

MEDIA RELEASE

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The Right Budget

Statement by Mark Paterson, Chief Executive

The most remarkable thing about the budget is how quietly it gets the job done, putting together a package of changes and reforms that almost takes no account of which stage of the business cycle we are in. It is a budget that has been set up by the previous budgets which have put the government in a position to provide a strong solid foundation for growth without the need for profligate fiscal expansion.

The phrase used to describe the way the budget was framed, and a phrase used repeatedly through the budget papers, is that it has taken a “medium term fiscal strategy”. And that is just what it has done. It has looked past the present slowdown in activity and has actively sought to build on the fiscal consolidation of past years.

It is precisely the budget needed for current economic times.

The budget is in surplus. The cash balance, which is the only balance that matters, shows a surplus of \$1.5 billion. On an accruals basis there is a deficit because of accounting conventions that place receipts earned in earlier years into those years although the payments will actually be made in 2001-02. This only shows why using the cash balance approach is the proper way to make sense of the data. And importantly, the budget continues to show cash surpluses into the foreseeable future.

The economic forecasts are plausible. Australia is not expected to return to the more than four percent average growth rates of recent years, but is expected to achieve a modest return to growth of 3-1/4%. This is a growth rate consistent with market forecasts.

There is as much chance that the forecasts will be exceeded as that they will fall short. Even with the expected slowdown in the world economy, it is likely that Australia will achieve its growth target.

Most of what is contained in the budget has been previously foreshadowed. Yet seeing it all together makes its strategic coherence clear.

The budget seeks not just to lower taxes but to do so in a way that raises productivity. Similarly, where outlays have been increased, it has been done in ways which will add to the growth potential of the economy over the longer term.

Welfare reform has been a high priority need for many years. The \$1.7 billion outlays on the social safety net will draw individuals back into the world of work. Productive work is rightly seen as the necessary glue that provides the basis for stronger communities.

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The central aim of the package is to ensure that those who are outside the world of work become job ready. Job search training, transition to work programmes and expansion of employment assistance will help create a more productive culture.

ACCI is particularly pleased with the Government's announcement of \$230M over three years for vocational training. We must provide the required resources to adequately skill Australia. ACCI has been concerned over the failure of the Commonwealth and States/Territories to sign a new Australian National Training Authority agreement and continue the momentum of reforms to the national training system and growth in New Apprenticeships.

ACCI and members have urged the Federal Government to provide leadership in this important area and they have delivered. It is now up to the States and Territories to meet this challenge and match the funds on offer to deliver a genuinely national training system, and to continue to introduce the necessary flexibility and change that they have promised, in order to meet the needs of employers and employees alike.

Further tax changes will see the fall in the company tax rate from 34% to 30%. The state FIDs and stamp duty on share transactions are to disappear. The Simplified Tax System for small business will finally come into operation. The pull forward of full input tax credits on the acquisition of motor vehicles is expected to save businesses \$600 million while adding to vehicle sales.

The measures taken to encourage innovation and research are important changes. The decision, although announced in January, fits in with the overall budget strategy. It will allocate \$3 billion over five years is part of a pattern of expenditure which is aimed at making the economy more productive. The aim is to generate more commercially useful ideas and to ensure that such development can and does take place within Australia.

The one area of disappointment in the budget is the failure to reverse the Tariff Concession Scheme (TCS) provisions introduced in 1996 which are continually hindering the efficient operation of the economy. This is particularly regrettable given that the Productivity Commission has looked into the issue and has stated that placing tariffs on imports of products not produced in Australia but used as inputs into Australian production harms domestic industry. But that is the one blemish in a budget that is designed to maintain the momentum of recovery and should do so.

This is a budget that will succeed in underpinning growth because it does not place the burden of generating recovery upon increased public sector expenditure but instead looks to a stronger private sector. This is the right approach. If there is no international slowdown in the next twelve months, the mix of measures contained in this budget should lead to a strong upturn over the coming year.

For further comment, please contact:

Mr Mark Paterson	02 6273 2311 (B/H)
Chief Executive	0419 215 037 (mobile)
Dr Steven Kates	02 6273 2311 (B/H)
Chief Economist	0407 956 736 (mobile)