

BUDGET SPEECH 1995-96

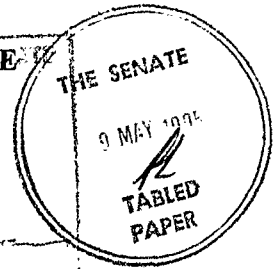
STATEMENT DELIVERED IN THE SENATE

ON 9 MAY 1995

9 MAY 1995 - 9 MAY 1995

BY

Mary Evans



SENATOR THE HONOURABLE PETER COOK

MINISTER REPRESENTING THE TREASURER

IN THE SENATE

Tonight the Treasurer is delivering in another place his Budget Speech for 1995-96.

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

Mr President this Budget has one principal objective: to provide for the continued expansion of the Australian economy.

It will enable the continuation of substantial employment growth, falling unemployment and rising living standards, while reducing pressure on interest rates, inflation and the current account.

It will do so by tackling the major constraint on growth: the long term decline of our national savings. A higher level of national savings will allow higher levels of investment and economic growth without the costs and constraints associated with undue reliance on the savings of foreigners.

This Budget provides a two part plan to improve Australia's saving performance, immediately and over the longer term.

Firstly, it increases public saving.

The Budget delivers a surplus in 1995-96 of \$718m. This is a massive turnaround in the budget outcome of \$12.9 billion or 2.8 per cent of GDP. It is the largest ever turnaround in the budget outcome. It brings the Budget into surplus 3 years earlier than previously forecast.

This is achieved by cuts to spending, increases in revenue, and asset sales, including part of the proceeds from the sale of the Government's remaining equity in the Commonwealth Bank.



THE BUDGET 1995-96

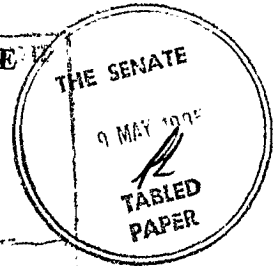
STATEMENT DELIVERED IN THE SENATE ON
9 MAY 1995

SENATOR THE HONOURABLE PETER COOK
MINISTER REPRESENTING THE TREASURER IN THE SENATE

BUDGET SPEECH 1995-96

STATEMENT DELIVERED IN THE SENATE

ON 9 MAY 1995
9 MAY 1995 - 9 MAY 1995
BY *Mary Evans*



SENATOR THE HONOURABLE PETER COOK
MINISTER REPRESENTING THE TREASURER
IN THE SENATE

Tonight the Treasurer is delivering in another place his Budget Speech for 1995-96.

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

Mr President this Budget has one principal objective: to provide for the continued expansion of the Australian economy.

It will enable the continuation of substantial employment growth, falling unemployment and rising living standards, while reducing pressure on interest rates, inflation and the current account.

It will do so by tackling the major constraint on growth: the long term decline of our national savings. A higher level of national savings will allow higher levels of investment and economic growth without the costs and constraints associated with undue reliance on the savings of foreigners.

This Budget provides a two part plan to improve Australia's saving performance, immediately and over the longer term.

Firstly, it increases public saving.

The Budget delivers a surplus in 1995-96 of \$718m. This is a massive turnaround in the budget outcome of \$12.9 billion or 2.8 per cent of GDP. It is the largest ever turnaround in the budget outcome. It brings the Budget into surplus 3 years earlier than previously forecast.

This is achieved by cuts to spending, increases in revenue, and asset sales, including part of the proceeds from the sale of the Government's remaining equity in the Commonwealth Bank.

Importantly, the Budget for 1996-97 will be in surplus excluding asset sales and special debt and capital repayments.

And the budget surplus by 1998-99 will be \$7.4 billion or 1.2 per cent of GDP.

Secondly, this Budget will introduce a major increase in private saving in the medium to longer term by the progressive introduction of employee superannuation contributions, with the second round of the *One Nation* tax cuts paid on a matching dollar for dollar basis into employee superannuation accounts.

Together with the Superannuation Guarantee and existing award superannuation this initiative will, within a generation, boost Australia's annual saving performance by 4 per cent of GDP.

The return to budget surplus will reduce Commonwealth Government debt, which is already well below the average for OECD countries, by almost 30 per cent as a share of GDP over the next 4 years.

Tonight's Budget also addresses immediate high priority needs with new measures for families, health care, the environment and justice.

FISCAL TIGHTENING

Mr President, the return of the budget outcome to surplus in 1995-96, and to substantial surplus in 1996-97 and beyond, fulfils the Government's promise to significantly tighten fiscal policy.

The measures announced tonight provide a net fiscal tightening, excluding the effects of asset sales and early debt redemptions, of \$3 billion in 1995-96 and \$4½ billion in 1996-97.

On the outlays side this tightening has been accomplished by a rigorous examination of all areas of government expenditure.

The decisions the Treasurer is announcing produce a net reduction in outlays of \$700m in 1995-96 excluding asset sales and early debt redemptions. Overall, a real reduction in outlays of 2.5 per cent has been achieved, the first real reduction since 1989-90.

Outlays are projected to fall from 26.7 per cent of GDP in 1994-95 to 24 per cent of GDP in 1998-99, demonstrating the Government's determination to reduce its call on national saving.

Total taxation revenue collected by the Government as a share of GDP declined in each of the 6 years between 1987-88 and 1993-94.

The revenue measures that the Treasurer is announcing tonight strengthen the Commonwealth's tax base and provide a significant contribution to improving the budget outcome.

In all they add \$2.4 billion to revenue in 1995-96 and \$3.6 billion in 1996-97.

But even after allowing for these measures, budget balance will be restored with revenue much lower, in relation to GDP, than in the past. When we last moved into surplus in 1987-88 revenue represented 27.2 per cent of GDP compared to an estimated 25.3 per cent in 1995-96.

Our fiscal policy compares more than favourably with that of most other industrialised countries and, amongst such countries, we will continue to be one of the lowest taxed.

SUPERANNUATION

Mr President, one of the principal objectives of this Budget is to meet the medium term imperative of improving national saving to maintain investment and employment through the 1990s and beyond.

Tonight the Treasurer is announcing, on behalf of the Government, a radical and innovative program to meet that challenge and further decrease Australia's reliance on foreign borrowings. This initiative complements the addition to Australia's savings arising from the budget surplus. It meets a goal and establishes a commitment.

The goal is better retirement incomes for Australians. The commitment, simultaneously established, is to substantially increase the nation's savings.

The measure will build on one of the most far-reaching steps taken during the Government's years of office — the development of Australia's superannuation and retirement incomes policy.

Tonight's announcement will dramatically strengthen and extend that policy. It will not only sharply increase the incomes of Australians in retirement, but will also build a large pool of savings to finance the nation's continuing prosperity.

This initiative has two elements, an employee superannuation contribution and a matching government contribution.

Mr President, in *One Nation* we said, and I quote:

"The Government will be giving consideration to using employee contributions and tax cuts to increase the total level of superannuation support by a further 3 per cent of earnings."

The Government believes that this is the time to do so — in fact, we believe there is now a need to go beyond the objectives we set then.

Accordingly, under tonight's initiative, the Government will support the inclusion in all awards of provisions for employee superannuation contributions beginning at 1 per cent of earnings in July 1997 and rising to 3 per cent of earnings by July 1999.

This will be timed to coincide with wage increases through enterprise agreements or awards, so that workers will not experience a reduction in disposable income.

The second element, Mr President, is that the Government will match dollar for dollar the contributions paid by most employees into their superannuation accounts — a government contribution, when fully phased in, of \$4 billion a year.

By paying the *One Nation* tax cuts into employees' superannuation accounts we are delivering them in a way that significantly improves national saving.

Together, additional contributions will add 6 per cent of wages to the superannuation of people earning around average incomes. By 2002 this will build on the 9 per cent contribution from employers under the Superannuation Guarantee arrangements.

This new initiative will, therefore, lift the superannuation savings for a person on around average earnings to a minimum of 15 per cent of their wages.

I want to make it abundantly clear, however, that the Government continues to see the age pension as the foundation stone of our retirement incomes policy.

Tonight's arrangements build on the existing pension system.

For a couple on average earnings, now in their mid 30s, the Government's initiatives deliver retirement incomes 75 per cent higher than the age pension.

For their children joining the workforce in the next decade, retirement incomes will be more than double the age pension.

Mr President, the new policy has been designed to benefit low and middle income earners.

Furthermore, employees currently contributing to superannuation will not need to make additional contributions to be eligible for the matching government payment.

The government contribution will be means tested. The Government will match contributions up to a limit of around \$1 000 per annum for all workers earning less than around \$46 000.

The Government will enable the self-employed to claim the matching government contribution on a proportion of their superannuation savings.

Finally, for equity reasons, the existing means-tested rebate for member contributions will be retained.

Mr President, the policy announced tonight will change forever the expectations of workers as they move towards retirement age.

It will give Australia a comprehensive long-term private savings plan — one that could not have been contemplated without the ground breaking work on superannuation done by this Labor Government since 1983.

I remind honourable Senators that in 1983, after decades of neglect by the Liberal and National parties, less than 40 per cent of all employees had superannuation coverage. Today, as a result of our reforms, that total is nearly 90 per cent.

For women, the increased coverage from the previous initiatives of this Government has been even more spectacular, rising from 24 per cent in 1983 to 85 per cent today. Thus women now have a major stake in superannuation — and it will be a bigger stake after the Budget's measures.

Today superannuation savings have already reached \$186 billion.

But, Mr President, under the policy announced tonight that figure will increase tenfold by the year 2020.

Together with our earlier reforms, tonight's initiatives are estimated to further increase national saving progressively by around 2 per cent of GDP per year by the end of the decade. When fully implemented, they will add 4 per cent of GDP per year to national saving. In today's values that means an increase in saving in the order of \$18 billion per annum.

These new superannuation measures will be extremely good for Australian workers and their families, and just as good for the nation.

ECONOMIC AND EMPLOYMENT GROWTH

Mr President, Australia's economy has been growing for 3½ years.

During this time, Australia has had one of the best performing economies among industrialised countries.

In 1994, Australia was among the fastest growing industrialised countries, but with inflation below the average of these countries.

Notwithstanding the severe drought which has affected much of eastern Australia, GDP growth is expected to be 4¼ per cent in 1994-95.

And this growth has been broadly based.

Business investment, which has been growing since late 1992, is expected to grow by 18 per cent this fiscal year.

Employment has grown by 4.2 per cent over the 12 months to March 1995.

By delivering around 550 000 new jobs since April 1993, the Government has already surpassed its election commitment to create half a million jobs in this term of office.

As a result, the unemployment rate has fallen to 8.7 per cent.

The number of long term unemployed people has fallen by 25 per cent over the 12 months to March 1995 as the Government's *Working Nation* program continues to assist them into jobs.

Critical to maintaining this strong growth in activity and employment has been the maintenance of low inflation.

Australia's inflation rate has been below that of our major trading partners over recent years.

Low inflation is the result of reforms to the structure of our economy over the past decade.

A key factor has been the success of the Government's wages policy and industrial relations reforms through the Accord, which is unique to this Labor Government and rejected by the Opposition.

Business is facing an increasingly competitive environment.

With protection reduced and markets opened to competition, businesses are increasingly required to adopt international standards of best practice.

Widespread microeconomic reforms have also resulted in a more competitive economy.

The recent historic agreement between the Commonwealth and the States to implement the national competition policy reforms will, in conjunction with related reforms in industries such as energy and transport, further raise the level of competition in the economy.

All these developments are keeping production costs and therefore inflationary pressures down.

An added benefit of this restraint in prices and wages is that it puts less pressure on monetary policy, and reduces the need for increases in interest rates.

As a result of these improvements in labour and product markets, Australia's international competitiveness is now 18 per cent higher than in the September quarter 1990.

Nevertheless, rapid growth in domestic demand, particularly for investment goods, has led to a sharp rise in imports. In addition, adverse effects on our exports from drought and the hesitant recovery in Japan have increased our current account deficit to an estimated 6 per cent of GDP this year.

Tackling this problem is largely what this Budget is about.

OUTLOOK FOR 1995-96

Mr President, in 1995-96 GDP growth will ease from the higher rates recorded in 1994 but will remain strong, at around 3¼ per cent.

Domestic demand will move more into line with growth in output as a result of:

- a slight moderation in private consumption;
- a continued decline in dwelling investment as housing construction eases back toward underlying demand; and
- a slowing in public demand growth.

Export growth should be rapid as world demand continues to grow strongly and the effects of the drought begin to ease. Reduced domestic demand will lead to a decline in the growth of imports.

Despite an offsetting increase in our net income deficit due to higher world interest rates, the current account deficit is expected to decline by ½ per cent of GDP.

Wage growth is expected to be higher in 1995-96 but, in the context of enterprise bargaining and continued improvements in productivity, it should remain compatible with maintaining an underlying inflation rate around 2 to 3 per cent on average over the course of the economic cycle.

This favourable outlook is strongly supported by the union movement's commitment to responsible wage outcomes under the Accord.

And achievement of this goal will be further aided by the spread of enterprise bargaining throughout the workforce.

Employers and employees are taking advantage of the new system by making work practices more flexible, thus improving our productivity performance and providing a firm basis for wage rises for Australian workers.

A new Accord is being negotiated with the ACTU, which will underpin the continuation of responsible wage outcomes and low inflation.

Business investment is expected to remain strong in 1995-96, rising by around 13 per cent.

This will contribute to growth in the capital stock and help maintain economic growth without supply bottlenecks triggering higher inflation.

Employment will continue to grow strongly, by about 3 per cent or over 240 000 jobs.

The unemployment rate should fall to around 8 per cent by mid-1996.

Real household disposable income is forecast to increase by 4¼ per cent, following this year's 4 per cent increase.

Mr President, the economic environment facing us over the next few years is one that offers great national opportunities, and great opportunities for all Australians.

This Budget's savings strategy will allow us to maximise these opportunities for economic growth.

FAMILIES

Mr President, I turn now to other significant measures in the Budget.

This Budget includes a major statement on our *Agenda for Families* which responds to the issues raised during the International Year of the Family.

The Government will provide further practical support for families through the initiatives the Treasurer is announcing tonight.

A new means tested maternity allowance of \$816 will be introduced from 1 February 1996. It will provide a vital boost to family income when it is most needed: on the birth of a baby.

About 85 per cent of women will be eligible for the payment which will be available to women both at home and in paid employment.

The level of Guardians Allowance paid to sole parent pensioners will be increased by \$4 a fortnight from September 1996. Rent assistance will also be increased by \$5 a fortnight from March 1996 for families with children.

Both these measures build on significant real improvements in family payments made to low income families over the life of this Government.

From July 1995 the new Parenting Allowance which was announced as part of *Working Nation* will provide about 115 000 low income working families with an average gain of \$59 a week.

Mr President, tonight's Budget also focuses on the health needs of families through preventative health care measures for children and young people.

To raise the immunisation rates among our children and so reduce the incidence of preventable diseases, a National Childhood Immunisation Program costing \$11m in 1995-96 will be introduced.

A new 'Health Australia' program provides \$18m over 3 years for measures to strengthen health promotion and reduce the consumption of tobacco, particularly among young people.

Mr President, the Government will continue to help families meet the challenges faced by competing work and family responsibilities.

The Government will deliver on its 1993 promise to meet the projected demand for work related care by 2000-01.

In this Budget we have taken steps to ensure that the focus is on meeting the needs of working parents, while providing equitable access to subsidised child care for parents who stay at home with their children.

The Government will also provide additional financial support to carers of older people and disabled people, and will promote the role of carers in the community.

A number of the measures to be announced in the Government's forthcoming Justice Statement will help families to avoid legal problems and deal with disputes.

Families of indigenous Australians remain seriously disadvantaged. In this Budget, the Government will build on past initiatives by spending an additional \$204m over 4 years to improve the standard of health of Aboriginal and Torres Strait Islander peoples.

OTHER OUTLAYS MEASURES

Mr President, to reduce spending, the Government looked first at the cost of delivering its own programs.

Indexation arrangements for both Commonwealth Own Purpose Outlays and Specific Purpose Payments to the States with substantial wage costs are to be rationalised from 1 July 1995 producing savings of almost \$2 billion over the next 4 years.

The changes will not apply to personal benefit payments — that is, there will be no change to indexation arrangements for pensions, allowances and other income support payments.

Reductions in administrative costs of departments and agencies will produce savings of around \$640m over the next 4 years.

Together with a range of efficiency and other measures already adopted by the Government over recent years, this will lead to a reduction in administrative costs of 15 per cent in real terms over the next 4 years.

The Government has also been able to reduce spending on labour market programs.

These savings will not jeopardise achievement of the Government's *Working Nation* targets. They result largely from more efficient delivery of programs and a stronger labour market.

This Budget also includes measures to simplify the income test applying to pensions through the introduction of a deeming system on financial investments only. It will

replace the current system of assessment of unrealised capital growth on shares and managed investments.

The Government will take steps to reduce the rapid escalation of some health program costs.

New arrangements for delivering pathology services and an increase in the safety net threshold for general patients under the Pharmaceutical Benefits Scheme from \$407 to \$600 from 1 January 1996 will provide substantial savings.

The Government reaffirms its election commitment to support health research by increasing funding for the National Health and Medical Research Council by \$58m over 4 years.

Mr President, for the higher education sector there is a budget-neutral package which will provide 5850 new higher education places over the next 3 years and increased funding for research infrastructure.

An additional \$217m over 4 years will be provided for initiatives to protect our natural environment, with particular emphasis on our coastline and our native forests.

We will accelerate implementation of the National Forest Policy Statement through a \$53m package over 4 years to undertake comprehensive regional forest assessments in five high priority areas and conclude associated regional forest agreements with the States.

The Government also remains determined to improve the urban environment with a further \$254m over 4 years for the Better Cities Program.

In a major addition to our transport infrastructure, international and domestic airport facilities will be constructed at Sydney West in time for the Sydney 2000 Olympics.

Tonight the Treasurer is announcing further developments in the Government's asset sales program.

The Government proposes to sell and lease-back DASFLEET's motor vehicle fleet this financial year.

The Government's remaining 50.4 per cent equity in the Commonwealth Bank will be sold in two tranches, one in 1995-96 and one in 1997-98.

The sale will complete the process of putting the ownership of the Bank on a fully commercial basis.

REVENUE

Mr President, the revenue side of the Budget will also play its part in fiscal tightening.

With the strong economic recovery, the corporate profit share has returned to the record levels of the mid 1980s.

Companies in Australia have also benefited from a number of tax concessions in recent years to stimulate business activity. They include investment allowances, accelerated depreciation, the 150 per cent R&D tax concession and a large reduction in the company tax rate from 39 per cent.

These measures will be providing a benefit of more than \$3 billion to businesses in 1995-96.

Now that the economy is growing strongly it is appropriate that the corporate sector make a contribution to the tightening of fiscal policy.

Accordingly, the rate of company income tax will be increased from 33 to 36 per cent for the 1995-96 and subsequent income years.

This measure will add \$320m to revenue in 1995-96 and \$1 570m in 1996-97.

The *One Nation* statement reduced the wholesale sales tax on passenger motor vehicles by 5 per cent to stimulate demand.

Now that passenger motor vehicle sales are at a high level, it is appropriate to restore the sales tax rate to the general rate of 21 per cent from tonight.

The Government has also decided that, from 1 July 1995, sales tax at the concessional 12 per cent rate will apply to currently exempt builders' hardware and certain building materials used mainly in the completion of buildings.

The bulk of building materials used in construction, such as bricks, timber, cement and roofing tiles, will remain exempt.

Mr President, Medicare levy receipts as a proportion of Medicare outlays have fallen from over 30 per cent in 1988-89 to an expected 24 per cent in 1994-95.

Tonight the Treasurer is announcing an increase in the Medicare levy from 1.4 to 1.5 per cent which will partially reverse this decline.

The excise rate on tobacco will rise by 10 per cent from tonight. This will replace the 5 per cent increase originally scheduled for August 1995.

In recent years evidence has emerged of an erosion of the PAYE tax base, where individuals have attempted to move out of traditional employer/employee relationships in order to avoid tax.

Accordingly, the Government will be amending the income tax law to ensure the intended coverage of the PAYE provisions can be enforced. The Treasurer will also be releasing soon a discussion paper dealing with the use of other schemes to avoid tax on personal services income.

In order to reduce deferral of tax payments under the PAYE system, the threshold at which bi-monthly remittance is required will be reduced to \$1m per year. Generally, this measure will affect companies with around 120 employees or more.

To protect the revenue base, the Treasurer is also announcing tonight measures to correct a number of deficiencies in the tax laws.

Eligibility for the research and development tax concession for syndicates investing in private tax exempt bodies will be limited to exclude investors who are not fully at risk.

This measure will prevent inappropriate access to tax benefits, and parallels a 1992 measure applying to public sector tax exempt research bodies.

There will be clarification of certain wholesale sales tax rate classifications including removal of the tax exemption for non-permanent microchips used in certain goods. The current exemption has proved virtually impossible to administer, introduced significant distortions and inefficiencies in the market, and caused considerable loss of revenue.

'Light' fuel oils, which are in effect industrial diesel fuels, will be made subject to excise in the same way as diesel fuels. This is designed to address the tax-driven substitution of 'light' fuel oil for diesel which is taking place at some cost to economic efficiency and the environment.

From 1 July 1995, the interest rate which the Reserve Bank of Australia pays banks on their non-callable deposits will be set at 5 percentage points below market rates. This measure recognises the benefits which accrue to banks from being authorised by the Government and subject to RBA prudential supervision.

More detail on each of these and other revenue measures is contained in the budget papers and accompanying statements.

CONCLUDING COMMENTS

Mr President, tonight's Budget responds to the economic challenges facing Australia today and in the years ahead in a creative and decisive way.

It presents a comprehensive plan to address the deficiency in our national saving.

The immediate restoration of the budget to surplus and the major enhancement to Australia's superannuation arrangements will dramatically boost our savings performance.

At the same time, we have improved the level of social justice so that all Australians benefit from our economic progress.

Over the past dozen years, Australia has undergone a transformation which has made our economy far more competitive, efficient and dynamic than was ever previously imagined.

We are now well placed to capitalise on these improvements.

With continued diligence, hard work, preparedness to change, and intelligent application of our collective skills, we can confidently look forward to a secure and prosperous future for this nation.