



THE 2008-09 FEDERAL BUDGET – A PREVIEW

Tackling inflation with a focus on lifting productivity within our economy should be the overarching feature of the 2008-09 Federal Budget.

In ACCI's 2008-09 Budget Submission "Prosperity Through Productivity", business is also urging the Federal Government to:

- *place controls on government spending;*
- *reform capital gains tax; and*
- *encourage greater investment in economically sustainable infrastructure, including education and training.*

ACCI's submission is available at www.acci.asn.au/SubmissionsMain.htm.

Australian Government's Five Point Plan

The 2008-09 Federal Budget should be framed in the context of Prime Minister Kevin Rudd's January 2008 'five-point plan'¹ to reduce inflation.

The five point plan should rely on productivity to mitigate against the effects of inflation.

The plan highlights that to achieve long-run growth the government must address the following:

- Fiscal Restraint (cutting government spending growth);
- Private demand and saving for the future (increasing national savings);
- Tackling chronic skills shortages (increasing funding for skills, particularly trade skills);
- National leadership to tackle infrastructure bottlenecks; and
- Lifting workforce participation.

The plan aims to increase the rate of economic growth while keeping inflationary pressures to a minimum.

ACCI's 2008-09 Budget Recommendations

To achieve the twin aims of solid economic growth and a low-inflation environment, ACCI's extensive list of recommendations to the Treasury on the 2008-09 Budget included the following:

Productivity, Infrastructure and Inflation

- Ensuring that economic policies encourage productivity growth, though better infrastructure provision, skills development, and other measures;
- Infrastructure spending should be carried out only when cost / benefit tests have been met and should be undertaken in partnership with the private sector; and
- Inflation cost pressures must be addressed through ongoing economic reform such as reductions in red-tape and tax reform.

Fiscal Policy and Taxation

- A budget surplus of 1.5 percent of GDP should be achieved but not through higher taxation nor by forgoing important tax reforms;
- To free up the productive resources of the economy, the size of government should be reduced through decreases in government spending and taxation;
- Tax revenue as a proportion of GDP should be reduced below 25 percent as a matter of urgency and proceed further over future budgets;
- Personal income taxation levels should be cut, to increase workforce participation and reduce inflationary pressures. The top tax rate should be cut to 30 percent over time; and
- A stepped tax rate should be introduced for capital gains taxation in order to improve investment returns and encourage greater productive investment.

¹ Rudd Kevin, *Building Australia's Economic Future*, Address to Lord Mayor's Business Breakfast, 21 January 2008, Perth.

Education, Training and Welfare to Work

The ACCI submission proposes twenty eight specific initiatives to raise workforce skills including that:

- The quality of schooling should be improved by focusing on literacy and numeracy outcomes and publishing the performance data of schools;
- Before Trade Training Centres in schools are established, audits of existing equipment should be undertaken and new equipment funded according to local industry as well as school needs;
- Increased spending on VET should be distributed across the range of qualification levels;
- A National Industry Panel to oversee the consultation for the development of training packages and places should be established; and
- Employers should be involved on the Social Inclusion Board.

Workplace Relations and Occupational Health & Safety

The ACCI submission also makes 10 specific recommendations on workplace matters, including:

- A proposal to link collective bargaining to productivity and efficiency gains;
- Federal (and state) government proposals to adequately fund the community sector so that it can participate in the collective bargaining system; and
- Adequate funding should be provided for industry involvement in the development of tripartite national occupational health, safety and compensation structures.

Environment

- State-based emissions schemes should be replaced with a national emission scheme; and
- Detailed modelling and analysis should be applied to other climate change policies including the government's mandatory renewable energy targets.

Industry Policy and Federalism

- The R&D Tax Concession should be increased from 125 percent to at least 150 percent; and
- Federalism should be reformed through the Council of Australian Governments, with the overlap of regulation, responsibilities and spending reduced between tiers of government.

Trade Policy

- A detailed analysis of the barriers to service exports and work towards eliminating these impediments multilaterally, regionally and bilaterally should be conducted; and
- The Government should continue to work towards free trade and provide resources for efforts to conclude comprehensive Free Trade Agreements, both bilaterally and multilaterally.

Conclusion

ACCI's 2008-09 Pre-Budget Submission highlights the need for significant effort to be dedicated to continuing the reform agenda.

Past reform achievements such as removing tariffs, reducing taxation levels, floating the dollar and other micro-economic reforms have borne significant fruit for Australia in terms of greater economic growth and reduced inflationary impacts, but these successes now highlight the areas that have not yet been addressed.

The current thirty year low level in unemployment reflects past reforms by governments of both major political persuasions, however increasing participation and workplace flexibility is necessary to respond to the tight labour market.

Overall, the Australian economy is still growing but productivity growth has slowed, and skills and infrastructure constraints are holding back further growth.

It will be critical for the Rudd Government to continue to spur on entrepreneurial activity and innovation amongst employees, industry and governments, and to maintain control over inflation. That means delivering a productivity generating budget.

The full text of ACCI Pre - Budget Submission is available at: www.acci.asn.au/SubmissionsMain.htm.