

BUDGET SPEECH 1998-99
DELIVERED ON 12 MAY 1998 ON THE SECOND READING
OF THE APPROPRIATION BILL (NO. 1) 1998-99
BY
THE HONOURABLE PETER COSTELLO, MP
TREASURER OF THE COMMONWEALTH OF
AUSTRALIA

Mr Speaker, I move that the Bill now be read a second time.

In March 1996 our country set out on a new journey.

It started from a bad position. We had lost our way — our budget, under Labor, was \$10.3 billion in deficit. Government debts had grown nearly \$80 billion over five years. Looking out to the next century there was just a haze of deficit upon deficit and climbing ranges of debt which hemmed us in and closed off our future opportunities.

Australia needed direction. Australia had to change its way.

So our Government laid out a map. We marked out the places we wanted to get to. We identified the goals we wanted to achieve and we put down a timetable so we could measure our progress. So we could stay on track.

We wanted to get the budget out of deficit — out of the red and into the black — in three years. We wanted to stabilise our growing debt then halve it (in proportion to GDP) in five years. We wanted to achieve our goals not by raising taxes but by spending taxpayers' money more efficiently and well.

That was two years ago. This coming year is the third year of the journey. We will finish the first leg in good shape. We have achieved our goal. Our budget is now in surplus. We are back in the black. We are back on track.

The Commonwealth budget will be in surplus in 1998-99 — a surplus of \$2.7 billion.

When we set out on this journey we knew it would be a tough road. If it were otherwise our predecessors would have taken it. And in many respects the road has become tougher — with the severe turmoil in the Asian region.

But we all know that worthwhile achievement requires work and dedication and we have never lost sight of our goals.

The burdens were shared and the benefits will be shared. It was something that all of us — as Australians — have achieved together.

And now we set out on the second leg of our journey.

Our second leg is to pay our way now and set up opportunities for the future by repaying Labor's debt.

Repaying the debts of the past will secure the jobs for the future. Lower debt means lower interest payments. Our taxes will be lower and they will go on new services, better services, improving living standards, rather than servicing the past debts and the past failures.

We are now well on track.

In fact today we can map out even more exciting possibilities. The Government's sale of one third of the equity of Telstra gave millions of Australians the opportunity to share in the ownership of this company — mums and dads, employees — many people who have never owned a share before in their lives.

The Government proposes to sell the further shares in this company — not because we need to balance the budget. The budget is already balanced. But a once only sale will let us get a once only reduction in our debt burden — a once only opportunity to reduce net debt to 1½ per cent of GDP — to wipe out Labor's debt for good. This would put the Commonwealth, at the Centenary of Federation, back in the strong position it had in the mid 1970's — in its best position in twenty-five years.

I said earlier that the burdens that have been shared mean that the benefits will be shared.

When we began this journey two years ago mortgage interest rates were 10½ per cent. Now they are closer to 6½ per cent. These are the lowest home mortgage rates since 1970. For the average Australian home buyer this represents a saving of \$320 per month — they are \$3,800 per year better off.

And low home interest rates means the affordability of housing has, according to the HIA index, improved by 24 per cent over the last two years. What this means is more young Australians, more young families can buy their own home and get a start in life.

Young people and families are sharing the benefits of good economic policy.

Two years ago small business overdraft interest rates were over 11 per cent. Now they have come down to 7.7 per cent. These are the lowest rates for small business since the 1960s. At the start of the decade, under Labor, small business interest rates were 20.5 per cent — nearly three times the current rate. Small business is sharing the benefits of good policy.

If we had not acted to repair the nation's finances, if we had not acted to lock in low inflation, if we had not been able to enjoy lower interest rates, if we had not been able to help small business, jobs would have been lost. But these measures have allowed new jobs, better jobs to be created. Employees are sharing the benefits of good policy.

There are now more Australians in work than ever before. Whilst unemployment is too high, it is now the lowest it has been in Australia since 1990 — the lowest in eight years,

the lowest since Labor's recession. That was the recession we did not have to have. Finally, we are over it.

CHALLENGES

In my first Budget Speech two years ago, I said that unless we acted decisively then "... Australia would be dangerously exposed to shifts in the international outlook ..."

We did not know then that the Asian region would, as happened late last year, experience its greatest financial crisis ever and its largest downturn in economic growth since the oil shocks of twenty-five years ago. We did not know then that the Asian region, which for decades has been an engine for growth in Australia, would become a brake on our growth.

But we knew that prudent management meant we should strengthen the Australian economy against shocks outside our control. And we did. And it is now clear what an important decision that was. Our critics opposed us. Labor, which had put Australia in deficit, fought to keep it there. We are fortunate their views did not prevail.

In the midst of the turbulence of the region, Australia's economic growth will remain strong — not as strong as it could have been without this external downturn, a downturn beyond our control — but Australia will have one of the highest growth rates in the developed world. Importantly, Australia will be the strong economy of this region. Our economic fundamentals are as good as they have been for twenty-five years: low inflation, low interest rates, good growth, falling unemployment, falling debt and a budget swinging into surplus.

It is important to remember that this is the result of a coherent policy framework:

- a new framework for the conduct of monetary policy with an agreed inflation objective — set with the Reserve Bank — keeping inflation low;
- a Charter of Budget Honesty recognised as a standard setter by the International Monetary Fund — implementing the best practice in the world — keeping the budget on track;
- a leading edge reform of the financial sector which has proven strong and will be strengthened further under new institutional arrangements flowing from the Financial System (Wallis) Inquiry; and
- a programme of Corporate Law Reform that will make Australia one of the most efficient, stable, reliable centres in the world to do business — directed to our objective of providing economic growth and jobs.

But the turbulent events of Asia in recent times should remind us of the need to continue to work to strengthen our future. While many hard yards have been covered, many more have to be travelled to improve our tax system, to improve our ports and wharfs, to keep our focus on a stronger economy and jobs, to maintain our commitment to help families, the elderly, and those in regional and rural Australia.

BUDGET OUTCOMES

Mr Speaker, we have turned around the nation's finances without increasing the tax burden on Australians.

For the third time in a row, tonight I announce that there will be no increase in income tax rates, no increase in the company tax rate, no increase in the wholesale sales tax, no increase in the petrol excise.

The uplift factor for provisional tax in 1998-99 will be reduced again one further percentage point to 5 per cent, half the rate that applied under Labor at the beginning of this decade. This will save business and individuals around \$75 million in provisional tax instalments in the forthcoming year.

We are putting the nation's finances in order by being careful with government spending — targeting the areas of need, whilst eliminating rorts and wastage. In the social security area alone, in the first eighteen months of the Coalition Government more than \$600 million was repaid by people who had received more than their entitlements. In 1996-97, \$28 million a week was saved by cancelling payments to those who were not entitled to them.

Budget outlays as a proportion of GDP are expected to fall from around 27 per cent of GDP in 1995-96 to below 24 per cent by 2000-01. This represents an outcome not achieved since the early 1970s.

And careful management of the nation's finances has allowed us to redirect spending to those with greater need.

Care and Support for Older Australians

Mr Speaker, the Government has already demonstrated its strong commitment to older Australians.

This is the only Government that has, by legislation, set the benchmark rate of the age pension at 25 per cent of male total average weekly earnings. This means that although the Consumer Price Index did not increase last year, the rate of the age pension did. This delivered an increase in the pension of \$6.80 per fortnight in March 1998. The Government has also provided for this increase to flow to the recipients of War Widows' pensions.

This Government also delivered tax fairness to the self-funded retiree. The Government has now introduced, in full, the availability of the pensioner tax rebate to self-funded retirees. Self-funded retirees now pay no more in tax for the same income than do pensioners. This allows a qualifying single self-funded retiree to earn up to \$12,163 without paying tax.

Starting from 1 July 1998, the savings rebate will reduce tax on savings by 7.5 per cent and by 1 July 1999 reduce tax on savings by 15 per cent up to the first \$3000 of income.

The Government has decided that from 1 January 1999, a Gold Card for health care will be made available to an additional 50,000 Australian World War II veterans — those who faced danger from hostile forces during that war. This measure, which costs around \$500 million over four years, recognises the significant contribution made by Australia's war veterans. A grateful nation acknowledges the debt we owe them.

The Gold Card provides the veteran with free treatment as a private patient with choice of doctor or medical practitioner in hospital, together with a wide range of other services such as optical, dental, physiotherapy, podiatry and chiropractic services free of charge. These services are provided whether the conditions treated are service related or not. Gold Card holders receive the pensioner concession on pharmaceuticals. They are not required to pay the Medicare Levy. Their treatment is free.

This Government wants to encourage people to save for their own retirement. And so it is determined to support those retirees who through thrift are now living from their own savings.

To further encourage and support self-funded retirees, I announce tonight that eligibility for the Commonwealth Seniors Health Card is to be expanded from 1 January 1999.

The income test threshold for the card, which will be based on taxable income, is to be increased from around \$21,000 to \$40,000 per year for singles and from around \$36,000 to \$67,000 per year for couples. This change, costing \$190 million over four years, is expected to allow some 220,000 additional self-funded retirees to qualify for the Seniors Health Card.

It will enable cardholders to purchase eligible pharmaceuticals for \$3.20 — the same concessional rate as pensioners — with any prescriptions above 52 within a year being available free of charge.

1999 is the International Year of Older Persons. A Government programme which will focus on implementing practical initiatives for improving the health and well-being of older Australians and recognising their contribution to the community and nation is being put in place to mark this occasion.

A Healthy Australia

Mr Speaker, the Government is also building a stronger health system.

Under Australian Health Care Agreements, Commonwealth funding available for public hospitals will increase by \$2.9 billion over the next five years. In total, this will increase funding nearly 15 per cent in real terms and bring Commonwealth spending to \$30.2 billion over the five year period. As part of this, the Commonwealth has taken on the full cost of purchasing veterans' health care, which is separately funded at \$150 million per year. The extension of the Gold Card to an additional 50,000 veterans, separately funded for free treatment as private patients, creates additional places in the public system for others.

Health Care Agreement funding will ensure that public patients receive free access to public hospitals, and will facilitate reforms to improve the efficiency and effectiveness of health services. This demonstrates the Government's strong commitment to the public hospital system.

Earlier this year, the Government announced a range of measures to enhance the care of older people staying in the community, and to provide greater recognition and support for carers. The Government's package *Staying at Home — Care and Support for Older Australians*, announced in April, will assist elderly Australians to remain independent and live in their own homes with additional care and support.

The measures, costing around \$280 million over the next four years, will see the number of people receiving assistance through Community Aged Care Packages to stay in their own home double to 22,000; they expand eligibility for the Domiciliary Nursing Care Benefit; they will establish another fifteen Carer Respite Centres to give those caring for older people the chance for respite and help them to look after elderly relatives; and they provide additional respite care places for people with dementia.

This year, the Commonwealth will also provide increased funding for the States of \$130 million over five years under the new Commonwealth State Disability Agreement. This will provide for additional accommodation support services for people with disabilities. This funding is in addition to the \$54 million in extra funding which was provided in the 1997-98 Budget.

Our efforts to improve the health of Australians do not end there.

Tonight, I am announcing the provision of around \$80 million over four years to enhance preventive health programmes. This will fund a number of new programmes, including:

- a free annual influenza vaccine to all Australians over 65 in order to treat this preventable illness, as recommended by the National Health and Medical Research Council; and
- a \$6.1 million programme to reduce tobacco-related illness including school education campaigns to warn our children of the dangers of smoking.

Following the successful introduction of Medicare claims units in pharmacies in rural Australia, the service will be extended to outer metropolitan and growth areas. Two hundred new units will open in pharmacies to allow people to access Medicare refunds from their local chemist.

Foster parents, who generously give love and care to children, will be entitled to have a Health Care Card for the child, if the child qualified in his or her previous family, to use for health expenses. This recognises the important role of carers and the health needs of those who are cared for by them.

The Government's commitment to medical research is demonstrated by our decision tonight to provide additional on-going funding for the National Health and Medical Research Council at a cost of around \$175 million over four years. This provides longer term certainty for the health and medical research industry, and will encourage those with research skills to participate or continue in medical research.

Expenditure on diagnostic imaging has grown significantly in recent years. Although this growth was slowed by measures introduced in the 1996-97 Budget, further reforms are needed to ensure that growth does not become unsustainable. The Government will be working with peak professional bodies to constrain diagnostic imaging expenditure.

The Government will also be taking steps to ensure that abuse and waste in the Pharmaceutical Benefits Scheme is minimised, through enhancing the compliance activities of the Health Insurance Commission and the development of education and awareness programmes.

Youth, Education and Training

A key priority of the Government has been to expand employment opportunities, through labour market reform and improvements in Australia's education and training system. A particular concern has been our unemployed youth.

The Government's initiatives have included the major reform of the provision of employment services, with the establishment of the Job Network from May this year; improved incentives for employers to take on apprentices; and the Work for the Dole scheme.

The Work for the Dole scheme is based on the principle of mutual obligation. A person out of work is given income support by the community and is expected, in return, to support the community by doing useful projects, learning skills and keeping up work habits.

The Government is also providing an additional \$350 million over four years for a range of measures to address problems associated with youth unemployment.

In particular, the Government is taking the Work for the Dole initiative further, requiring all young people unemployed for six months or more to participate in an activity in addition to looking for work. The additional activities required can include the Green Corps, education and training, a new programme for literacy and numeracy or community job projects.

This Budget provides for the extension of the Job Placement, Employment and Training programme until the end of 1999-2000. This programme helps young people up to 21 years of age who face multiple disadvantages, particularly the homeless. It provides individual assistance, tailored to their particular needs, to help them overcome the barriers they face in putting their lives back on track.

A new Youth Allowance is being introduced, which simplifies income support arrangements for young Australians and encourages them to further their education and develop the basic skills needed to secure their future.

Additional funding is also being provided for programmes to facilitate the transition of young people from school to work and to assist those at risk of early school-leaving.

This year, the Government will establish a Volunteer Ambassadors for Development programme. This will provide the opportunity for around 500 young Australians of up to 30 years of age to live and work as volunteers in the Asia Pacific region. Volunteers will be involved in activities such as teaching, providing health services, advising small business and improving the environment. This will help build Australia's ties with the region. Importantly, it will also expand the skills and experience of the young people themselves.

In this Budget, the Government is also providing significant increases in resources to fight the scourge of drugs through the National Illicit Drugs Strategy. The Strategy involves funding of around \$215 million over five years to reduce the demand and supply of illicit drugs in the community, for drug treatment and rehabilitation and for community education. The new initiatives funded in this Budget will involve establishing new strike teams against illegal drugs and fighting the drug trade at its source with new Federal Police posts overseas where the drug trade can be intercepted before it reaches our shores.

Rural and Regional Australia

Mr Speaker, the importance of the rural industry to Australia, to the nation, can never be forgotten. We know that many in the bush have faced difficult times, particularly because of drought.

Sound policy and low interest rates are of enormous benefit to rural and regional Australia. The \$525 million Government package, *Agriculture — Advancing Australia*, aims to help farmers out of debt and drought problems and, through the new FarmBis programme, provides assistance to farmers to improve the management of their businesses.

Shortly after tonight, the Government is introducing legislation to provide a tax rebate for landcare works of 34 cents in the dollar. This will apply to expenditure in the 1997-98 financial year. Primary producers will be able to claim the rebate for works on levee or contour banks to control soil erosion, drainage works to control salinity, and the eradication of pests. There will be an annual limit of up to \$10,000 for eligible landcare expenditures. The rebate will be available for those with taxable incomes of up to \$20,700 from primary production — or around 70 per cent of farmers. The landcare rebate is an incentive for farmers with low taxable incomes to improve their land — one of our country's greatest natural resources. The rebate, worth \$80 million, will be paid from the Natural Heritage Trust.

In the coming year over \$200 million will be spent on natural resource management and sustainable agriculture under the Natural Heritage Trust and other programmes.

Steps are being taken in this Budget to improve rural and regional health, through the expansion of multi-purpose health and family services for Australians in rural or remote areas. This involves providing a flexible, integrated range of health and family services in conjunction with the States, in areas where individual health and care programmes would not otherwise be viable. An extra thirty rural areas will have access to new multi-purpose services, with an additional 836 residential aged care places to be made available over four years. This is designed to complement services to older Australians in rural areas who want services near their friends and families.

Other Measures

Mr Speaker, one of the first areas where the impact of the downturn in Asian economies has been felt is the Australian tourism industry. We recognise the importance of tourism for the Australian economy. In that context, we recognise the need to promote Australia effectively in the world tourism market.

Accordingly, this Budget provides increased funding of around \$50 million over four years for the Australian Tourist Commission to improve Australia's promotional effort overseas in existing and emerging markets. A further \$8 million will be provided over that period for the promotion of tourism in regional Australia.

The Government is also taking steps to enhance the effectiveness of Australia's immigration and visa procedures. Experience shows that there is a high risk that visitors from certain countries will attempt to remain in Australia after their visas expire. Accordingly, visa applications from those countries are to be more closely scrutinised. These measures are to be funded by introducing a new visitor charge for applicants from high risk countries. At the same time, arrangements provide for faster processing of travellers from low risk countries.

BUDGET REVENUES

In August last year the Prime Minister announced the Government's commitment to fundamental reform of the Australian taxation system.

Our current tax system is not serving Australia's interests and is therefore no longer appropriate to a modern and dynamic economy.

It is unnecessarily complex — the result of years of changes to patch up a system that was first developed in the 1930s.

It imposes high rates of personal tax on additional earnings for Australians who do not have high incomes. The interaction of the tax and social security systems reduces the incentive to find work, or to earn more. Reward for effort is taken away through tax and reduced benefits.

The tax system includes a Wholesale Sales Tax which applies high tax rates on a relatively narrow range of goods including many everyday items. The structure of the indirect tax system also adds to the costs of businesses and penalises our exporters.

A more certain, fair and efficient tax system is necessary as Australia enters the next century. We need a tax system that ensures that all parts of the community pay a fair share of tax.

In its first two Budgets the Government has taken action to protect honest taxpayers by clamping down on tax avoidance and tax minimisation. This has been achieved without increasing the overall tax burden facing the community.

But repair and maintenance of the present taxation system can only go so far. In short, it is no longer a sufficient option for achieving fairness and avoiding disincentives to work. We must have fundamental reform of the taxation system.

Mr Speaker, since the Government is committed to ensuring all taxpayers meet their obligations, I am announcing tonight an extension of the funding for a special taskforce within the Australian Taxation Office which is investigating the tax minimisation practices of some high wealth individuals. Examination to date has already unearthed a number of undesirable practices. Tonight's Budget sets aside \$19 million for this taskforce which is expected to yield \$200 million in additional tax compliance over the next two years.

Year 2000 Computer Software

The Government considers that expenses incurred in detecting and remedying software problems associated with the Year 2000 millennium bug should, in general, be immediately deductible for taxation purposes.

To a limited extent this is provided for in the current law but amendments will be made where this is not so. This decision reflects the Government's determination that businesses should be encouraged to take all steps to iron out possible computer software failure before the Year 2000.

The Government has also decided to amend the taxation law as it applies to computer software expenditure in response to a recent announcement by the Commissioner of Taxation withdrawing a ruling that deals with the taxation treatment. Unless the Government acted, most software expenditure could not be written off for taxation purposes or at best could be written off over twenty-five years. Most software expenditure would have been treated as capital and therefore as not deductible in the year incurred.

The Government has decided to act in response to provide that expenditure on acquiring or developing computer software—apart from that associated with Year 2000 compliance—will be written off over 2½ years.

The write-off rate of 2½ years reflects the relatively short expected effective life of software arising from rapid developments in the information technology industry.

The proposed arrangements are generous compared to those applying in comparable overseas taxation jurisdictions.

The new arrangements will encourage business modernisation and apply from the time of withdrawal of the ruling.

I am also announcing some measures that will simplify the tax law and address some potential anomalies.

A new generic tax framework will be introduced for the demutualisation of non-insurance organisations. Demutualisation is an emerging trend as more sectors of the Australian economy respond to increasing competition and structural reform. The development of the framework has benefited from extensive public input. It will provide greater certainty for organisations about the taxation consequences of demutualisation.

The Government has decided to increase the revenue collected through telecommunications numbering charges in order to better reflect the market value of these numbers and discourage hoarding. Additional revenue of around \$30 million per annum will be collected from telecommunications carriers for the use of special service telephone numbers such as '13' and '180' numbers. The Government's decision recognises the fact that special service numbers are a valuable community resource and previous charging levels have undervalued their true worth.

Finally, Mr Speaker, I am announcing an increase in the Passenger Movement Charge of \$3, taking it to \$30. This will take effect from 1 January 1999. This increase will help meet the additional costs associated with the transit of people and goods for the Sydney 2000 Games.

ECONOMIC OUTLOOK

Mr Speaker, it is expected that economic growth will remain solid in 1998-99, although it will slow from 1997-98. But for the effect of Asia we would be looking at a continuation of rapid growth in 1998-99.

The strong growth in activity in 1997-98 reflects strong private sector demand. This is expected to carry into 1998-99. Investment plans remain strong, supported by low interest rates and high corporate profits. The housing recovery is proceeding and consumption will be supported by continued favourable labour market conditions.

Employment growth should remain firm, supported by recent and prospective growth in non-farm activity. The unemployment rate is forecast to fall to around 7¼ per cent in the year ahead.

While inflation will rise gradually in the year ahead, it is under control and expected to remain within the RBA's medium-term target band.

The slowdown in some of our Asian trading partners will reduce Australia's export returns. Continued strength in the domestic economy will lead to a temporary rise in the current account deficit, edging it up to an average 5¼ per cent in the coming year.

However, the rise in the current account deficit in prospect is expected to remain below the peaks in the 1980s and mid-1990s.

And importantly, the rise in the current account deficit in prospect is taking place in clearly different circumstances to those earlier episodes. It does not reflect excessive growth in domestic demand. It is taking place in a period where the Government has locked in low inflation. It is occurring against the backdrop of policies designed to increase public saving and to provide a better environment for private saving.

As a result, investor confidence in Australia can be expected to remain strong.

CONCLUDING COMMENTS

Mr Speaker, on its election the Government mapped a course for economic and social prosperity into the next century.

This Government was determined to deliver, not just for this generation, but the next. When we set out, we said that the burdens would be shared so the rewards would be shared.

That is why young people, homebuyers, small business, job seekers now have better opportunities and a bright future — why we can care for the older people and hope for the younger ones.

The journey is not yet finished. We should not stop now. This is an important milestone along the road. With the confidence and continued support of the Australian people, we will not stray from the task.

I commend the Budget to the House.