

BUDGET SPEECH 2000-01
DELIVERED ON 9 MAY 2000 ON THE SECOND READING
OF THE APPROPRIATION BILL (NO. 1) 2000-01
BY
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TREASURER OF THE COMMONWEALTH OF AUSTRALIA

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

As we enter the new century, Australia's economic prospects are strong.

We have done some hard yards and they are now starting to show results.

We have weathered the Asian financial crisis. Our economy has grown — above 4 per cent for 11 quarters — with strong and consistent growth in a way we have not seen for the last three decades.

Today there are 650,000 more Australians in jobs than there were four years ago. Unemployment has fallen below 7 per cent — the lowest level in 10 years — and this year it will fall further. By June next year, unemployment is forecast to fall to 6¼ per cent.

The Budget I present tonight is in surplus for the fourth year in a row, a cash surplus of \$2.8 billion. This means the Government is acting responsibly. It is not spending money it doesn't have. It is not running up debts that would weigh down future generations. In fact it is not running up debts at all. In net terms this Government has not borrowed a dollar since it was elected.

When the Coalition Government was first elected four years ago in 1996 it was given a job to do — the job of fixing the financial mess caused by Labor's splurge which ran us \$80 billion into debt over five years. We set out three goals — to get the budget in surplus, to halve the ratio of debt to the economy, and to do this without increasing taxes.

We have met all these goals. And by June next year, the end of this Budget period, we will have paid back \$50 billion of Labor's \$80 billion debt. We will have more than halved it. This has secured a better financial future for the Nation.

When the Government came to office, nearly \$9 billion of taxpayers' money was needed to pay the interest bills on Labor's debt. Today net interest bills are around \$6 billion — a saving to taxpayers of \$3 billion year after year. Back in 1995-96, the Commonwealth spent about the same on interest payments as it did on schools and hospitals. It spent nearly as much on interest payments as it did on defence.

But today we have different priorities. Paying off the debt and reducing our interest bills means that today we can spend on more important things. Spending on hospitals and schools has grown by \$3.7 billion while interest payments have fallen by \$3 billion. Today defence spending doubles the Government spending on its interest bills.

It has always been Government policy to fix the financial mess so we can spend taxpayers' money on more important things, on higher priorities. This Budget targets our most important priorities with measures for better health care and help for families. This is a Budget which secures their future. And this Budget cuts taxes.

EAST TIMOR LEVY

This time last year, we did not know that Australian troops would be required to lead a multinational force to restore order and save lives in East Timor. When the level of the engagement and the costs became known, the Government announced a one-off 12 month levy to cover the unexpected costs and keep the budget in surplus. The levy, to apply from 1 July next, phased in at 0.5 per cent after \$50,000 of income and 1.0 per cent after \$100,000 of income.

Our forces performed magnificently. INTERFET was able to hand over smoothly to a new UN peacekeeping force. This meant a saving on the expected cost. And our economy has grown stronger than we expected back in November last year. We can now afford to maintain the Australian Defence Force role as part of the UN force and keep the Budget in surplus. Since the levy was announced as a measure to keep the Budget in surplus and the Budget will now be in surplus without it, it would not be right to proceed with the levy. Tonight I announce that there will be no East Timor levy as from 1 July. It will not be introduced.

TAX REFORM

Like the last four Budgets, this Budget contains:

- no increase in company tax — in fact, company tax will be cut from 36 to 34 per cent on 1 July;
- no increase in the rates of wholesale sales tax — in fact, all wholesale sales tax will be abolished in 53 days;
- no increase in income tax — in fact, in 53 days the largest income tax cuts ever to come into force in Australia will take place.

On 1 July every taxpayer will receive an income tax cut. 80 per cent of Australians — some on top rates of 43 per cent — will pay a top rate no higher than 30 per cent. Families will have their benefits increased as part of the largest overhaul of family assistance — ever — and these changes will give families more disposable income to outweigh any price rises from Goods and Services Tax.

On 1 July pensions will be increased 4 per cent. All pensions, aged pensions, service pensions, widow pensions and all allowances will increase 4 per cent. This is an advance to cover any price effect of GST. After 1 July pensions will be indexed to keep them 2 per cent higher than they would have been without tax reform.

On 1 July we introduce a New Tax System, one of the largest structural changes to the Australian economy — probably the largest — since World War II. It reforms income tax, indirect tax, family assistance, business tax and Commonwealth-State financial relations.

Every dollar raised by Goods and Services Tax is paid to the State and Territory Governments. It is the money that will provide the schools, the hospitals, the police, and the roads of the future. The days of State Governments relying on Financial Assistance Grants from the Commonwealth are now over. From 1 July they have a revenue base that grows in line with the economy. It will provide a secure base to fund their services. And from 1 July they must start to abolish narrow inefficient taxes which they no longer need to rely on. First to be abolished will be bed taxes, then after 12 months stamp duties on shares and Financial Institutions Duty will be abolished on 1 July 2001.

Australia's outdated inefficient tax system has held back our economy. It has chained our exporters who have taxes built into the price of their products when the rest of the world lets their exporters sell on world markets tax free. Our tax system has chained the manufacturing industry with a disproportionate tax burden on goods. From 1 July the New Tax System will break these shackles on our exporters and manufacturers.

The current tax system has also penalised business with high costs for transport. On 1 July diesel costs for heavy transport will fall 24 cents per litre and diesel costs for medium transport vehicles will fall by the same amount for transport outside the major urban areas.

On 21 September last year cuts in capital gains tax came into effect. Individuals are now liable to pay capital gains tax on only 50 per cent of their gain if they hold the asset for at least 12 months. When a small business owner wants to retire, from 55, he or she can sell any active business asset held for 15 years free of any capital gains tax. This is part of building a business tax system that is efficient and competitive, that helps business get on and create jobs. By abolishing wholesale sales tax, lowering capital gains tax and lowering company tax rates we are building an internationally competitive business tax regime.

Mr Speaker, the big changes — the hard yards of reform are not easy. If reforming the tax system were easy it would have been done some time previously in the last 70 years. But the Government has taken the view that it should do the right thing — even though it might be the hard thing — where that is necessary for our country and our people to achieve their full opportunities.

Reform is hard. Some have tried to use that to their advantage — to pretend tax reform is not needed or pretend that while the rest of the world changes Australia can just stay the same. Of course that is false. Some are cynical enough to say this even when they know it is false. And there are some who oppose reform while hoping that one day they can take the benefits of it. But you can't have the benefits if you won't do the work.

The hard work of Budget repair has given us the opportunity to bring about some benefits in priority areas — families, health and improving services in regional Australia.

REGIONAL HEALTH PACKAGE

There are many problems faced by those in regional areas. Not all regions, but in many regions, where prices for rural products are low, times have been hard. Sometimes people outside the cities feel left behind as the service sector and the new industries of the economy grow so strongly.

A Government which claims it has a cure-all for all the problems of the regions is not being honest. It is better to focus on particular problems and try to make a real difference — to make a big difference in a defined area — than to have ill-defined proposals across a large area — which is to promise a lot but deliver little.

In this Budget, the Government has decided to focus on a particular problem — the lack of medical services in the regions of Australia. In the metropolitan areas there is an average of 1,000 people for each GP. Outside the cities it is 1,500. This is an area where we want to focus and make a real difference.

Tonight I announce a major new four year Regional Health Package of \$562 million. This Package will address a key concern of rural and regional communities — more doctors and better services.

The number of general practitioner (GP) services in rural and regional areas will be significantly boosted by increasing the number of training places for GPs and increasing the distribution of training places to rural areas. We will boost the number of GP registrars in rural and regional Australia by at least 75 in 2000-01 rising to at least 225 in 2002-03. Many of these registrars are likely to practice in rural and regional Australia after their training has ended.

The Regional Health Package includes a longer-term strategy to increase the number of doctors in rural communities. We will encourage students from the country to study medicine and support medical graduates who go out to practice in rural areas. To enable more students from the country to undertake medical training, the number of Rural Australian Medical Undergraduate Scholarships will be doubled.

The Government will also create 100 new University places for medical students who are prepared to enter a bond to practice in rural areas for at least six years after they have qualified. The students will be paid a scholarship of \$20,000 per annum for the period of their undergraduate training. During the bond they can only practice in rural areas. The scholarships and places will cost \$32 million over four years.

People in rural areas have difficulty accessing specialist medical services. This Budget introduces financial incentives and payment of travel costs to specialists to go out and deliver services to regional areas — a cost of \$48 million over four years — and it funds communities to employ practice nurses, psychologists, physiotherapists and podiatrists at an additional \$49 million over four years.

This Budget also provides for the establishment of nine new clinical schools and three new university departments of rural health to make sure every Australian medical faculty has a regionally based clinical training facility and every Australian medical student has the opportunity to train in rural service delivery. This will support rural health practitioners.

Mr Speaker, Regional Health Services have proved a successful way to deliver a range of medical, community health, mental health and aged care services to smaller communities which could not support stand-alone services. The Government will build on these successful services with 85 additional services over the next four years costing \$69 million. In recognition of the important role of pharmacists in rural health infrastructure, additional assistance of around \$42 million over four years will be provided to improve access to quality pharmacy services in rural and remote Australia.

OTHER REGIONAL MEASURES

In addition to the Rural Health Package, this Budget contains a range of measures to strengthen the economic base of rural areas and improve the access of all Australians to important services.

The Agriculture Advancing Australia (AAA) package has played a major role in improving the competitiveness and profitability of the farming sector since it was introduced by this Government in 1997. The Government will therefore continue it and enhance it over the next four years. This \$309 million program will give farmers skills training, encourage innovation, improve market access for our agricultural and food exports and enhance support to families in financial difficulty.

In recognition of the high costs of education for people living in remote parts of Australia, the Government is increasing Assistance for Isolated Children. The Basic Boarding Allowance paid to children who cannot get to a government school on a daily basis will be increased by a further 10 per cent, which builds on the 20 per cent increase to this allowance announced in last year's budget.

Improving the access and participation of students from rural and regional areas to quality education is a high priority. So the Government will modify the Youth Allowance family assets test to increase access to Youth Allowance. An income test will still apply but the assets test on farm and business assets will be relaxed. Youth Allowance has proven to be successful in encouraging young people's participation in education.

To ensure that advances in technology extend to regional areas the Government is providing regional television broadcasters with assistance to convert to digital broadcasting — starting from this year. The Regional Equalisation Plan will provide assistance in the form of annual licence fee rebates and some small taxable grants to cover the relatively high digital conversion costs of these broadcasters which have a smaller audience reach. Assistance will also be given to the ABC and SBS to televise in digital format from 1 January 2001.

EDUCATION

Mr Speaker, our education and training system must focus on giving students skills to have the opportunity to find meaningful jobs. This Government recognises the importance of education to ensuring our nation's future and our children's future. The apprenticeship system had been left to wither until this Government revived it in 1996. This Budget provides a very heavy investment in apprenticeships providing \$2 billion over four years for the highly successful New Apprenticeships initiative.

It continues the Government's heavy investment in schooling, both government and non-government. Outlays are projected to rise by nearly a third over the next four years — one of the fastest growing areas of the budget. This expenditure is aimed at lifting literacy and numeracy. It is aimed at improving the core elements of education. And this Government wants to make sure schools are accountable for this high level funding — that children are being given the skills they need for the future.

STRONGER FAMILIES AND COMMUNITIES

Mr Speaker, a stamp of this Government has been its commitment to helping families.

Before this Government came to office the Commonwealth spent the same amount paying interest bills on its debt as it spent on family assistance. In this Budget spending on families doubles the spending on interest payments.

From 1 July over 2 million families will benefit from increased family assistance — \$2.4 billion a year. A single income family on \$40,000 with two children, one under five years of age, will receive tax cuts and increased family payments equal to \$50.63 per week from 1 July.

From 1 July twelve different types of family assistance will be simplified into three. The assets test on family assistance will be abolished. The income threshold for family payments will be eased and as a family's earnings increase less of their family assistance will be clawed back. Most importantly the level of family assistance will increase.

Families need help — and investing in families is the best way of helping children. That is why the Government has the Stronger Families and Communities Strategy. This Strategy substantially funds initiatives to support parents and try to prevent family breakdown. The Strategy will seek to reduce the incidence of serious social problems such as family violence, and child learning problems, by prevention and early intervention where there are problems.

A major component of the Stronger Families and Communities Strategy is an additional \$65 million over four years to assist families fulfil both work and family responsibilities through increased flexibility and choice of childcare. Subsidies will be provided for in-home care and incentives will be increased to establish childcare centres in rural areas. Families who will particularly benefit from this proposal include families working outside standard business hours; families who have a sick child; and families who live in rural and regional Australia.

The Budget also includes a package of Child Support measures. These include measures to encourage child support payers to maintain contact with their children after separation and to improve relationships after family breakdown. The measures also assist child support payers in the task of supporting the children of their subsequent families.

A FAIR AND EFFECTIVE WELFARE SYSTEM

Mr Speaker, the Government is committed to maintaining a fair and effective social welfare system. The Government wants to make sure there is help for those who need it but also to make sure our welfare system does not become a trap preventing self-reliance and self-improvement. The Government has set up an independent review of the welfare system and a final report will be released later this year to provide principles for the future reform of the welfare system.

This process will build on the Government's considerable record in this area with the work-for-the-dole initiatives and the concept of mutual obligation — the obligation of the community to the individual and the obligation of the individual, in return, to the community.

Since coming to office, this Government has worked to improve compliance, cut down on fraud and put in place eligibility criteria to ensure social welfare only goes to the truly disadvantaged. In total we now save \$750 million per year of taxpayer's dollars through these efforts.

This Budget introduces further measures to ensure that assistance is provided only to those genuinely entitled to it. In particular, we are introducing Preparing for Work Agreements to ensure those claiming unemployment payments understand their responsibilities and comply with eligibility criteria. This is expected to deliver savings of \$212 million over four years. The agreement will deliver a strong 'up-front' message to all job seekers that they must meet their obligation to actively search for work and participate in a range of additional activities in return for receiving unemployment payments. One-to-one assistance with the same designated Centrelink officer will encourage the economic participation of the unemployed people involved.

The Government will also introduce measures to ensure those who hold their assets in private trusts and private companies are treated comparably to those who hold them directly. There will not be the advantage, as there is now, to have assets in trusts and companies so they are not fully taken into account for social security purposes. This is expected to deliver savings of around \$300 million over the next four years by reducing benefits to those with access to substantial assets.

BORDER INTEGRITY

The rapid increase in the number of unauthorised immigrants arriving in Australia has placed considerable pressures on the Budget. The Government announced a major package last year to detect, deter and prevent the entry of illegal immigrants into Australia, including increased coastal surveillance. In this Budget, an additional \$49 million over four years is allocated to further measures to control these arrivals.

The growth of organised people smuggling underpins the recent increases in unauthorised boat arrivals. We will tackle this problem by a coordinated effort across government agencies to identify and combat people smuggling at its source. We are also introducing initiatives for transit countries to protect displaced persons until repatriation or resettlement in third countries becomes possible. Mutual obligation and other welfare requirements are also being expanded to temporary protection visa holders.

In addition, a long-term strategy focusing on future detention requirements for unauthorised arrivals and visa over-stayers is being introduced. The Government will build a new detention facility at Darwin to ensure appropriate detention capacity will be available in the future.

DEFENDING AUSTRALIA

The Government places a high priority on maintaining a modern and capable defence force. We have maintained defence funding in real terms since coming to office and have achieved a shift in defence resources towards combat capability and readiness.

The Government is in the process of a major review of Australian's defence requirements and will release a Defence White Paper later in the year. In this Budget, however, a one-off increase of \$100 million in 2000-01 has been provided to address immediate priorities in defence force reserves and improve information management systems and logistics.

This Budget also contains \$128 million additional funding in 2000-01 for the enhancement of two Collins Class submarines. The upgrade will result in two operational Collins Class submarines when the final Oberon Class retires in 2001. The Government will make a decision about the level of capability of all six Collins submarines in the context of its Defence White Paper deliberations.

VETERANS

Mr Speaker, it is time the nation gave our Vietnam Veterans the recognition they deserve. This Budget carries through the Coalition's commitment to Vietnam veterans, with a \$32 million package of measures to support them and their families through the illnesses to which they are especially susceptible.

And the care of Veterans in their own homes under the Home and Community Care Programme will be transferred to the Department of Veterans' Affairs. This will give them special care. It will also free up additional places in the general programme for other elderly citizens.

The Budget also grants entitlement to full repatriation benefits to around 2,600 veterans for their service during the Malayan Emergency and other South-East Asian conflicts during the period 1955 to 1975.

As we mark the Centenary of Federation, Australians will have the opportunity to remember with pride the role that our service men and women have played in shaping the nation with new funding for a commemorative program for our service men and women.

EAST TIMOR

Mr Speaker, during the Australian-led INTERFET operations from September 1999 to early this year, around 6,500 personnel from the Australian Defence Force helped to restore peace to East Timor. Over 2,000 ADF personnel remain in East Timor as part of the United Nations peacekeeping effort, along with many other Australians

performing important security and humanitarian tasks. We can be very proud of the outstanding efforts of these Australians.

In 1999-2000 Australia will spend approximately \$900 million as part of its commitment to East Timor. The bulk of this cost relates to the substantial deployment of the Australian Defence Forces as the lead force in the INTERFET operation. While the expected cost of Australia's deployment in 2000-01 has declined from previous estimates it is still substantial, at \$831 million (net of UN reimbursement).

This Budget extends Australia's assistance to relieve the suffering of the people of East Timor and rebuild the country. It provides \$150 million for humanitarian relief and reconstruction for East Timor over the next four years, \$100 million of this being new funding. The focus of aid in East Timor has shifted from emergency relief to long term development, to restore basic services and to improve governance.

Australia is also making an important contribution to East Timor's civil security. Last year, the Government agreed to increase its commitment to the United Nations Administration's civilian police force from our first detachment of 50 personnel to 80 personnel. This Budget has allocated around \$104 million over the next four years to continue this commitment.

ECONOMIC OUTLOOK

Mr Speaker, Australia is set to continue its strong economic performance in 2000-01 with solid growth, new jobs, and low ongoing inflation.

Following three years of economic growth above 4 per cent, growth is expected to remain strong at around 3¾ per cent in 2000-01.

While domestic demand is expected to grow at a more moderate pace than in recent years, net exports should make a bigger contribution to growth flowing from a strengthening world economy and the tourism associated with the Olympics.

This shift in growth from domestic demand to exports will reduce the current account deficit, forecast to average 4¾ per cent of GDP in 2000-01, down from 5½ per cent of GDP in 1999-2000.

The strong economic growth of recent years and moderate wage outcomes has reduced the unemployment rate to around its lowest levels in a decade. The unemployment rate is expected to fall further, to 6¼ per cent by the June quarter 2001. From there on we would be on the verge of the lowest unemployment rates in a quarter of a century.

Leaving aside the one-off price-impact of changes in indirect taxes, inflationary pressures are expected to remain low. 'On-going' inflation is forecast to be around 2½ per cent through the year to the June quarter 2001.

The New Tax System is expected to add around 2¾ percentage points to the CPI through the year to the June quarter 2001. Households will be more than compensated for these one-off price changes through income tax cuts and increases in payments. The changes to indirect tax arrangements are therefore not expected to have any significant impact on wage settlements or ongoing inflation.

CONCLUDING COMMENTS

Mr Speaker, this Budget lays a strong economic and social foundation to secure the future for Australia.

We enter the new century with a budget in surplus and a debt reduction strategy better than any comparable country in the world.

We have strong prospects, and if the economy continues to grow at current rates historically low unemployment is within our reach.

We are about to accomplish the historic reform of Australia's failing tax system.

This Budget brings together our economic and our social goals: lower taxes, more jobs, better health care, stronger families.

I commend the Budget to the House.