

# BUDGET SPEECH 1991-92

STATEMENT DELIVERED IN THE SENATE ON

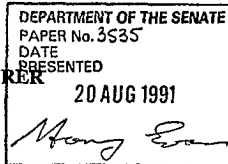
20 AUGUST 1991

BY

SENATOR THE HON JOHN BUTTON

MINISTER REPRESENTING THE TREASURER

IN THE SENATE



Today the Treasurer is delivering in another place his Budget Speech for 1991-92.

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

Mr President, this Budget comes after a year in which the Australian economy fell into recession following seven years of strong economic and employment growth. It was a disappointing year for all Australians; a year of lost jobs, squeezed profits and dashed hopes.

But we could not continue to spend more than we produce without imports being far too high and bringing on an acute current account crisis.

We were living beyond our means. We could not continue to do that without facing dire consequences.

A slowing of the economy to more sustainable rates of growth had become a necessity. Managing that transition, however, is a difficult and delicate task at any time.

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# THE BUDGET

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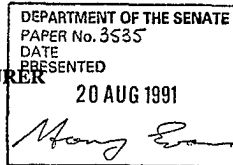
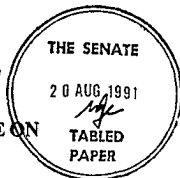
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We were living beyond our means. We could not continue to do that without facing dire consequences.

A slowing of the economy to more sustainable rates of growth had become a necessity. Managing that transition, however, is a difficult and delicate task at any time.

A number of factors accentuated these difficulties over the past year or so.

There was an unprecedented and unsustainable boom in asset prices in the second half of the 1980s. Its subsequent unwinding pulled the rug out from many speculative investments and business ventures.

The failure of some financial institutions heightened the loss of confidence amongst investors and consumers, further contracting the level of demand.

Added to that, a tighter monetary policy was operating for the first time in a deregulated environment.

Exacerbating these influences, the decline in our terms of trade through falling commodity prices severely hurt the rural sector.

The objective of stepping down to lower growth but stopping short of recession was not achieved. The Government takes no satisfaction from that.

It will give no comfort to those Australians adversely affected by this recession, but we should recognise that several other major countries had a similar experience. In particular, the United States, Canada and the United Kingdom have also been in recession.

*Indeed, that added to our difficulties by reducing the demand for our exports, especially commodities.*

The signs are still tentative—and may remain so for a little time yet—but the Australian economy is set for recovery in 1991–92. The recovery will be slow.

The task we face is to ensure that the recovery proceeds at a sustainable pace and that we lock in the economic gains of the past year. These gains relate particularly to the current account and the rate of inflation.

Last year saw substantial improvement in our current account, not just through reduced imports but also through stronger export growth.

The contribution of net exports to growth in 1990–91 was the highest in three decades. This achievement was all the more remarkable in the face of the difficult conditions in our major export markets.

The current account deficit declined from almost 6% of GDP two years ago to 4% last year. And it will fall again this year.

Inflation has also been very substantially reduced. Over the last year, inflation fell to 3.4% compared with 7.7% during the previous year.

This is a major gain. For the first time in decades, our inflation rate is clearly below that of our major trading partners. This improves our level of international competitiveness.

We must not let these important achievements slip away.

What is now required is a rate of recovery that consolidates this progress and secures a return to sustained employment growth.

At the end of the day, what counts for investor and business confidence, investment and a larger traded goods sector, and thereby increased employment, is getting the fundamentals right.

This Budget has been formulated with that objective foremost in mind.

## **BUDGET OUTCOME**

Mr President, the Budget this year will be in deficit for the first time in five years.

By allowing the Budget to swing into deficit, the Government has provided a substantial cushion—about \$13 billion over two years—to counter the impact of the downturn. This stimulus will contribute to the recovery in the coming year.

Nonetheless, we have maintained the underlying integrity of the Budget. Since last year's Budget, all new expenditure decisions by the Government have been paid for by savings in other areas.

As a result of the economic downturn, outlays are expected to rise and revenues fall in real terms. The net result of these changes is that the Budget deficit this year is estimated to be about \$4.7 billion.

As a share of the economy, outlays will be slightly higher than last year, but this increase is more than accounted for by the increase in outlays associated with the slowdown in economic activity.

Revenue will be at the lowest level as a share of GDP since the late 1970s. This reflects both the full year effects of the tax cuts made last year, and the impact of the economic slowdown.

## **OUTLAYS**

Mr President, I now turn to outlays.

### **FAMILIES INCOME PACKAGE**

The introduction of the Family Allowance Supplement by Labor in 1987 provided the basis for targeted income support to families. Today, Mr President, I am announcing that this Labor Government is building on that work.

A major families package will provide additional assistance to low and medium income families with children, and target Family Allowances more effectively.

From April 1992, the income test for the receipt of maximum benefits under the Family Allowance Supplement will be increased from \$18,000 to \$19,300. This will raise the income threshold for the maximum benefit to align it with the indexed AUSTUDY threshold.

This change means that a family earning \$20,000 per year with two children will be eligible for family assistance payments of up to \$97 per week free of tax, an increase of up to \$12.50 per week.

To encourage eligible families to apply for the Family Allowance Supplement, the administrative arrangements for the payment of income support will be simplified.

From January 1993, existing income support schemes for the care of children will be combined into a single payment payable to the principal carer.

These changes will improve the arrangements covering the current structure of family assistance payments.

From January 1992, the Government will introduce an assets test for the Family Allowance at \$600,000 of net assets excluding the family home.

For the next two years, families with very low incomes but assets above the threshold will be able to retain the Family Allowance as long as they meet a liquid funds test.

The assets test for the Family Allowance Supplement will also be relaxed from January 1992 for the next two years.

Low income families with assets above the current level of \$347,500 but below \$600,000 will become eligible for the Family Allowance Supplement provided they meet the liquid funds test.

These measures address, for the first time, the particular problems faced by income poor but asset rich business people, especially farmers.

Statements detailing these and other measures are being released by the Ministers for Social Security and for Primary Industries and Energy.

### **MEDICARE**

Mr President, the Budget also contains significant reforms to Medicare.

Medicare is a fair health system—it guarantees medical services to people who need them.

However every 20 years the number of medical services used per person in Australia doubles. That was happening before Medicare, and is still happening. If that continues, all Australians will have to pay more for health care.

The Government is therefore reforming Medicare to change benefit arrangements to slow the growth in the use of medical services and to assist the medical profession to lift the quality of care available from General Practitioners.

Subject to safeguards, the Medicare benefit for visits to a GP will be reduced by \$3.50 from November 1991. Doctors who direct bill Medicare will be able, if they wish, to recoup this sum from their patients.

In addition, this Medicare benefit will be reduced by a further \$1.50 from November 1992.

The following safeguards will ensure that those most in need retain access to free health care.

First, holders of various concession cards—that is, pensioners, veterans, low income earners and usually their dependants—will continue to have access to GP services at no cost provided their GP chooses to direct bill. A total of 4.5 million Australians, mostly low income people, will be protected in this way.

Secondly, heavy users of GP services—families in particular—will gain extra protection. From next January, the existing safety net which applies to individuals will become a family based safety net with a threshold of \$246 per year. Thus, for a family of two adults and two children, the threshold will be reduced from \$984 to \$246.

The Government will undertake discussions with the medical profession on a range of issues concerning General Practice, including funding mechanisms and doctor supply.

Further changes are also being undertaken in diagnostic services to contain rapidly growing costs. These changes reflect agreements reached with relevant pathology and radiology professional bodies.

In time, these reforms will save almost a billion dollars a year.

## **BETTER CITIES**

Mr President, the cities of the nation have to change.

And they have to change if Australians are to be provided with better access to facilities and services.

The Deputy Prime Minister will announce details of a program aimed at creating better cities. The program is the first step in building a new partnership between Federal, State and Local Governments so that our cities and the quality of life of the people who live in them can be improved.

Commonwealth funding for this program will be more than \$800 million over a five year period. \$56 million will be allocated by this Labor Government during 1991–92.

## **EDUCATION AND TRAINING**

Mr President, better training and education provides the basis for more meaningful jobs and a richer community life.

*This Government has increased the number of higher education places from around 250,000 in 1983 to 350,000 in 1991. There will be further increases in 1992 additional to the 13,000 already approved for 1992 in the current three year arrangements.*

Another \$57 million will be provided for capital funding of higher education in the next two financial years. There will also be increased research funding.

These decisions are in addition to the cost of the recent increase in academic salaries, over \$120 million this year.

To help pay for these items, the Higher Education Contribution will be increased by \$144 on top of normal indexation.

A package of improvements to student financial assistance schemes is being announced by the relevant Ministers. This includes an increase in the personal income test threshold and a further extension of eligibility to students who undertake accredited TAFE-type courses.

In addition, spending on training and labour market programs will increase by \$260 million this year, an increase of nearly 50%. Increased training and work experience for the long-term unemployed through the JOBSKILLS program and additional funding for Technical and Further Education will also be provided.

An enhanced literacy training package will be detailed by the Minister for Employment, Education and Training.

#### **NATIONAL RAIL CORPORATION**

Mr President, as announced at the July Special Premiers' Conference, governments agreed to the establishment of a National Rail Corporation.

The Commonwealth, New South Wales, Victorian and Western Australian Governments will provide equity for the Corporation. This is expected to exceed \$400 million during the next six years.

The Corporation will operate commercially in line with the best established practice overseas. This reform will secure an efficient interstate rail freight system.

As a result, the Corporation will substantially reduce the losses now crippling the Australian rail system. It is expected to break even within three years and become totally self-supporting after five.

#### **ENVIRONMENT**

Mr President, this Government's strong commitment to the environment is reinforced in this Budget by an increase in spending of almost 30% to \$143 million.

We recognise that both the natural environment and the urban environment are important to Australians.

We are meeting our commitment to establish a Commonwealth Environment Protection Agency this year at a cost of over \$8 million.

We have decided to double funding to the Endangered Species Program to \$5 million.

Australia shares responsibility with other nations for the global environment. The Government will nearly double international environmental assistance to \$20 million, including making our contribution to the Global Environment Facility managed by the World Bank.

#### **ABORIGINAL AND TORRES STRAIT ISLANDER PEOPLES**

Mr President, another area of concern to all Australians is the disadvantage that Aboriginal and Torres Strait Islander peoples experience.

The Reconciliation Process is the backdrop to the Government's programs to redress that disadvantage in the coming decade. As part of the Reconciliation Process, \$2.6 million is being provided as an interim response to the Report of the Royal Commission into Aboriginal Deaths in Custody. The Government will join with State and Territory Governments in announcing a comprehensive response in March 1992.

In addition, over \$3 million will be provided for the operation of the Council for Aboriginal Reconciliation.

The National Aboriginal Health Strategy will be fully funded when agreements between the Commonwealth and the States are in place. \$7 million of further funding is included in the Budget for this purpose for Aboriginal Medical Services as part of the Strategy.

To help fight unacceptably high Aboriginal unemployment, Community Development Employment Projects will be further expanded. Under this program, Aboriginal people voluntarily forgo their entitlement to certain social security payments to work on community improvement and development projects.

## REVENUE

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

The Government is continuing to improve the fairness of Australia's tax system.

Currently, some taxpayers who use tax agents are able to delay significantly their tax payments. To stop this, measures will be taken to minimise payment delays.

In addition, the Tax Office will more effectively use information supplied on employment declaration forms to improve compliance with tax obligations by both employers and employees.

Taken together, these changes will increase revenue by \$350 million in 1991-92.

To align better the tax on fringe benefits with taxes on salaries, the Fringe Benefits Tax rate is to increase from April 1992 by 1<sup>1</sup>/<sub>4</sub>%, the equivalent of the Medicare levy rate.

The Treasurer is announcing today broad features of new tax arrangements, to be introduced next year, to remove advantages that some Australian residents obtain through investments in foreign investment funds.

The Treasurer is also releasing further detailed information about the new self assessment arrangements for taxpayers.

## SUPERANNUATION AND RETIREMENT INCOME

Mr President, the Government's retirement incomes policy aims to ensure that all Australians have a secure income in retirement. Superannuation is a vital part of that policy and has been an important policy issue throughout the life of this Labor Government.

Over the past eight years, major progress has been made in extending the superannuation system in Australia. In 1986, 3% superannuation was awarded by the then Conciliation

and Arbitration Commission as part of a productivity and wage package. This award requirement has not been complied with in full.

The Government will therefore introduce a superannuation guarantee levy, starting from July next year.

The Government will legislate for a prescribed level of superannuation support to be provided by employers to all of their employees.

Employers failing to meet this level will be subject to a superannuation levy which will not be deductible for income tax purposes.

To ease the transition for small businesses, the initial level of prescribed support will be 5% of ordinary time earnings for employees of employers whose annual payrolls exceed \$500,000; and 3% for other employees.

This level will be increased gradually over time. By the year 2000, the prescribed level of employer support will be 9% of earnings. Consideration will also be given to supplementing this level of support with employee contributions and tax cuts equivalent to 3% of earnings.

Improvements in superannuation will be taken into account in future Accord negotiations.

This new superannuation guarantee levy will underpin the Government's retirement incomes policy. Superannuation will be extended to many Australians for the first time. In addition, an efficient mechanism for the orderly increase in the level of superannuation support over time will be put in place.

The Treasurer will invite representatives of the ACTU, major employer groups and the superannuation industry to a meeting in September to discuss the implementation of this measure and its implications for the structure of superannuation benefits.



Consistent with our support for superannuation, the Government intends to ensure that an adequate prudential framework applies to the superannuation industry.

The Treasurer is, therefore, releasing today a statement of the Government's policy on prudential supervision of the superannuation industry. As well, there will be additional information disclosure requirements for superannuation funds.

## WAGES POLICY

Sustainable employment growth during the recovery will require continued moderate growth in wages and salaries, and in overall labour costs.

The responsibility of unionised workers and the integrity of the Accord process through the 1980s were, tragically, not matched by the behaviour of others in our economy.

It is now recognised that wage outcomes must be more directly linked to improvements in labour productivity.

Importantly, the Government, the ACTU and the major employer bodies are all committed to achieving more devolved wage fixation arrangements. All parties are agreed on the need for a more flexible and more decentralised wages system. This is fundamental to improving our productivity performance in this decade and beyond.

The next step involves the forthcoming Australian Industrial Relations Commission review of wage principles and the further development of the most appropriate framework to guide the new wage fixation arrangements.

## STRUCTURAL REFORM

Mr President, in March of this year the Government acted to change, for the better, Australia's tariff regime and industry policy. As we progressively expose our traded goods industries to international competition, we must also lift the efficiency of the service industries they rely on to world standards.

In July the Government achieved agreement with the States on the mutual recognition of regulations and standards, on roads, on rail, on electricity and on government trading enterprises.

The Government is committed to further reform. The Treasurer is therefore announcing today details of the Industry Commission forward work program. Future references will cover public infrastructure, manufacturing and primary industry policy, government programs and regional policy.

## ECONOMIC PROSPECTS

Mr President, looking back over the past year we have witnessed an historic break in inflation.

Australia now has the opportunity to consolidate its position in the ranks of low inflation countries. The Government is determined to lock in the progress on inflation as a basis for sustainable growth in the 1990s.

Looking ahead, economic activity is expected to improve during the coming year.

The world economic outlook is improving but only slowly.

Our task now is to ensure that demand grows less quickly than output so that our current account continues to improve and inflation remains low.

Output is expected to grow by  $1\frac{1}{2}\%$  in 1991-92—and by around  $3\frac{3}{4}\%$  over the year.

The main expansionary forces in the economy will be a recovery in the housing sector, a gradual pick-up in consumer spending, and changes in stock levels.

Exports will also continue to make an important contribution to growth, as they have done for the past two years. The volume of exports is expected to grow by around  $5\frac{1}{4}\%$  in 1991-92, while imports are expected to decline by around  $1\frac{1}{4}\%$ .

As a result, our trade in goods and services will move into surplus for the first time in a decade. Further gains will therefore be made in reducing the current account deficit as a proportion of GDP—almost halving it over two years. This brings the welcome prospect that we will begin to stabilize our external debt as a proportion of GDP this year.

Inflation is expected to slow further to 3% in 1991–92.

The recovery can be expected to contribute to a gradual lift in employment, and a slow fall in unemployment, as the economy gathers strength in 1992.

## CONCLUSION

Mr President, there are early signs that an economic recovery is on the way. In recent years, both in Australia and overseas, one common mistake in economic policy has been to fail to see that a recession has passed.

Too often, governments have delivered a stimulus to the economy at just the wrong time—just as the economy was on the mend.

Growing employment as the pick-up proceeds is what we all want. To achieve this, successful industry reform needs to be integrated with the steady management of macroeconomic policy.

But it will always be a challenge to ride out the cycles in economic activity. It is safe to predict that the 1990s will be no different in that regard.

As a relatively small and open trading nation dependent on commodity exports, we will always have to manage the effects of changing international economic conditions.

But we must organise ourselves to benefit from the upswings in world activity—and to respond to the inevitable downswings in a way that minimises the disruption to the Australian economy. With this in mind, this Budget affirms the Government's intention to continue to pursue sustainable longer-term policies.

This speech has not just been about economic policy. Government and economic management is not some remote clinical exercise. Not every political problem can be reduced to some soluble economic problem.

Government is about people. This Budget is about people.

The corporate and other excesses of the 1980s are behind us. Partly because of those excesses, the transition to sustainable growth and employment is going to be painful and longer than any of us want.

But we now have a firm base for sustainable growth in the period ahead. Our competitiveness has improved, our current account deficit is falling, and the gains on the inflation front will create a sound climate for investor confidence in the coming recovery.

The challenge is to build on this base. Your government is committed to leading Australia through this period, relying as we always do on the strength, resilience and commonsense of the Australian people.