalised.

A whole range of complementary changes will be implemented to make superannuation more worthwhile.

Chief among these are effective rules to ensure that superannuation paid on behalf of employees is not lost to them when they change jobs.

At the same time the requirements to preserve these superannuation payments until people actually retire will be enhanced.

The limit on tax deductions self-employed people can claim for putting aside superannuation will be increased, and in future, other workers on low or modest incomes with relatively small employer-funded superannuation will be able to top-up those funds and claim tax deductions.

Furthermore, the maximum permissible superannuation benefit available to low and middle-income workers is to be dramatically increased.

But to add further momentum to private provision in retirement and provide an extra boost to national savings, the Government will consider as part of the wage system for next financial year the gradual introduction of a further 3 per cent award for occupational superannuation.

Mr President, these historic reforms confirm superannuation as the Government's preferred savings vehicle.

Over time this policy will be central to the national imperative to lift savings.

Already the shift in superannuation savings since 1983 has been remarkable, especially since superannuation was made available to the entire workforce.

Last year superannuation assets grew by $15 billion.

That increase in a single year was about the same size as the total assets of superannuation funds when this Government came to office in 1983.

Today total assets stand at $105 billion - larger than Australia's net overseas debt.

Our reforms will build dramatically on that base.

On the basis of present trends, by the turn of the century more than $60 billion a year will be flowing into superannuation funds - a massive injection to the nation's savings pool.

A savings program which will really enhance national savings and not a gimmick which would grotesquely distort the economy.

In this way the retirement incomes policy is a strategy for coming decades, not just coming years.

But, Mr President, I stress that the maintenance of an adequate age pension system will remain the essential element underpinning our retirement incomes policy.

The Labor Party's long-standing commitment to an age pension of 25 per cent of average weekly earnings will be put beyond any shadow of a doubt in this Budget.

Next April the normal indexation increase will lift the single rate pension by about $9 a fortnight.

Tonight I am announcing that over and above that rise, the pension will be increased by $4 a fortnight, a total rise of $13.

From April 1990, the return of the after-tax purchase price of annuities will be freed from the social security income test.

In addition, from November this year age pensioners will be able to borrow up to $40,000 against the value of their home without having this extra money counted in the social security income test.

Pensioners who do not own their own homes are also to be further assisted.

From this December basic rental assistance will be increased from $15 to $20 per week, with two further $5 rises to follow next year.

That will mean that from September 1990 rent assistance of up to $30 a week will be provided for pensioners without children, rising to $40 per week for families with three or more children.

For aged pensioners the measures announced during this year will cost over $700 million, while the full-year cost of all social security measures will be $1.7 billion.

OUTLAYS

Mr President, I now turn to the outlays side of the Budget.

In 1989-90, outlays or Commonwealth spending will represent 23.7 per cent of the economy, the lowest level since 1973-74.

A fall of 6 percentage points of GDP in six years.

The forward estimates, now published in the Budget documents, point to further decline.

That is, three years from now Labor will have succeeded in reducing Commonwealth Government spending to the levels of the 1950s.

This restraint enables us to be responsive to changing circumstances and to improve the effectiveness and fairness of government spending.

We have made a smaller public sector a better public sector.

Better targetting those in need and being more generous to those who are most deserving.

Need I say, Mr President, we reject completely the notion that Australia will somehow be a better place by walking away from the community's collective responsibility to assist the least well off.

It is because of this better management of public finances that we have also been able to address other high priority areas in this Budget.

These have included the Prime Minister's environment statement, his re-commitment to a multi-cultural Australia and the initiatives outlined to enhance our scientific effort.

Tonight Mr President, in a further re-evaluation of priorities the Government is announcing a number of new initiatives to advance its social justice objectives.

The first is to assist the most needy experiencing difficulties with rent and mortgage repayments.

The Government will provide an extra $15 million to be distributed under the existing Mortgage and Rent Relief Scheme administered by State Housing Authorities on behalf of the Commonwealth.

A National Aboriginal and Torres Strait Islander Education Policy is to be established, drawing together a number of hitherto separate programs, to tackle the severe educational disadvantage of this group.

Expenditure is estimated at $89 million in 1990 - an increase of $34 million on 1989.

The Commonwealth Employment Service will be revamped to provide even more help for those having difficulties in the labour market, including the older unemployed.

Payments to the single unemployed aged between 60 and 64 and out of work for six months or more will be aligned with the single age pension rate and increased by $17 per fortnight.

Another initiative deals with one of our most disturbing social issues - that of homeless youth.

We have developed a comprehensive strategy to address their needs at a cost of $24 million in both this year and next: further details are outlined in the Budget Papers.

In the health and community services area the Government has also committed additional funds to high priority areas.

The comprehensive AIDS strategy, designed to limit the advance of the disease will receive an additional $7 million this year, rising to $14 million in 1990-91.

Over the next two years the Government will be providing an additional $44 million to encourage participation and excellence in sport which plays such a vital role in the collective life of this nation.

REVENUE

I now turn to the revenue side of the Budget.

This year revenue as a share of the economy is estimated at 26.2 per cent, the same level as last year and 1.5 percentage points lower than in 1986-87.

Just as importantly, Mr President, the Government has reformed the Australian taxation system, making it both fairer and more efficient.

Tonight I announce further changes.

First to the company tax system.

Under current arrangements company tax is collected with much greater lags than taxes paid by individuals.

Because of these delays companies enjoy an interest free loan from the Government for up to two years.

We have decided to narrow this concessional arrangement.

This will bring forward $885 million in revenue this year but, more significantly, will generate an ongoing saving in public debt interest of about $330 million per year.

Deferral of tax payments also arises with monthly remittances of PAYE tax withheld by employers.

The Government has decided that, from 1 December 1989, the 800 or so largest employers, with annual remittances exceeding $5 million, will be required to make payments twice a month rather than once.

This will bring forward $550 million of revenue and will further reduce public debt interest by $70 million in a full year.

To assist long-term business planning, the seven-year carry forward of losses is to be removed, allowing unlimited carry forward of losses incurred in 1989-90 and beyond.

Sales tax on small business will be reduced by substantially increasing the manufacturers' exemption from $12,000 to $50,000; aids to manufacture provisions are also being extended.

The Government has also undertaken a major review of the taxation treatment of Life Offices.

From 1 January 1990, expenses incurred by life insurance companies in gaining the investment component of premium income will be tax deductible.

The Government has also decided to exempt from tax non-profit sports and games clubs, such as pony and fishing clubs.

As well, community service organisations such as Lions and Rotary clubs will be exempted from tax.

The Government will also relieve some 130,000 taxpayers from paying quarterly provisional tax by raising the threshold to $8,000.

Mr President, the Government's relentless war on tax avoidance will continue.

The Treasurer is announcing tonight further anti-avoidance measures in the areas of capital gains tax, dividend selection schemes and share-based financing arrangements.

The Government is proud of its tax reforms and will continue to pursue the objective of a fair and reasonable taxation system.

ECONOMIC CONDITIONS AND POLICY

I return now to economic conditions and policy.

At the outset I referred to the surge of business investment which last year grew by a massive 15 per cent in real terms.

But at the same time as companies were spending heavily on investment goods, private spending elsewhere in the economy was also rising strongly.

The overall effect was that domestic demand in Australia grew too fast, spilling over into imports, diverting export goods to the local market, and rekindling inflationary pressures.

Let me underline that point.

Last financial year national spending increased by nearly 8 per cent in real terms.

Yet gross domestic product - the measure of everything we produce in Australia - grew by under 4 per cent.

That big gap - spending at 8 per cent and production at 4 per cent - sums up our trade problem.

It is a gap which must be closed.

In the short term that can only be done by bringing that high demand down to a more realistic level.

This is where interest rates have played an appropriate role.

It is also why the Government has continued with tight budgetary and wages policies.

But moderating demand is only half the story.

The other half is lifting our local supply of goods and services - our production.

This involves more investment but spread more evenly over time.

It involves more entrepreneurial management.

It involves better work practices and greater skills in the workforce.

And it involves more efficiency in our economic structure - being even smarter in the way we get things done.

These are reasons why the Government welcomes the recent Industrial Relations Commission decision, completing the framework for the most far-reaching overhaul of industrial awards since Federation.

Mr President, wages policy has also been fundamental to our economic success.

Throughout the past six years the Government's unique Accord with the Australian workforce has delivered unprecedented wage restraint.

There are now 1.5 million more Australians in jobs than there were six years ago - a phenomenal figure and one of this Labor Government's proudest achievements.

The unemployment rate has fallen from 11 per cent to 6 per cent, its lowest level for 8 years.

At this very moment the Accord is protecting the employment gains of the past six years from the ravages of a wage explosion.

It has enabled the Government to negotiate a wage/tax trade off to protect investment and to fend off recession.

In the period immediately ahead the award restructuring process will bring about a much more adaptable and flexible labour market.

Those historic changes build upon the other economic reforms that this Government has aggressively pursued.

A modern financial system, a fairer tax system, reduced trade barriers and better education and training systems.

More recently these far-reaching reforms have extended to the waterfront and the communications industry.

Mr President, as the only Government in Australia's post-war history that has attempted such structural changes to the economy, we are well aware of the need to press on with reform.

To this end we have decided to restructure the existing Industries Assistance Commission, greatly broadening its charter to act as a catalyst for dynamic change in industry.

Reflecting these changes, the expanded body will be renamed the Industry Commission.

The Treasurer is announcing details of these changes, together with a major two-year work program for the Commission, in a separate statement.

ECONOMIC PROSPECTS

Mr President, I now turn to Australia's economic prospects.

From what I have said before it is clear that in the past year the major preoccupation of policy was with an economy which was too buoyant.

The fallout from that was higher than expected prices and greater than forecast imports.

But during the course of the current year we expect this momentum to moderate in response to past tightening of policies.

So in the period ahead we plan for a necessary slowdown in spending.

However, I stress this does not mean a recessed economy.

It is production, not spending, that generates jobs and spending has a long way to fall before it reaches our production potential.

Vital business investment will still stay strong with growth in the plant and equipment component expected to remain robust.

This will ensure the economy maintains sufficient momentum for growth in gross domestic product of 2 3/4 per cent and employment growth of the same magnitude.

We are confident of achieving the transition to a more sustainable growth path without destroying activity.

Mr President, the pattern of moderating demand will mean that many key aggregates will be lower in the second half of the financial year than in the first.

This is the case with inflation and the balance of payments, where recent momentum will carry on for a time.

Thus, while the increase in the CPI is expected to be little changed at around 7 1/2 per cent for the year as a whole, it will be running noticeably below that in 1990.

The Government is determined to secure that lower inflation trend.

As a community we must reduce inflation.

With demand slowing, the growth of imports will also slow, and quite sharply as the year progresses.

Even so, for the full year the current account deficit is forecast to be equivalent to about 5 per cent of GDP, only a slight improvement on last year.

Again, however, by the second half of the year the deficit will be running a good deal below that, as the much weaker trend in imports and the pickup in exports emerge.

But to stabilise our international debt the current account deficit will have to continue to be reduced.

The full force of this Government's resolve will be directed to this end.

All in all, the substantial Budget surplus, the forecast slowing in demand and the expected improvement in the balance of payments, establish a framework for lower interest rates.

However, I stress that rates cannot and should not fall until it is economically responsible.

This Government is not prepared to countenance a premature fall in interest rates.

When the time is right, we are confident that the economic fundamentals will produce a sustainable fall.

CONCLUSION

Mr President, as a result of the Government's economic policies Australia will emerge from the recent high level of spending without a recession and with its economic and social structure improving.

This will occur because the Government has kept sight of its objectives and has not been diverted by superficial solutions to fundamental problems.

It has never sought to minimise its responsibilities or shy away from the issues of substance.

The Australian people have responded to these realities by adopting a highly responsible attitude.

They have quite sensibly rejected sham solutions to the country's difficulties.

They are looking for value and consistency.

In short, Mr President, they are looking for the meat rather than the feathers.

This Budget will fulfill that national purpose.

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