

**BUDGET SPEECH 1994-95**

**STATEMENT DELIVERED IN THE SENATE**

**ON**

**10 MAY 1994**

**BY**

**SENATOR THE HONOURABLE PETER COOK**

**MINISTER REPRESENTING THE TREASURER**

**IN THE SENATE**



Tonight the Treasurer is delivering in another place his Budget Speech for 1994-95.

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

Mr President, this Budget will:

- maximise economic growth;
- reduce unemployment;
- promote social justice; and
- reduce the budget deficit, without increasing taxes.

It is a budget that seeks to consolidate and improve our economic performance whilst ensuring that all Australians share in the benefits of that progress.

Indeed, this is a highly distinctive budget.

It is the first budget in the history of the nation that has been introduced prior to the commencement of the financial year to which it relates.

This brings Australia into line with the major industrial countries and with normal private sector practice.

It is also the first budget which provides estimates of the budget outcome for the next four years.

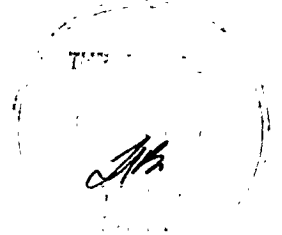
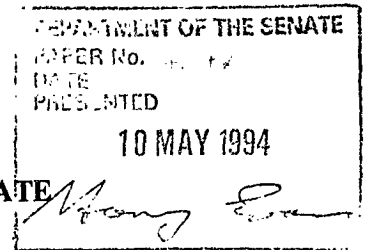


# THE BUDGET 1994-95

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This brings Australia into line with the major industrial countries and with normal private sector practice.

It is also the first budget which provides estimates of the budget outcome for the next four years.

This represents a new benchmark for budget reporting and government accountability.

The economic forecasts on which this Budget is built reflect the fact that we are now firmly in recovery and experiencing economic growth faster than almost any other industrial country.

Furthermore, our economic fundamentals for continued growth are the best for 30 years.

This gives us the real prospect of maintaining strong economic and employment growth for the rest of the century.

This Budget also maintains, indeed accelerates, the Government's commitment to its deficit reduction program, which requires the deficit to be reduced to around one per cent of GDP by 1996-97.

Our forecast deficit for 1996-97 is now less than one per cent of GDP, and we expect the budget to be in surplus soon thereafter.

In achieving this outcome, we have not increased general taxation.

This Budget contains no new taxes and no increases in tax rates.

The only measures which add to revenue are those which improve tax compliance, or are directly related to cost recovery for government services.

Australia will remain one of the lowest taxed countries in the industrial world.

Nevertheless, this Budget maintains Labor's commitment to improve social justice in our society.

In addition to major initiatives to address the serious issue of long-term unemployment, announced last week in *Working Nation*, this Budget contains further measures to assist the disadvantaged.

This reflects Labor's determination not only to maximise growth of our economy, employment and real incomes, but to ensure as well that all sections of our society share in that increased prosperity.

## THE ECONOMIC CONTEXT

Mr President, in last year's Budget Speech, the then Treasurer stressed that the primary objective of that Budget was jobs.

I am pleased to be able to say tonight that the period of jobless growth that marked the first year and three-quarters of recovery from the recession is now well and truly behind us.

Australia is now experiencing strong employment growth with over 230,000 extra jobs since April last year.

Unemployment has fallen from a peak of just over 11 per cent to 10.3 per cent.

And there is every reason to expect these favourable developments to continue.

Our economic settings are now highly conducive to growth.

Inflation remains at its lowest level for three decades and is less than that of our major trading partners.

Inflationary expectations are also low, which means we have excellent prospects for continuing to be a low inflation nation.

Interest rates on bank lending are at their lowest levels since the 1970s.

Business confidence is high.

In manufacturing industry it is at the highest level for 30 years.

Consumer confidence is at its highest level for ten years, and is near record levels.

Wages are increasingly being determined on an enterprise basis and with regard to productivity improvement.

Productivity is increasing markedly and in some cases quite spectacularly.

Real unit labour costs are declining.

Profit share is near its all time high.

Australia's international competitiveness continues to improve and is now 30 per cent greater than it was a decade ago.

Time lost in industrial disputes in 1993 was the lowest level for 30 years.

In short, the widespread program of microeconomic reform instituted by this Government over the last decade has transformed the Australian economy so that it is now much more competitive, efficient and export oriented.

Rather than relying on our good fortune to be a relatively small nation with vast natural resources, the so-called "lucky country" syndrome, we are now demonstrating to the world that we are determined to work hard and intelligently to maximise our economic welfare.

We can now see the results beginning to come through.

Australia's economic growth of 4 per cent in 1993 was far better than most industrial countries which collectively grew by just over one per cent.

Many of them, including such major economies as Germany, France and Italy, suffered economic contraction, and our single largest trading partner, Japan, had virtually no growth.

Our employment growth of 3 per cent over the last year is also high.

For the industrial countries as a whole, employment growth in 1993 was zero.

Australian manufacturing industry increased its production by 9 per cent in 1993, the largest increase for two decades.

And our export performance in recent years has been nothing less than outstanding.

The volume of manufacturing exports grew by 15 per cent in 1993, and has grown by an average of 13 per cent a year since the mid-80s.

Similarly exports of services grew by 11 per cent last year and have increased by 9 per cent per annum since the mid-80s.

As a consequence of these developments, commodities now represent around 65 per cent of our total volume of exports, compared to almost 80 per cent a decade ago.

With commodity prices now being at very low levels, that diversification of our exports is standing us in very good stead.

The fact that our exporters have done so well is due to Australia's improved competitiveness, and two further major factors.

First, the fast growing countries of East Asia (excluding Japan) have become increasingly important markets.

These countries have been growing at twice the pace of our major trading partners as a whole since 1990-91, and now account for 33 per cent of our merchandise exports compared to only 19 per cent ten years ago.

And second — less tangible but no less important — is the attitudinal change among Australian firms — an increasingly outward orientation, which recognises the enormous potential benefits of selling into world markets, particularly in the fast growing Asian region.

This attitudinal change reflects, in part, the benefit of this Government's policy to open up markets to competition, especially through reduced protection, and its success in developing trade relations in the Asian region.

## ECONOMIC PROSPECTS

Mr President, with these very substantial improvements to our economic structure, Australians can look forward to the future with considerable confidence.

Our immediate prospects are for even faster growth.

Real GDP is forecast to grow by 4½ per cent in 1994-95, compared to 4 per cent in 1993-94.

Employment is expected to increase by 3 per cent, or almost another quarter of a million jobs.

The unemployment rate is forecast to fall to around 9½ per cent by June 1995.

Inflation as measured by the Consumer Price Index is forecast to remain low next year at 2¼ per cent, or about the level of our major trading partners.

Real wages and real household disposable income continued to grow in 1993-94 and are forecast to grow more strongly in 1994-95.

Crucial to the achievement of these outcomes will be a substantial upturn in business investment.

So far, business investment has made little contribution to economic recovery, but this is expected to change quite markedly in the coming year.

Continued strong economic growth, near record high profit levels, high business confidence, low interest rates and inflation, sharply rising capacity utilisation, and the completion of the process of corporate balance sheet repair following the excesses of the 1980s, are all conducive factors for increased business investment.

In addition, this Government has created a very favourable tax regime for business over recent years.

This includes the provision of accelerated depreciation allowances, a development allowance for large projects, the general investment allowance, a 150 per cent write-off for research and development expenditure, and reduction of company tax to an internationally competitive rate of 33 per cent.

These tax incentives will reduce the Government's tax revenue for 1994-95 by around \$3 billion — a substantial benefit to business which will grow in later years.

All this represents a powerful set of inducements for increased business investment which is forecast to grow by 14 ½ per cent in 1994-95.

While import growth will pick up next year as business investment increases, the current account deficit should increase only slightly.

Australia's export performance should remain strong over the next year, with strong growth in exports of elaborately transformed manufactures and of services continuing from recent years.

The terms of trade is forecast to lift for the first time since 1988-89, although only slightly, due to the gradual improvement in the world economy.

Economic activity in the major industrial countries is forecast to grow at around 2½ per cent in 1994-95.

That is clearly a bull point for our economy.

The much faster growth rates of the dynamic economies of our region mean our major trading partners' growth will be 3¾ per cent, up half a percentage point on 1993-94.

That overall improvement in world economic growth will help to sustain the higher level of economic growth now evident in the Australian economy.

Sustained growth through the decade will also require the maintenance of a low rate of inflation.

Monetary policy over the medium term will be directed to keeping inflation and inflationary expectations at low levels.

## **BUDGET STRATEGY**

Mr President, the Government said during the election campaign that its election commitments would be delivered in the context of a declining budget deficit.

This it will do.

In last year's Budget the Government set out a budget deficit reduction strategy geared to securing a deficit of around one per cent of GDP in 1996-97.

When an economy is in recession, it is entirely appropriate that budgetary policy be deployed to support the economy and the community.

That involves a rising deficit.

But as the pace of economic growth quickens, and recovery starts to become self-sustaining, it is important that budgetary support to domestic demand be pared back.

By winding back the deficit, the public sector reduces its call on national saving.

This increases our capacity to finance further private sector investment without the need for greater recourse to other nations' savings through increased overseas borrowings and foreign equity investment in Australia.

The Government fully recognises this and has implemented one of the most rigorous fiscal consolidation programs of all industrial countries.

Details are contained in the Budget Papers.

Furthermore, the outcomes contained in this Budget are for lower deficits as a percentage of GDP than those forecast last year.

Those lower deficits will ensure that Australia's government debt, as a proportion of GDP, remains among the lowest for industrial countries.

Last year the Government legislated major steps to implement its deficit reduction strategy, and ensure that the 1996-97 outcome would accord with its commitment.

This involved a package of measures which improved the projected outcome for 1996-97 by almost 1¾ per cent of GDP.

Included amongst those measures was postponement of the second leg of the foreshadowed tax cuts worth over \$3½ billion.

This year we have again constrained all but the highest priority expenditure measures.

In light of this action, and the Government's capacity to improve its fiscal consolidation program without further tax increases, we have decided not to introduce a jobs levy as proposed in last December's Green Paper as a means of paying for the initiatives in *Working Nation*.

Such a levy would have substantially counteracted the tax cuts brought in only last November.

Mr President, I now turn to the Budget outcome and forecasts.

The budget deficit for the current financial year, 1993-94, is now expected to be \$13.6 billion — \$2.4 billion lower than forecast at budget time last year.

The budget deficit for 1994-95 will be \$11.7 billion.

The deficit will therefore fall from an expected 3.2 per cent of GDP this year to 2.5 per cent next year.

This clearly meets the requirement set by this Government in its Fiscal Framework for a credible decline in the deficit towards the objective of around one per cent of GDP by 1996-97.

And the budget deficit for 1996-97 is now projected to be 0.9 per cent of GDP, or 0.3 of a percentage point lower than projected after last year's Budget.

By 1997-98 the budget will be approaching balance.

The major initiatives announced in *Working Nation* mean there has been little room for other new spending while maintaining the deficit reduction program.

Nevertheless, over half a billion dollars of new spending in 1994-95 is contained in tonight's Budget, but it is more than offset by other measures announced tonight.

There will therefore be no expenditure blowout.

Outlays as a percentage of GDP are forecast to fall from 26.6 this year to 26.2 in 1994-95 and will fall by a further two percentage points over the subsequent three years.

Although the only revenue enhancements in this Budget relate to improved tax compliance and cost recovery in government services, total revenue will increase slightly as a percentage of GDP.

That is due to the impact of economic recovery — especially increased employment — and measures introduced in last year's Budget.

Revenue growth will however be slower than in previous recoveries due to low inflation, continuing tariff reductions, reduced dividends from government enterprises, and reductions in interest receipts resulting from the repayment of State debt.

Accordingly, revenue as a share of GDP will remain well below the levels of the 1980s.

## MEASURES IN THE BUDGET

Mr President, I now move on to the main measures contained in this Budget — full details are provided in supporting documents.

Tonight's Budget reaffirms this Government's commitment to social justice.

Last week in *Working Nation* the Prime Minister announced a range of new policies and programs costing \$6.5 billion over the next four years.

These programs are primarily aimed at reducing unemployment.

The key initiative in the package — the Job Compact — will help long-term unemployed people to get the skills and experience they need to get back into jobs.

*Working Nation* includes extensive reforms to labour market assistance including case management and improvements to the delivery of labour market programs.

The social security system will be restructured to reflect changes in our society and to remove disincentives to work.

A Parenting Allowance will be introduced for eligible unemployed people and low-income earners.

*Working Nation* also includes training and education reforms.

Entry-level training places will be increased and a new Youth Training Allowance will be introduced.

The package also includes a regional development strategy, important microeconomic reforms and an industry policy aimed at improving enterprise competitiveness and developing international markets for Australian goods and services.

Mr President, this Government has a firm commitment to improving the position of Aboriginal and Torres Strait Islander peoples.

Tonight's Budget commits almost \$1½ billion dollars over the next ten years to build up a self-sustaining National Land Fund.

The Land Fund is a major element of the Government's response to the Mabo decision.

It recognises that many indigenous people have been dispossessed of their land and will not directly benefit from Native Title Legislation.

But besides land, the health of Aboriginal and Torres Strait Islander peoples remains of continuing concern to the Government.

The standard of health of Aboriginal and Torres Strait Islander peoples is still well below that of other Australians.

Current health services, across all levels of government, are not meeting their needs.

To redress this situation, a further \$500 million will be provided over five years to expand and extend Aboriginal health programs.

Mr President, a number of other significant health measures are included in this Budget.

To accelerate the process of mental health reform and to address areas of concern identified by the Report of the National Inquiry into the Human Rights of People with Mental Illness, \$169 million will be spent over four years.

This builds on funds already provided through the National Mental Health Strategy.

These new funds also support the continuation of vocational rehabilitation services for people with a psychiatric disability.

Mr President, the Government is very concerned about the tragic loss and trauma to Australian women occasioned by breast cancer.

To improve our understanding and treatment of their problem, the Government is providing \$209 million over four years in funding for a National Breast Cancer Program.

This includes \$187 million for the continuation and expansion of the national screening program, and \$22 million for a national breast cancer centre and a breast cancer fundraising foundation.

As a step towards the Prime Minister's election commitment of lifting health and medical research funding to two per cent of total health expenditure by the year 2000, \$93 million is being made available for research.

Increased funding for breast cancer research projects is expected to result, with decisions being based firmly on the quality of research applications.

Mr President, vaccine-preventable diseases in children have been rising.

This, in a wealthy nation, is simply not acceptable.

To address this, an additional \$9½ million will be spent in 1994-95 on promoting childhood immunisation.

In aggregate this Budget allocates almost one billion dollars over four years for new and expanded health programs — without increasing the Medicare levy.

A package of measures worth \$62.7 million over four years will assist homeless people through the enhancement of accommodation assistance, the extension of rent assistance to young homeless students and improved community support services.

Our aim in extending rent assistance to young homeless students on the Austudy Student Homeless Rate is to encourage them to stay in education or training.

After aligning the Personal Income Test for these students with that for the Youth Training Allowance, the net cost of this assistance will be \$37.5 million over four years.

Following the \$2000 rise in the Austudy Supplementary Loan Scheme limit announced last year, the limit will be further increased from \$6000 to \$7000 from 1995.

Access to Justice will be enhanced by a number of measures, including expanded community and Family Court mediation services, and increased funding for legal aid and disability discrimination programs.

A number of new and specially-tailored programs for Veterans are contained in the 1994-95 Budget, addressing the needs of younger and older Veterans and including initiatives which will be welcomed by war widows and widowers, and merchant mariners.

Younger Veterans will benefit from a greater focus on rehabilitation, early intervention and health promotion programs as well as assistance for those with psychiatric difficulties.

The Budget also contains measures which respond to concerns raised over recent years about inconsistencies in the determination of disability pension claims.

Maintaining our strong commitment to the environment, the Commonwealth is offering to fund a Daintree Rescue Package on a joint basis with the Queensland Government.

This will ensure protection of this unique area.

The Sydney 2000 Olympics will be a tremendous event for Australia.

To support Australia's athletes in these historic games, the Government will provide \$135 million over the next six years for athlete preparation.

Mr President, Australia's Development Co-operation program is an important means of promoting sustainable economic and social advancement in developing countries.

By improving the standard of living of people in these countries, Australia is helping give those worse off than ourselves a fair go.

The Government is providing an additional \$68.4 million to the Development Co-operation program in 1994-95, primarily for initiatives in the Asia-Pacific region including Indochina.

This is a significant real increase in aid funding, continuing the trend set in 1990-91, and keeps Australia's aid contribution above the average for industrial countries.

The Government will fund a national Asian languages and studies program for Australian schools at a net cost of \$48 million over the next four years.

This will improve language and cultural skills and provide a solid platform for strengthening our cultural and business links with Asia well into the next century.

Mr President, a number of savings measures are also contained in this Budget.



The Higher Education Contribution Scheme (HECS) will be aligned with income tax arrangements.

Repayments will now reflect the proportion of the year during which those with HECS obligations earn above the repayments threshold.

The Government has also decided on a further program of asset sales.

As announced in *Working Nation*, it is the Government's view that airports now owned by the Federal Airports Corporation would perform better for the community if they were privately owned.

Towards this end, to promote competition and allow clear comparisons of performance between airports, the Government will work through a process to prepare these airports for sale.

The Government has also announced its intention to sell its full equity in the Australian Industry Development Corporation Limited.

While there are no general taxation increases in this Budget, there are some measures to improve tax compliance.

The ATO has identified a range of areas under existing laws where compliance can be improved — either directly through better procedures for the collection of outstanding taxes, or indirectly through measures which can be expected to boost voluntary compliance.

Some of these areas have been the subject of recommendations by the Parliamentary Joint Committee of Public Accounts and the Auditor General.

This measure is expected to increase tax revenues by \$300 million in 1994-95.

There are also measures to improve cost recovery for government services.

The Australian Securities Commission fee structure will be simplified and rationalised.

This will ensure that more of the costs of company regulation are borne by the companies and market participants who benefit, rather than taxpayers.

These changes will generate about \$40 million a year and restore the fees in real terms.

From 1 January 1995 the departure tax will be replaced by a \$27 charge for international passengers to recover the cost of customs, immigration and quarantine services and short-term visa processing.

In the 1992-93 Budget the Government announced the phased introduction of full recovery of the costs incurred in implementing safety standards and 50 per cent of the costs of safety standards setting and compliance services.

As a further step in this process, this Budget increases cost recovery by \$25.3 million, via an increase in the excise on avgas and avtur, and a special charge on Australian international operators.

The Government is also announcing several taxation initiatives in this Budget.

Following the review announced in last year's Budget of the operation of Employee Share Acquisition Schemes, the Government will substantially improve incentives for schemes that will best foster workplace productivity growth and encourage employees to take an ownership stake in their company.

At the same time it will institute measures to prevent Employee Share Acquisition Schemes being misused.

From tonight, employees participating in schemes that offer shares in their employer's company will be able either to receive \$500 per year in the form of tax exempt discounts on shares, or to defer tax for up to ten years on up to \$1500 worth of shares.

In both cases, the shares must be held for at least five years.

And the schemes will be subject to a range of conditions to ensure they are equitable to all employees and encourage improvements in workplace productivity.

The Treasurer will be releasing further details of the arrangements tonight.

The Government will be undertaking a review of Fringe Benefits Tax compliance costs, in light of concerns that have been expressed about the costs borne by business in complying with the FBT.

The aim of the review will be to minimise FBT compliance costs whilst protecting the tax base.

The Treasurer will announce details of the review shortly.

Excise on fuel oil, heating oil and kerosene will be reduced by almost two cents per litre from tonight.

The reduction in fuel oil excise will provide significant benefits to coastal shipping and export-oriented minerals projects.

The superannuation matters outstanding from the FitzGerald Report, and the protection of small amounts, will be addressed in a separate statement the Treasurer will make during this Budget session.

We are currently undertaking extensive consultations with the superannuation industry and other interested parties.

## CONCLUDING COMMENTS

Mr President, the major policy challenge facing Australia is to achieve strong sustainable growth during the 1990s, in order to reduce unemployment.

The Government believes that an unemployment rate of 5 per cent should be within our grasp by the turn of the century, and that even lower levels of unemployment are possible in subsequent years.

Australia has probably never been better placed to achieve a prolonged period of high economic and employment growth.

In our first seven years in Office — from 1983 to 1990 — we increased employment by 1.7 million.

Emulating this performance should be within our capabilities between now and the end of the decade.

To do so will require:

- maintenance of a low rate of inflation;
- a continuing program of microeconomic reform;
- a better trained and job ready workforce;
- an improved national saving performance with fiscal policy playing an appropriate role.

All these are areas which the Government has previously recognised and taken steps to address.

The *Working Nation* statement confirms the Government's determination to develop appropriate policies for sustained long-term growth of output and jobs.

This Budget, by confirming and improving the Government's deficit reduction program, takes further steps to enable the realisation of sustained high growth.

We can be a prosperous, equitable, and fully employed nation.

Let us all work to that end!