One nation: statement by the Prime Minister, the Honourable P. J. Keating MP, 26 February 1992.

Australia. Prime Minister.


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ONE NATION

Statement
by
The Prime Minister
The Honourable P. J. Keating, MP
26 February 1992
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CHAPTER 1: INTRODUCTION

After seven years of growth, Australians are now experiencing hard times. Nearly a million people are out of work. Families are worried about the future.

This Statement explains what the Keating Government will do to bring back jobs and prosperity.

It describes what the Government will do right now to create jobs - and also what the Government will be doing over the next four years to create more and better jobs, while building a stronger economy.

It shows how the Government will quickly get things moving again by boosting private spending and boosting big public investment projects.

But the Statement also shows how investment now, and changes which the Government plans over the next four years, will strengthen Australia through the 1990s by building on the achievements of the 1980s.

There is much to be done in the next few years to build a stronger Australia, but this country is now building on strong foundations.

As the second chapter of the Statement explains, we have already gone through the pain of throwing out unnecessary government controls on banks, on trade, on capital and on foreign exchange that straitjacketed the economy in earlier times. We have cut protection against imports, so our exports are cheaper and our home industries are forced to match the world's best. We have entrenched an Accord with the representatives of three million wage earners, so that industrial disputes no longer shut down our industries, and wage increases no longer force businesses to fire workers. We lowered taxes and targeted spending, so that Australians now spend less on government than most other advanced industrial nations.

By working together, Australians have created a million and a half jobs in the 1980s, while reforming the economy, and opening ourselves to more competition. We expanded the size of the Australian economy by one third, increased the average living standard of Australians by almost one seventh, increased the nation's wealth and finished the 1980s exporting twice as much as we had at the beginning of the decade.

Australia also learned some useful lessons from the 1980s. Some from our successes - some from our failures.

From our successes manufacturers have learned that they can put their products into world markets and win sales. Employers, employees and unions have
learned they can work together to change tired old rules which hold back productivity and diminish the value of work. They have learned that, working together, they can transform the workplace in ways that increase pay, profits and the enjoyment of work. The Government and the ACTU have learned they can work together to raise living standards, and at the same time create jobs. We have all learned that tourism is a winner for Australia, and that Australians can be willing hosts to people from different cultures. We have learned that we can reform big government businesses, make them charge properly for their services, run themselves efficiently, and pay a profit back to us. We have learned that we can control government spending, we can cut taxes, and we can eliminate deficits in our federal budget.

We have learned that we can change our ways of doing things and change the way we think about things.

We have proved that a more efficient economy can be combined with a fairer and more equitable society.

From our failures we have learned lessons that are equally valuable. Some of them are old lessons, some are new. We have been reminded that we can still be bumped around by changes in the prices of our exports and imports, both of them beyond our control. We have been reminded that our growth is to some extent influenced by the growth of our trading partners. We have been reminded that we need to take into account not only our own opinions but also the opinions of foreign lenders.

Banks have learned to look more carefully before they lend. Foreign exchange markets have learned that there are ups as well as downs, and long periods of little change as well as periods of turbulence. Businesses have learned that building office blocks is not a sure route to profits, and especially not as we bring inflation under control. And government has learned that changes in interest rates have a very powerful effect on the economy, that it is often hard to foresee when the downturn is coming and how deep it will be, and that once the recession has begun it is no easy thing to stop.

The recession has set us back, but we will not allow it to stop the clock. In the last two years Australia has lost a tenth of the economic growth gains we made in the 1980s. We have lost two out of every seventeen jobs we created in the 1980s. We have lost one fifth of the gains in average incomes we made in the 1980s. The loss has been severe, but we can make it up by building on the strong foundations we have laid down.

The Statement which follows shows how over the next four years we will more than make up for the setback. We will create more than 800 000 new jobs, more than four times as many jobs as we have lost. We will grow so that at the end of the four years the economy is more than 15 per cent bigger than it was before
the recession began. And we will do it without losing the great gain of low inflation.

The keys to our success over the next four years will be workplace reform, an Accord between the Government and the trade unions which entrenches low inflation consistent with that of our trading partners, a strategy of spending on substantial and necessary public investments now while private investment is weak and bringing the Federal Budget back into surplus when private investment is strong, a competitive business taxation system, and further reforms to government regulation and in the public sector to increase competition and efficiency.

Our economic strategy for the nineties is designed to maximise our strengths, and remedy our weaknesses.

We are and will remain an important producer of iron ore, coal, wool, beef and other commodities. We have enormous potential in processing raw materials such as metals, food and fibres. We can export high quality services, as we are doing successfully with health and finance. Our tourism potential is enormous.

During this decade Australia will still be a world leader in commodities. We retain a fundamental comparative advantage in these areas. It would be stupid to squander this, or not to recognise it.

But we will also attract more tourists. We will process much more of our commodities in Australia. We will continue to expand on the great successes we have had in increasing manufactured exports. We will find more niche markets, taking advantage of our strong scientific skills. And we will see even more growth in high value services.

The Keating Government’s goal is an internationally competitive economy that continually strives for world best performance and that provides equal opportunity for all its citizens - one nation, cooperating at home and winning abroad.

**MOVING AHEAD**

Our first task is to get things moving. The policies outlined in the body of this Statement do that in a way that builds on the strong foundation we laid in the 1980s and locks in low inflation.

Fiscal policy will deliver a boost to activity now when it is needed, but ensure that the Budget comes back into surplus as growth in activity, and hence private investment, is restored.

Wages policy, based on the Accord with the trade union movement, will ensure wage outcomes compatible with maintaining Australia’s inflation rate at the
level of its major trading partners and, at the same time, encourage productivity and reward genuine effort through a new framework for workplace bargaining.

Policies to mobilise our human resources will concentrate on enhancing skills and ensuring that the greatest benefit is derived from the stock of skills we have. Our education system, particularly in the neglected Technical and Further Education (TAFE) sector, our industrial relations framework and our tax system all play key roles here.

Competition is a critical spur to enhanced performance. Tariff reductions are increasing competition within our traded goods industries, but it is also vital that our non-traded goods industries, particularly in the services sector, are encouraged to improve their performance.

Industry restructuring is proceeding, but it is essential we do everything possible to encourage and facilitate it. Some industries are dealing with unusually difficult circumstances and require special, short-term assistance. All industries must be encouraged to innovate and invest in world competitive plant and equipment. Impediments in particular areas will be addressed.

All industries need efficient infrastructure to support them. The communications lifelines by rail, road, sea and air around our vast country are vital. Now that reforms have begun to improve efficiency we can build a strong and efficient infrastructure.

Amidst all this change, we must not lose sight of one of our key objectives: that our material gains should flow fairly to all Australians. Measures to ensure social justice and to preserve and enhance the quality of Australian life must remain at the centre of our agenda.

GUIDE TO THE STATEMENT

The next chapter briefly surveys the foundation on which the policies described in this Statement are built. It records the important runs that are already on the board.

Chapter 3 explains in detail the policies now being set in place, including the new measures being announced today.

Chapter 4 presents some projections of major economic aggregates over the next four years to illustrate how the strategy being pursued can achieve its objectives.

Chapter 5 offers some brief conclusions.
CHAPTER 2: FOUNDATIONS

INTRODUCTION

THE RECORD OF REFORM

- Opening the Economy
- Financial Markets
- Tariffs
- Trade Strategy
- Fiscal Policy
- The Labour Market
- The Accord
- Labour Market Flexibility
- Microeconomic Reform
  - Aviation
  - Telecommunications
  - Shipping
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  - The Public Sector
  - Benchmarking
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- Mobilising our Human Resources
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- Innovation
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- Manufactured Exports
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CHAPTER 2: FOUNDATIONS

INTRODUCTION

The Australian economy was in a parlous state when Labor came to office in 1983. Since that time, many reforms have been instituted and performance in key sectors of the economy has improved dramatically. This chapter briefly records the major achievements. The purpose of this record is not to demonstrate that the job is done and that we can rest on our laurels. It is to show that Australia can deal with the difficult problems it confronts, that the main thrust of policy is delivering the benefits claimed for it, and that now we can move with confidence to restore growth and reduce unemployment.

THE RECORD OF REFORM

OPENING THE ECONOMY

A major policy thrust of the Government has been to internationalise the Australian economy. By encouraging a more outward looking orientation we are developing a more productive culture. This is essential if we are to adapt successfully to the challenges of a more rapid pace of change which improved communications and the globalisation of markets is forcing upon us.

Government actions on a broad front have therefore moved to adapt the economy to international competition and integrate it better into the world trading system. These actions are designed to focus previously protected industries' attention on world markets and on international best practice and to lift the cost impost that protection imposed on other industries, particularly in the export sector. The effect has been to highlight all areas of the economy, whether it be in the traded or non-traded sector, where performance falls short of world standards. This new pre-occupation with competition and efficiency is serving as a catalyst to change across the economy.

Let us look at some of the major areas where this opening has taken place.

Financial Markets

The Australian dollar has been floated and exchange controls abolished. Interest rate controls have been abolished. Control of banks by direction has been abandoned and 15 additional foreign banks have been permitted to operate in Australia, strengthening competitive pressures.

Whilst there have been teething problems, the net impact of this financial deregulation has been an improved capacity by financial institutions to direct credit to areas of greatest productivity and long-term benefit to Australia. As
the recent Martin Committee report on banking has concluded, Australians now have access to a wider range of financial services, and on more competitive terms, than existed prior to deregulation.

Tariffs

Of the decisions taken by the Government, the continuing reduction in tariff protection - and non-tariff barriers - is one of the most important. It reduces cost burdens on consumers and business, and encourages a competitive outward-looking attitude in industry.

Decisions taken in May 1988 and March 1991 to reduce tariffs and other forms of protection will see the effective rate of assistance for manufacturing cut to 5 per cent by the end of the decade, from a level in excess of 35 per cent in the late 1960s, and 25 per cent in the early 1980s (see Chart 1). This cut in tariffs is being done responsibly, phased in over time with proper safeguards in place to protect efficient Australian producers from unfair trading practices. The burden on Australian consumers and our efficient industries such as mining and agriculture will be one-seventh that of the 1960s.

Chart 1. Average Effective Rates of Assistance for the Manufacturing Sector*: 1968-69 to 2000-01

For consumers in particular, the March 1991 decisions will mean a reduction in the average impost on prices from around 5.6 per cent in 1988-89 to 1.9 per cent by the end of the decade. To put that in context, a 5.6 per cent addition to prices in 1988-89 was equal to a consumer tax equivalent of $10.8 billion.
Trade Strategy

The Government's trade policies have provided critical support to our domestic efforts to become world competitive. Our approach has been to resist and roll back measures that prevent free and fair trade globally, to position Australia to participate more effectively in the dynamic Asia Pacific region, and to continue to seek improved access for our exports to traditional markets.

A major objective of Australian foreign and trade policy has been to secure a strengthening of the General Agreement on Tariffs and Trade (GATT) to ensure that it is better equipped to deal with the emerging challenges of world trade. The drive to reform agricultural trade - where Australia has played a leading role through the formation of the Cairns Group - has been spurred by a recognition that, if the GATT system is to be strengthened and extended, then its disciplines must be fully applied to agriculture particularly if the proliferation of distorting measures is to be countered. The current Uruguay Round of trade talks is also addressing other important areas of Australian export focus such as services and intellectual property.

Australia is vigorously pursuing regional initiatives which recognise the primary importance of the Asia Pacific region for Australia and our expanding economic linkages with the region. Our trade with the Asia Pacific region has more than tripled over the 1980s, and the region (excluding North America) now takes 63 per cent of our exports, up from 55 per cent in 1980-81. Including North America, the share is even more impressive, at 75 per cent in 1990-91, up from 68 per cent in 1980-81. Australia's economic future is increasingly bound up with the region. Accordingly, the Government has set in place policies which give it high priority.

The success of Australia's initiative in APEC is now manifest. The third APEC Ministerial meeting in Seoul in November 1991 represented a major qualitative step forward in APEC's development and clearly established APEC as the leading forum for economic cooperation in the wider Asia Pacific region.

FISCAL POLICY

The Labor Government inherited a public sector that was in poor shape

- the tax base was narrow and marginal tax rates excessive. This distorted investment patterns, weakened incentives to work and save, and encouraged tax avoidance and evasion

- welfare assistance was not targeted and as a result taxpayers' funds frequently churned through the public sector back into middle and high income pockets
management systems were inadequate in both the general government and government business enterprise sectors

The Government repaired this situation through wide ranging reforms. It undertook a fundamental reform of the tax system, targeted the welfare system more effectively, and improved management systems and performance in the general government and government business enterprise sectors as described below. Overall, the Government sharply reduced outlays and produced Budget surpluses as part of a medium term strategy to boost national saving and ease pressure on the current account.

A fundamental purpose of the tax reforms was to ensure that the system encouraged investment and economic growth. This involved both reducing tax rates on business activities as well as removing biases in the tax system which previously rewarded the unproductive pursuit of speculation and tax planning.

Reductions in the tax burden were achieved by a large number of measures including

- reducing the company tax rate from 46 to 39 per cent
- reducing the top personal tax rate from 60 to 47 per cent
- abolishing the double tax on dividends through introducing full dividend imputation
- removing the additional tax on the retained earnings of private companies

At the same time, unfair tax breaks were addressed through the introduction of the capital gains tax and the fringe benefits tax. The taxation of superannuation was also reformed so that people were encouraged to retain their benefits until retirement and then to take them as an annuity or pension.

These changes have helped restore incentive and neutrality to the system. They have also restored the confidence of the average Australian worker in the integrity of the taxation system.

In terms of the broader budgetary aggregates the key achievements are as follows

- outlays were reduced as a share of GDP from 28.8 per cent in 1982-83 to 25.3 per cent in 1990-91. This achievement involved four successive years to 1989-90 when outlays were reduced in real terms
- revenues as a share of GDP declined from 26.1 per cent in 1982-83 to 25.8 per cent in 1990-91
the Budget was in surplus for four successive years to 1990-91, enabling the Commonwealth to reduce Budget sector debt from 21.6 per cent of GDP in June 1983 to 12.8 per cent of GDP by June 1991.

The outlays restraint was not at the expense of social justice and the Budget surpluses were achieved despite the return of fiscal drag under personal income tax. Welfare programs were enhanced through better targeting and the real levels of assistance to the needy were substantially increased.

Fiscal policy also contributed to lower inflation through wage-tax trade-offs negotiated under the Government's Accord with the ACTU which significantly moderated nominal wage growth.

In sum, fiscal policy under the Labor Government has made major contributions to:

- improving public sector efficiency
- social justice through better targeting of welfare programs
- tax reforms that have improved efficiency and equity
- boosting national savings, thereby easing pressure on the current account
- lower inflation through wage-tax trade-offs

THE LABOUR MARKET

The Accord

Since 1983 the Government has transformed the industrial relations landscape. There has been fundamental labour market reform combined with a dramatic reduction in industrial disputes and responsible wage outcomes. This transformation has been based upon cooperation between employers, employees and the Government, with the Accord between the Government and the trade union movement playing a central role.

In 1990, 217 working days were lost per thousand employees, the second lowest number recorded for Australia since this measure was introduced in 1967, with the lowest being 190 per thousand employees in 1989. The reduction in industrial disputes has been critical in improving Australia's reputation overseas as a reliable supplier.

The Accord has delivered unprecedented wage restraint. Real unit labour costs have fallen by around 8 per cent since the March quarter 1983 and are currently around levels that have previously supported strong growth in employment, investment and living standards. Despite the recent declines in employment, the
level of employment is currently 1 1/2 million higher than in April 1983, as Chart 2 below shows. This represents employment growth of 2 1/2 per cent, on average, each year and has allowed many more entrants, particularly females, into the labour force.

Australian wage and salary earners have accepted the need for real wage restraint in the interests of higher employment growth. They have also accepted that real improvements in living standards can be achieved through government expenditures such as Medicare, child care and family assistance; and tax and retirement income reforms. Real household disposable income per head, which captures many but not all of these benefits, has increased by around 11 1/2 per cent since the March quarter 1983.

**Labour Market Flexibility**

The consensus framework established by the Government has fostered a more co-operative approach to industrial relations. This has assisted the evolution of a more flexible industrial relations system which is capable of responding to changes in economic circumstances, and which takes account of the circumstances of employers and workers at individual workplaces.

Since 1987 labour market reforms aimed at achieving a more skilled and flexible workforce have been an essential ingredient in the broader process of structural reform. In particular, the new *Industrial Relations Act* introduced in 1988 has provided a framework to decentralise the wages system and for award restructuring and workplace reform.
Award restructuring has been an incentive for employers and unions to fundamentally review and restructure their awards. This reform is also providing greater flexibility to firms to meet changing circumstances, help remove structural impediments to greater efficiency, and provide workers with access to more varied, fulfilling and better paid jobs. Award restructuring has been complemented by a fundamental review of minimum award rates of pay to remove inequities and ensure that wage relationships are stable and reflect skill levels.

Union rationalisation has been encouraged by the Government, so that unions are moving closer to an industry basis of organisation and operation, rather than the craft- and occupation-based system of the past. Where there are multiple unions at workplaces, there is now a major move to negotiate with employers as a single bargaining unit - a significant reform to streamline negotiating at the workplace level.

MICROECONOMIC REFORM

The engine which drives efficiency is free and open competition.

When this Government came into office the problem of inefficient performance was endemic in areas shielded from competition - including domestic aviation, electricity supply, shipping, railways, and telecommunications. The effect was higher costs, poor service and inefficient allocation of resources in the economy. As in all developed economies, these industries provide vital inputs to all our major export and import competing sectors. Australia was placed at a substantial disadvantage in competing against imports at home and in export markets.

In addition to opening up the economy to external competition, the Government has substantially increased domestic competition by removing laws and regulations which prohibit or restrict entry into a market or which allow anti-competitive behaviour to flourish unchecked.

The Government has established a program of disposal of those businesses for which there is no compelling reason for Commonwealth ownership. For those enterprises retained in the public sector it has defined clearly the social goals to be pursued and reformed their accountability framework.

Aviation

In 1987, after thirty-five years of allowing only two companies to provide interstate air passenger services, and regulation which greatly limited competition, the Government decided to deregulate domestic aviation. After a legally required notice period, the market was opened to full competition in October 1990 when fare and capacity controls were removed.
Passenger numbers increased by 48 per cent between the December quarters of 1990 and 1991, average unit fares have fallen 32 per cent below the pre-deregulation levels of September 1990 (tourist routes in particular were targeted in the air fares war) and service quality and the industry's safety record have improved. The industry's growth is all the more outstanding given that it occurred during a recession.

Telecommunications

Provision of telecommunications facilities in Australia was previously shielded from competition by law. The Government has now opened up the telecommunications market to competition by allowing Optus Communications to establish a second network, built on a former government business enterprise, Aussat. To rationalise the provision of telecommunications services by government-owned carriers, the Government also merged Telecom and OTC to form AOTC. In 1997, all controls on entry to the telecommunications market are to be removed. Australia is looking to have the most competitive telecommunications environment in the world.

To ensure that new entrants to a market currently still dominated by AOTC have a reasonable opportunity to compete, and that the benefits are passed on to consumers, the Government established AUSTEL, a regulatory body, with extensive powers and a major role in settling disputes in the industry. As part of the new arrangements, AOTC is required to reduce its charges for general telephone services as a whole, and trunk and international calls specifically, by an average of over 5 per cent per year in real terms from July 1992.

Shipping

Shipping reforms have lowered crew levels on Australian ships to the OECD average and led to the introduction of more efficient ships. The Prices Surveillance Authority has reported that there is evidence that the reforms have helped to restrain coastal shipping costs. Trans-Tasman sea freight rates have also fallen significantly. Both the Australian and New Zealand Governments have clearly stated that they do not support current union restrictions on entry to the trade. The Government intends to pursue reform of trans-Tasman shipping in the context of the review of Closer Economic Relations later this year.

Waterfront

The main problem in this area has long been over-staffing, with its effects on productivity and industrial disputes. The Government therefore initiated the waterfront reform program, under which almost 3 000 employees have been assisted to leave the industry to date, and further departures are expected. After taking into account natural attrition, the stevedoring workforce is expected to have halved by the end of this year, which is well beyond original expectations.
All major stevedores in capital city ports have now completed their enterprise agreements. Increases in productivity to levels on a par with comparable overseas terminals are being reported. Waterfront users stand to benefit from reductions in charges, the improvements in reliability and the increased competition in the stevedoring industry.

The Government aims to see productivity and competition improve in all areas of port activity, not just stevedoring, and to ensure that the benefits of reform are fully passed on to users. Accordingly, it will also give full and early consideration to the forthcoming report by the House of Representatives Standing Committee on Transport, Communications and Infrastructure on the interface between seaports and land transport. The Government is now extending its reform program to include a Prices Surveillance Authority examination of land-based charges by shipping conferences in Australian ports. An Industry Commission study into port authority activities and services is also being commissioned.

The Public Sector

Since 1988, the Government has implemented a series of measures, including a reduction in government controls, setting agreed financial targets, and corporatisation and privatisation to improve the efficiency and performance of its government business enterprises (GBEs). Overall, the performance of Commonwealth GBEs has improved - they are more client oriented, customer service has improved and movements in prices and charges have generally stayed below the rate of inflation.

These reforms are now being extended to GBEs in all States through a program of joint monitoring of performance against agreed criteria.

The general government sector has also been subject to substantial reform in order to improve its performance. Available evidence suggests that the growth in labour productivity for Commonwealth departments has been at least as high as - if not considerably higher than - in the market sector. A study published by the Department of Finance suggests that labour productivity growth in the period 1987-1990 was of the order of 3 per cent per annum.

Benchmarking

In March 1991, the Government announced that the Bureau of Industry Economics, in conjunction with the Business Council of Australia, would undertake a four year research project on international performance benchmarks of business input services. The project will measure the efficiency of Australia's infrastructure services and compare this against our international competitors. The results of the first of the project's studies into electricity supply and rail services are to be published in the next few months.
Business Regulation

The Government has acted on a wide front to ensure that Australia's business regulation system is an engine for the development of an internationally competitive economy, not a hindrance. Some of the key areas in which the Government has acted are

- introduction of a unified, updated corporations law
- working with the States to secure mutual recognition of standards
- active enforcement of trade practices legislation
- removal of outdated policies and practices in areas such as government purchasing, rural marketing, import and export controls, and customs procedures

The Government has improved the resources of the Trade Practices Commission and is looking to extend its coverage. The Office of Regulation Review is now attached to the Industry Commission with a specific charter to review existing regulation of the private sector, and vet new regulatory proposals.

MOBILISING OUR HUMAN RESOURCES

Secondary Education

Between 1985 and 1992 Commonwealth general recurrent funding to government schools will have increased by 51 per cent in real terms, and to non-government schools by 26 per cent. The provision of income support for secondary students through AUSTUDY also encourages students to complete secondary schooling who would otherwise be unable to do so.

In 1983, the majority of young people did not complete secondary school, let alone have the opportunity to gain tertiary-level qualifications. Only 41 per cent of young Australians remained at school until year 12. This was one of the lowest school retention rates among OECD countries. By 1991, 71 per cent of students were staying on until year 12. In May 1991, 62.5 per cent of 15-19 year olds were in full-time education, compared with only 48.0 per cent in May 1983.

Universities

Substantial growth combined with greater equity in participation has been achieved since the implementation of the White Paper reforms in 1988. In 1992 an estimated 500 000 Australians are participating in higher education, an increase of over 120 000 students since 1987. By 1994, the total number of Commonwealth funded places will have increased by more than 50 per cent.
since 1983. In order to ensure that lack of financial support does not act as a barrier to higher education, funding for AUSTUDY for tertiary students increased from around $437m in 1988-89 to an estimated $814m in 1991-92.

Increasingly, the Government will be focussing on maintaining and enhancing the quality and diversity of the higher education system. The major initiative announced in the Government's policy statement on higher education of October 1991 was the introduction of an integrated set of measures designed to enhance further the quality of higher education teaching and provision, including the allocation each year from 1994 of an additional $70m for a quality assurance and enhancement program.

Collaboration with industry has been promoted through initiatives including Advanced Engineering Centres, Cooperative Research Centres, Australian Postgraduate Research Awards (Industry) and Senior Research Fellowships (Industry), collaborative research grants, and a pilot scheme to provide additional places in higher education funded jointly by the Commonwealth and industry.

Mobility between universities and other parts of the education and training system, particularly TAFE, is being improved through a pilot national credit transfer project. The Government is keen to provide alternative pathways into and through the tertiary education and training system as a whole.

Employment and Training Programs

This Government has developed a clear role for employment and training programs, based on two major objectives

- to aid the efficient operation of the labour market by ensuring that the workforce is appropriately skilled and productive
- to assist disadvantaged job-seekers to compete in the labour market, take advantage of employment opportunities and avoid personally and socially destructive long-term dependency on welfare

The main features of our new approach have been

- the adoption of an active labour market approach, in which employment and training programs and income support policies have been integrated so as to both encourage and assist the unemployed back into employment
- a greater emphasis on training rather than short-term job creation
- greater flexibility in the delivery of labour market programs so that they can be packaged to meet the specific needs of individuals and local labour markets
The old system of unemployment benefits has been replaced by the Job Search Allowance which is available during the first twelve months of unemployment, and the Newstart Allowance for adults unemployed for twelve months or more. The latter offers the long-term unemployed a more comprehensive system of contact and assistance in finding employment, with greater attention to problems such as the lack of literacy or numeracy skills.

Since the introduction of the Newstart strategy in July 1991, about 127 000 people have been placed on activity agreements. The CES has placed over 23 000 long-term unemployed people into jobs in this six month period, compared with 10 000 in the six month period prior to Newstart.

For people with disabilities, in 1991 the Government introduced fundamental reforms of income support and related programs to encourage workforce participation. The Government has a target of creating 8 000 extra places a year in labour market programs for people with disabilities and 4 500 more places in rehabilitation programs by 1993-94.

Similarly, the Jobs, Education and Training (JET) program aims to improve employment and training opportunities for sole parents. Over 72 000 sole parents have been assisted by JET since March 1989.

The Government's commitment to increasing employment and training opportunities is reflected in the fact that measures announced in the 1991-92 Budget and in the November 1991 Statement on the Economy and Employment increased expenditure on labour market programs from around $420m in 1990-91 to an estimated $708m in 1991-92 - an increase of nearly 70 per cent.

INNOVATION

The Government recognises the key role of innovation in creating and supporting a modern economy. Economic growth in the competitive international market place is increasingly driven by industries that are proficient at generating skills and technology. Science and technology, in industry and in the public sector, are at the core of creating that proficiency.

Our initiatives in stimulating industrial R&D, in strengthening the public sector research base, and in enhancing linkages between researchers and research users are providing a vigorous science and technology system. The strong and vital innovative capacity that this engenders is assisting in providing a sound basis for sustained economic growth.

Australia's Performance

Australia's businesses are increasingly realising the importance of investment in research and development as a key component of their competitive strategies. Stimulated by government incentives, such as the R&D tax concession, as well
as the opening up of the economy to competition, we have achieved one of the fastest rates of growth in business spending on R&D in the OECD over the 1980s. The chart below illustrates the growth achieved:

Chart 3. Business Enterprise Expenditure on R&D (Current Prices)

We are getting results from our R&D effort. For example, the number of overseas patents applied for by Australians has almost trebled since 1983, rising from 5 039 to 13 636 in 1989.

Government Support for R&D

The three major elements of the Government's strategy for science and technology are to improve the competitiveness of industry through higher levels of R&D, to strengthen the interaction between public sector researchers and industry and other research users, and to ensure that the basic infrastructure for research and education in higher education institutions and Commonwealth research agencies is as strong as possible.

One of the key programs designed to foster a greater appreciation by industry of the value of R&D is the R&D tax concession, which is to become a permanent feature of the tax system at the rate of 125 per cent from 30 June 1993. The concession is estimated to provide support worth $320m in 1992-93 in terms of revenue forgone. In total, the Commonwealth is providing approximately $2.7 billion in support of R&D, as Table 1 below shows.
Table 1: Estimate of Direct Commonwealth Expenditure on R&D, 1991-92
($ Million)

<table>
<thead>
<tr>
<th>Category</th>
<th>1991-92</th>
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</thead>
<tbody>
<tr>
<td>Higher Education</td>
<td></td>
</tr>
<tr>
<td>Estimated research component of general</td>
<td></td>
</tr>
<tr>
<td>university funding</td>
<td>1081.8</td>
</tr>
<tr>
<td>Identifiable research support for universities</td>
<td>680.0</td>
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SOCIAL JUSTICE

A sound and sustainable economy is fundamental to the achievement of a fairer,
more prosperous and just society. For the Government, economic achievement
has not been an end in itself but a means to the achievement of social goals.

The link between the Government's social and economic policies is one of the
most distinctive features of its social justice strategy. Through the
Government's social justice strategy, social policy is part of the mainstream of
government activity. It is not something that is tacked on at the end to take care
of the inequities and problems caused by other policies. The Government
recognises that, to give commitment to structural change, people must be
confident that we are working for a fairer as well as a more prosperous society.
Income Support

The significance of the fundamental reforms to income support, introduced following the Social Security Review, is clear in this period of high unemployment. The Government has an active approach to income support which encourages people to be financially independent through linking the provision of income support to training, rehabilitation and financial counselling, while maintaining adequate assistance for those in need.

There have been real increases in assistance for the unemployed, particularly for families with children and those living in private rental accommodation who are the most vulnerable. For example, compared with 1983, the real value of social security payments for a married couple with two children living in private rental accommodation has increased by 33 per cent.

The value of unemployment benefits fell almost 20 per cent for single adults between 1975 and 1983. By contrast, an unemployed adult is now better off by 25 per cent, if not renting privately, and 53 per cent if renting privately, than in 1983.

The value of the pension has been increased in real terms by 12.9 per cent and is now worth over 26 per cent of average weekly earnings - the highest level achieved by any Government since March 1949. The Government has thus met its long-standing commitment to an age pension of 25 per cent of average weekly earnings. Further, from July 1990, all full rate age and service pensioners were freed from tax liability.

Rent assistance has been substantially increased, extended to low income families in receipt of Family Allowance Supplement, and is now indexed, thus protecting the increases against inflation. The increase in real terms between March 1983 and March 1991 was 139 per cent for eligible families with three or more children, 109 per cent for those with one or two children and 79 per cent for those with no dependent children.

Assistance to Families

In 1987 the Government introduced the Family Allowance Supplement which provides assistance to low-income working families. The rates of assistance are tied to the pension to ensure their real value is maintained, and payments are tax free. Over the period March 1983 to September 1991, payments targeted to low income families increased in real terms by 53 per cent for children under 13 and by 123 per cent for teenage children.

Major reform of the families assistance system, announced in the 1991-92 Budget, will make the system simpler and more consistent, will further increase assistance to low and middle income families, and will provide stronger incentives for workforce participation. As a result of these reforms, there will
be for the first time one comprehensive social security provision for families with children. The increase in the Family Allowance Supplement threshold in April 1992, to bring it into line with the AUSTUDY threshold of $20 700, will result in the extension of Family Allowance Supplement to 47 200 families, who will gain an average of $30 per week, while 86 000 families currently receiving part-rate Family Allowance Supplement will gain an average of $16 per week.

The Government has significantly expanded the number of child care places, has established a new fee relief system to assist low and middle income families and introduced needs based planning to ensure that services are located where they are most needed. The number of subsidised child care places has more than trebled, from 46 000 in 1983 to over 131 000 in June 1991. The establishment of 30 000 new child care places under the 1988-92 National Child Care Strategy is proceeding. In the past two years the number of families receiving fee relief for long day care has increased by 205 per cent, and average weekly fee relief payments per place have increased by 60 per cent. In 1991 the Government extended fee relief to families using commercial child care centres.

The Child Support Scheme ensures that children of separated parents receive adequate financial assistance from both parents, thus improving the level of financial support for such children, on a regular basis and on time.

Before the introduction of the Child Support Scheme, around one quarter of non-custodial parents paid child support for their children. Under the new Scheme the overall collection rate is around three quarters of liabilities. The level of support has also increased. In June 1991, sole parent pensioners granted pension before the Scheme commenced were declaring an average amount of child support of $42 per week, while those granted pension after the full introduction of the Child Support Scheme in October 1989 were declaring an average of $60 per week.

**Housing, Health and Aged Care**

The National Housing Strategy, established in 1990, arose out of the need to develop a package of housing policy reforms that would be sustainable into the next century, and that would maximise the availability of affordable and quality housing. Work done by the strategy demonstrates the effect of the complex social and demographic changes on people's housing needs. The changes indicate that more choice is needed in housing form to cater for the different living patterns of families and individuals throughout their life cycle. Through the National Housing Strategy it is clear that housing policy is not just about bricks and mortar. It is also about people's access to work, schools, community services, health care and transport.

The Government is committed to maintaining Medicare as a universal health insurance system. The Government's recent decision to remove the reduction in
Medicare benefits and the co-payment of $2.50, will remove uncertainty about the health system and the future of Medicare.

The National Health Strategy was established in 1990 to improve Medicare and Australia's health care system. It has identified several major areas for reform, including the areas of general practice, pathology, radiology and hospital administration.

The Government is also responding to the changing characteristics of the aged population, who are generally living longer, are more financially independent and are better informed. Significant reforms in aged care through the introduction of the Home and Community Care (HACC) program in 1985 and the 1986 Nursing Homes and Hostels Review are helping to establish a world class aged care system, with an emphasis on the rights of users and consumers.

HACC has established a comprehensive network of services which provide care to aged people and people with disabilities who continue to live in their own homes. Funding for HACC has more than doubled in real terms since 1985, greatly improving the availability and quality of care and reducing the need for institutional care.

Locational Issues

The importance of making our cities responsive to people's changing needs and able to function more effectively in their economic role has been recognised by the Government. The Building Better Cities program provides $816m over five years to the States and Territories, to encourage better urban planning and management by all levels of government by linking access to housing, transport, jobs and services.

The Government is also developing a social justice strategy for Northern Australia, in recognition of the problems of remoteness from urban centres, exacerbated by sparse and mobile populations and difficulties caused by the rural downturn. The strategy will focus on identifying the needs of this population and making health, education and community services more flexible and responsive to the particular circumstances of Northern Australians.

Social Justice for Indigenous Australians

The Government is tackling the root causes of disadvantage for Aboriginal and Torres Strait Islander people, through a range of linked programs and activities. ABSTUDY, which provides income support for Aboriginal and Torres Strait Islander people in secondary and tertiary education, is aimed at encouraging education participation by indigenous Australians. The number of Aboriginal and Torres Strait Islander children who stay on to Year 12 has increased dramatically, from 9 per cent in 1980 to 31 per cent in 1991. The number of
Aboriginal and Torres Strait Islander people going on to higher education increased from 854 in 1982 to 4,807 in 1991.

The Community Development Employment Projects (CDEP) program is an active strategy which combines employment, training and enterprise programs to assist Aboriginals and Torres Strait Islander people to move from welfare dependence to greater economic independence. CDEP has increased from 20 communities in 1982-83 to 166 communities in 1990-91. The Government has expanded the scheme by $95m over the four years 1991-92 to 1994-95, by the end of which more than 20,000 people will be participating.

The National Aboriginal Health Strategy emphasises that improvements in Aboriginal health are dependent on meeting needs such as housing, water, sewerage, electricity, communications and roads. The Government recognises the urgency of the situation and has announced that it will provide up to $232m in additional funding over the next 5 years.

The importance of addressing the underlying causes of Aboriginal disadvantage was emphasised in the Report of the Royal Commission into Aboriginal Deaths in Custody. The national response to this will be announced in the near future.

Underpinning this Government's policies is the recognition that Aboriginal and Torres Strait Islander people have to be given far more control over their lives and responsibility for setting their own priorities. The establishment of the Aboriginal and Torres Strait Islander Commission (ATSIC) has provided indigenous Australians, for the first time, with the framework for addressing their problems and setting their priorities through Regional Councils.

Through the decade-long reconciliation process, the Government will be tackling those problems that are a product of the attitudes and actions of non-Aboriginal Australians. Reconciliation aims to ensure that all Australians gain a deeper understanding and appreciation of Aboriginal and Torres Strait Islander heritage and culture.

THE ENVIRONMENT

The Government is strongly committed to protecting Australia's rich natural environment. This reflects both our responsibility to safeguard the interests of future generations and the recognition that much of our social and economic well-being depends on a clean, healthy and diverse environment.

The Government believes firmly that proper protection of the environment is consistent with economic growth and employment creation. The challenge is to ensure the growth is achieved in ways which are sustainable both economically and environmentally.
This challenge has both a domestic and global dimension since it requires the Commonwealth to exercise leadership on issues of national importance and close cooperation with States and Territories and overseas governments.

In pursuit of these objectives domestically, the Government has established a range of policies and mechanisms, in particular

- the establishment, in co-operation with the States and Territories, of high level intergovernmental groups to take forward consideration of an interim national strategy for Ecologically Sustainable Development and development of a National Greenhouse Response Strategy

- a Commonwealth Environment Protection Agency to develop a consistent national approach to environment protection

- the development of a National Biodiversity Conservation Strategy and a National Forests Policy Statement, which will take full account of the views of industry and conservation groups

On the international front, Australia has taken a positive but practical attitude to its international responsibilities in the negotiations leading up to the forthcoming United Nations Conference on Environment and Development (UNCED). While pressing for substantive action to address the dangers posed by global warming, Australia has made it clear that, in the absence of similar action by major greenhouse gas producing nations, it would not adopt response measures which would have a net adverse impact nationally or on Australia's trade competitiveness.

CONCLUSION

The previous section described the major policy measures put in place by the Government. Although these measures clearly address many of the problems Australia confronted in the 1980s, the ultimate test of their effectiveness is the outcomes that have been achieved. Some of the evidence on these outcomes has been mentioned in the last section but it is appropriate to summarise the outcomes here in four critical areas: the growth in manufactured exports, the changing pattern of our trade, the restoration of factor shares and the success in reducing inflation. The progress which has been made in each of those areas means that the fundamentals of the Australian economy are sound - in contrast to 1982-83 - and we are well placed to move forward in the 1990s.

MANUFACTURED EXPORTS

In simple growth terms, there have been real success stories recorded in significant areas of Australian manufacturing. Glass and glass products, printing and allied industries, structural metal products, photographic and scientific equipment, plastics, and non-ferrous metal products all increased their
gross product, in real terms, by more than 50 per cent in the period 1977-78 to 1988-89. Other comparable growth rates were recorded in sizeable sectors such as appliances and electrical equipment, iron and steel, chemicals, and some food products.

Exports of manufactures have grown in real terms at an annual rate of 10.5 per cent over the period 1982-83 to 1990-91, compared with 4.9 per cent over the period 1975-76 to 1982-83. In the past two years export volume growth of manufactures has accelerated, growing by more than 20 per cent each year.

Chart 4. Australian Exports of Goods and Services
1982-83

Chart 5. Australian Exports of Goods and Services
1990-91
This strong export growth has been accompanied by a change in the structure of exports away from low value added products towards higher value added and elaborately transformed manufactures and services. The composition of Australian exports has changed significantly over the past 8 years as a result of rapid growth in manufactures and services exports, see Charts 4 and 5 opposite.

Exports of non-metal manufactures - the more complex manufactures - have grown in real terms at an annual rate of 13.1 per cent over the period 1982-83 to 1990-91, compared with 4.3 per cent over the period 1975-76 to 1982-83. In the past two years export volume growth of non-metal manufactures has accelerated, growing by more than 25 per cent each year.

Between 1982-83 and 1990-91 Australian manufactured export volumes have grown at a faster rate than those of Japan, Germany, France, Britain, Italy and Canada. In 1990 and 1991 the growth of Australian exports of manufactured goods was the fastest of any country in the OECD and continued rapid growth is forecast.

CHANGING TRADE SHARES

There has also been a substantial shift in the direction of our exports towards Asia, the most dynamic growth region in the world, as shown in Charts 6 and 7. These structural and directional changes strengthen the prospects for continued growth.

The growth in our exports to Asian markets has been dramatic. Taken together ASEAN, Japan and the three newly industrialising economies - Hong Kong, the Republic of Korea and Taiwan - now take nearly 60 per cent of total Australian merchandise exports compared with 43 per cent in 1980-81. The growth of Australian exports to Asia has been broadly based. Shipments of commodities have increased; exports of elaborately transformed manufactures have grown strongly; and there has also been a large flow of Asian tourists to Australia.
WAGE AND PROFIT SHARES

The aggregate wage and profit shares have been restored to levels which are consistent with a structurally sound economy and durable economic growth. The rebound in the gross profit share of the private non-farm corporate sector since the early 1980s, as shown in Chart 8, has reversed the previous fall.

Real unit labour costs have fallen by around 8 per cent since the March quarter 1983 and are currently around levels that have previously supported strong growth in employment, investment and living standards, as shown in Chart 9. At the same time there has been a significant improvement in real per capita
household disposable income, which is around 1\1/2 per cent higher than in the March quarter 1983.

Chart 8. Gross Profit Share
(Private Non-Farm Corporate Sector)

INFLATION

In March 1983, annual CPI inflation was 11.5 per cent, and had averaged over 10 per cent over the previous eight years. Since 1983, the inflation rate has trended downwards averaging around 7 per cent. It has fallen sharply since the June quarter 1990, recording 1.5 per cent for the year to the December quarter 1991.
- the underlying inflation rate, which abstracts from the influence of special factors such as mortgage interest charges and petrol prices on the CPI, was down to 3.4 per cent for the year to the December quarter 1991.

With inflation down to these levels, Australia's CPI inflation rate is now below the average for our OECD major trading partners, as shown in Chart 10.

Chart 10. Comparison of Inflation Rates Between Australia** and OECD Major Trading Partners*  

The fall in inflation has been made possible primarily by the wages restraint achieved through the Accord. It was achieved notwithstanding the need to accommodate a major exchange rate depreciation in the mid-1980s and in the face of a very strong increase in demand and employment. While recent reduced demand pressures attributable to the recession have no doubt also helped, it is notable that a severe recession in 1982 was unable to bring inflation down below double digits.

Looking ahead, the improving inflationary performance through the 1980s provides reason for confidence. Increasing competitive pressures from industry deregulation and microeconomic reforms should also help.

Importantly, inflationary expectations have also fallen, with recent surveys indicating inflationary expectations of around 4 per cent. Financial markets have shown their confidence in the return to lower inflation by bidding long
term bond yields down to around 10 per cent after being around, or above, 13 per cent through the 1980s.

THE FOUNDATIONS ARE IN PLACE

In short, the changes summarised in this chapter now allow us to look forward, beyond the present temporary set-back, to the future with confidence. As Professor Ross Garnaut noted in 1989 in his report "Australia and the North-East Asian Ascendancy":

"In the late 1980s, as never before this century, it is possible to aim for best outcomes which move Australia into the ranks of dynamic, high productivity economies. The rewards to Australia of commitment now to first-best outcomes within a finite time horizon will be out of proportion to the modest policy distance that has still to be travelled."

The opportunities that Garnaut saw just over two years ago are even clearer today. The policies set in place with this Statement, building on all the hard work that has already been done, will enable us to take up those opportunities and enjoy the rewards that Garnaut foresaw.
CHAPTER 3: STRATEGY FOR THE 1990s

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INTRODUCTION

The Keating Government's economic strategy is to generate growth and jobs now, and to do so in a way that both keeps inflation low over the decade and works towards our goals of a more efficient, competitive and dynamic economy.

These three objectives represent a large task, but we have the strategy to do it. It is a plan which uses the firm foundations of reform in the eighties to build a strong economy for the nineties.

Some of the measures act immediately to pull us out of recession; all of the measures contribute to a stronger, more productive and low inflation economy over the next four years.

The first element of the strategy for low inflation and strong growth is an early fiscal boost. A number of developments, including the recent depreciation of the currency, the breaking of the drought, the cyclical unwinding of the budget surplus and especially lower interest rates will be providing stimulus for a recovery in growth. Moreover, unlike in earlier recessions, low inflation, relatively good profits and a sound underlying fiscal position provide a strong base for recovery. The low level of confidence and continued stagnation in a number of industries, however, means that an added spur is needed. The fiscal stimulus and the improved incentives for private investment announced in this Statement provide this.

Importantly, the fiscal boost will be delivered while preserving the integrity of the Budget, which will return to surplus as the recovery is sustained, thereby lifting our domestic savings performance. It will also provide vastly improved infrastructure, particularly in transport, and include incentives to ensure that investment is channelled towards productive activities that will lift Australia's growth capacity. It will provide a cut in personal income tax to a maximum of 30 cents on the last dollar of most people's income.

The second element of the strategy is an Accord between the Government and employees which will see wage increases consistent with keeping inflation low and comparable with our major trading partners. The Accord is the framework in which we will encourage workplace reform through industrial agreements, and boost savings by increasing the minimum level of employment-related superannuation to 9 per cent over the decade. Enterprises will be made more dynamic through workplace bargaining based on sharing the benefits of
productivity gains.

The third element of our strategy is enhancement of education and training. A new system of vocational education and training, building on the existing TAFE network, will be developed to upgrade the skills of the workforce and provide new career paths for young people and those re-entering the workforce. Labour market programs will be further expanded to assist those most disadvantaged by this recession to re-enter the workforce.

The fourth element is an enhancement of competition. The opening of the economy to international forces, including through the continuing reductions in tariffs, has provided a much more competitive economy. This package introduces increased competition in other areas of the economy. We will change rules covering airlines to increase competition and lower fares. We will promote competition between electricity generating systems. We will introduce further competition in the financial sector while, at the same time, ensuring a suitable prudential and supervisory system.

The fifth element of the strategy is a dramatic change in incentives and opportunities for industry, especially through changed tax rules to encourage private investment. The new rules will allow quicker write-offs of machines, plant and certain buildings and structures. New programs to assist large projects and the financing of small to medium developing companies will be implemented. Economic recovery, continuing moderation in wage growth, sustained low inflation and the restoration of a Budget surplus will provide the environment for renewed private sector investment. These structures and incentives have been put in place to provide a sound base for a continued lift in the productive capacity of the economy through the 1990s.

The sixth element is strategic public investment, especially in transport. This will encourage greater competition between and within most sectors of the transport industry. Assistance will also be provided to encourage private investment in public infrastructure. In parallel with the necessary improvements in management and work practices, this will improve the speed and efficiency with which goods are transported in, and exported from, Australia.

The seventh element is the continued central role of our social justice strategy. The package further enhances key income support programs, particularly those directed towards families with children, and also removes the waiting period for rent assistance for unemployed persons without children.

All these elements of our strategy underpin the profile of strong growth and low inflation projected through to 1995-96. The greatest benefits to flow from this in terms of creating a more equitable society will be more jobs. Over the four
years, we will create more than 800,000 jobs; we will cut unemployment by over 150,000; we will expand the economy; and increase living standards.

FISCAL

The Labor Government, on coming to office in 1983, maintained an expansionary fiscal stance to accelerate recovery from the 1982-83 recession. As described in Chapter 2, through the mid to late 1980s the Commonwealth Budget was improved markedly; by broadening the tax base; restraining outlays through the elimination of ineffective programs; tighter management; and, in particular, better targeting of welfare programs. This strategy, in combination with strong economic growth, produced four successive Budget surpluses in the period to 1990-91, which in turn contributed to national saving and eased pressure on the current account by reducing the call on foreign savings. Fiscal policy also contributed directly to lower inflation, through wage-tax trade-offs negotiated in the context of the Government's Accord with the ACTU. This significantly moderated the growth in nominal wages.

The fiscal achievements of the 1980s mean that the Government is well placed, both by the standards of the early 1980s and by international standards, to again use fiscal policy to assist recovery from recession.

- as at June 1991, Commonwealth budget sector debt was equivalent to 12.8 per cent of Gross Domestic Product (GDP), compared with 21.6 per cent in June 1983
- Budget outlays in 1990-91 represented 25.3 per cent of GDP, compared with 29.4 per cent in 1983-84
- OECD data show that gross general government debt in Australia was equivalent to 16 per cent of GDP in 1991, compared with an average for OECD countries of almost 60 per cent. Interest payments on Australian general government net debt accounted for 4.5 per cent of general government expenditures in 1991, compared with an average of 6.3 per cent for OECD countries

While this Statement includes a significant range of measures designed to accelerate recovery from the recession, it remains consistent with the fiscal strategy adopted since the mid-1980s. Individual outlays and taxation measures are designed to enhance national productivity and social equity. Moreover, the package is consistent with the Budget returning to surplus and maintaining income tax arrangements conducive to low inflation over the medium term.
The Government is committed to restoring the Budget to surplus by 1995-96. The initiatives announced in this Statement are structured to achieve that outcome without reliance on increased taxation.

A number of measures have been designed to provide an immediate boost to the economy. There will be a one-off payment to families eligible for Family Allowance on 2 April 1992, amounting to $125 for families with one child rising to $250 for families with five or more children. This initiative will cost $317m and will provide an immediate fillip to consumer demand. The reduction in the sales tax on passenger motor vehicles effective from 27 February 1992 will also assist in this regard. The Government’s plans for infrastructure programs and business incentives will also assist confidence and lift demand from an early stage. In aggregate, measures announced in the Statement are estimated to boost the Budget deficit in 1991-92 by $0.5 billion to $6.8 billion.

Further impetus to activity and business confidence will be provided as spending on infrastructure projects commences. These expenditures are concentrated in 1992-93 ($874m) and 1993-94 ($375m).

In aggregate, measures announced in the Statement are estimated to increase the Budget deficit by $1.8 billion in 1992-93 to $8.0 billion. Taking 1991-92 and 1992-93 together, the effect of the measures in the Statement is to boost the deficit by $2.3 billion or 0.5 per cent of GDP in 1992-93.

The cessation of the additional infrastructure spending in 1994-95 will moderate the impact of the package on the Budget as the level of private investment is expected to gather momentum, thereby curtailing pressures on aggregate demand and the current account.

The Statement includes several initiatives that will have a continuing impact on the Budget. Important among these are the restructuring of the depreciation rates for plant, equipment and certain infrastructure for income tax purposes, and increased outlays for a new system of vocational education and training. While initiatives such as these, like reductions in tariff duties, impose a continuing call on the Budget, they will contribute importantly to a more productive allocation of national resources and a more skilled work force.

The Statement also provides for successive reductions in personal income tax from July 1994 and January 1996. The restructuring of the rate scale will reduce the 38 per cent and, in some cases, the 46 per cent marginal rates facing the great majority of full-time wage and salary earners to 30 per cent, thereby improving incentives to work and save. In this way, fiscal policy will continue to assist in achieving moderate growth in nominal wages and low inflation.
The impact of the outlays and revenue measures on the Budget balance over the period to 1995-96 is summarised in Table 2 above. Greater detail is provided in Attachment B. Indicative projections for Budget outlays, revenue and the balance as a share of GDP are shown in a longer term perspective in Chart 11. The Budget deficit in 1992-93 of $8.0 billion, 1.9 per cent of GDP, is much lower as a share of GDP than the peak of 4.1 per cent in 1983-84.

The estimate of the deficit for 1992-93 is the starting point deficit and will be affected by any subsequent decisions. It will also be affected by parameter changes as a clearer idea of the actual path of the economic recovery develops. While the actual deficit in 1992-93 could well differ from the starting point deficit.
deficit of $8 billion, it will be consistent with the Government's commitment to restoring a Budget surplus by 1995-96.

Chart 11. Commonwealth Budget Aggregates
Percentage of GDP

Personal Tax

The personal tax system is a vital component of the nation's social and economic policies. It is largely through the personal tax system and its social security programs that the Commonwealth Government meets the commitment of Australians to a fair and just society.

Over the 1980s, most of the changes to the personal tax scales were developed in the context of trade-offs for wage restraint delivered through the Government's Accord with the ACTU and the need to reduce marginal tax rates. In this way, income tax policy has also enhanced equity and contributed to lower inflation.

The Government is committed to maintaining a progressive tax system, whereby those in the community with a higher capacity to pay tax bear a higher share of the taxation task.

At the same time, the personal tax system must adapt to changing times and circumstances. For example, the Government has developed comprehensive
programs for the provision of family assistance through the outlays side of the Budget, and this has reduced the role of the taxation system in this area. Use of outlays for this purpose ensures the funds are better targeted and that everyone in need has full access to benefits.

Over the years, there have been many other changes which can affect the appropriate design of the personal tax arrangements. These changes include new age pension and rebate arrangements, the shift to part-time work, and the growth of dual income families.

In considering policy towards personal taxation in the period ahead, the Government has decided to take a medium-term view and to focus tax cuts on the marginal tax rates facing the majority of the workforce.

New tax scales will be introduced in two stages - on 1 July 1994 and 1 January 1996.

The fundamental objectives of these tax scales are

- to reduce the marginal tax rate facing the great majority of the full-time workforce, including those on median and average wages, from 38 per cent to 30 per cent
- to reduce the marginal tax rate for those earning up to $50,000 per year, including, for example, those who derive such income through overtime or shift loadings, from 46 per cent to 40 per cent

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</table>

These substantial tax cuts will result in a reform of the tax scales of maximum benefit to the great majority of working men and women of Australia.
They will underpin the Accord to ensure that workers do not find their real disposable income increasingly eroded by higher effective taxes. They will contribute to relieving inflationary pressures.

The tax scales announced in this statement are compared with the present scales in Table 3 above.

**WAGES AND WORKPLACE REFORM**

**Wages**

Wages policy is a crucial element of the Government’s economic policy framework. Wages policy, supported by monetary and fiscal policy, will be set to ensure that Australia attains a sustainable, low inflation growth path. That path offers the best prospects for maximising the growth in job opportunities and the progressive improvement in our living standards.

The Accord between the Government and the ACTU has delivered unprecedented wage restraint since 1983, and has been a key factor in achieving record job growth through the 1980s and today’s low inflation. The agreed priority now is to maximise the prospects for sustained economic recovery, the generation of jobs and higher productivity both in the immediate future and into the longer term. To this end, the Government is confident that the Accord will continue to deliver appropriate wage outcomes to ensure that we lock in low inflation through the 1990s.

In particular, the Accord partners have re-affirmed their commitment to work towards wage outcomes consistent with keeping Australia’s inflation rate at levels comparable with those of our major trading partners.

Low inflation enhances the productive efficiency of the economy, and so contributes to increased competitiveness and higher Australian living standards. Low inflation also increases the incentive to save and contributes to making Australia a more equitable society.

Low inflation enhances productive efficiency because the resource misallocation caused by high inflation is avoided. When an inflationary mentality takes hold, as it did in Australia over the past two decades, enormous effort and resources are diverted to maximising gains from inflation and away from genuine efficiency gains in the production of goods and services. People buy assets - such as property - that they expect will rise in price, rather than seeking out investments that add to productive capacity. For example, this may have exacerbated the over-building of new office towers in our major cities in the 1980s.
Importantly, low inflation also contributes to a more equitable society. Not all sections of society are equally well placed to protect themselves against inflation. Since society as a whole cannot benefit from inflation, those who gain from inflation must ultimately do so at the expense of others.

Our commitment to maintaining low inflation and achieving strong and sustainable employment growth will be pursued by

- a continued shift to workplace bargaining so that wage increases are linked more directly to productivity increases at the workplace level

  - the amendments to the *Industrial Relations Act 1988* announced in this Statement will play a vital role in ensuring greater emphasis on workplace bargaining

- support for a continuing role for National Wage Cases. The Government will determine its attitude to the size and timing of National Wage increases in the light of the objective of keeping Australia's inflation rate comparable with those of our major trading partners

The Government has now decided to legislate for progressive increases in the prescribed standard of employment-related superannuation. The scope for wages growth from other sources will necessarily be lower than otherwise so as to ensure that enhanced superannuation does not impact adversely on cost structures and inflation. If wages growth were to become inconsistent with achieving inflation rates comparable with those of our major trading partners, the Government would need to reconsider the scheduled timing of increases in the prescribed minimum standard of superannuation.

The Government's strategy entails a shift in focus from targeting aggregate wage outcomes to achieving inflation outcomes comparable with those of our major trading partners. Successful workplace bargaining will generate productivity improvements that will provide scope for improved living standards without adding to inflation or eroding profitability.

The Government will continue to ensure that the wages system is equitable and protects the interests of all workers, particularly those vulnerable workers with little or no bargaining power.

The Government will be holding early discussions with the trade union movement on these matters.
Superannuation Guarantee Levy

As announced in last year’s Budget, the Government will introduce the Superannuation Guarantee Levy effective from 1 July 1992. This measure represents a major step forward in the development of retirement incomes policy and will lay the foundation for income security and higher standards of living in retirement for future generations of retirees, by providing

- a major extension of superannuation coverage
- an efficient method of encouraging employers to comply with their award obligations
- an orderly mechanism by which employer superannuation support can be increased over time, consistent with the economy’s capacity to pay

The Government has decided to alter the implementation schedule announced in the 1991-92 Budget to ease the transition costs for businesses with payrolls of $500,000 or less. For these businesses there will be no increase beyond the initial prescribed minimum until 1994-95. The Government will legislate now the prescribed level of superannuation support as set out in the following schedule.

Table 4: Prescribed Standard (per cent of employee’s earnings)

<table>
<thead>
<tr>
<th>Annual Payroll of $500,000 or less</th>
<th>Annual Payroll in excess of $500,000</th>
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<tbody>
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<td>1992-93</td>
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<td>1993-94</td>
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<td>2000-01</td>
<td>9</td>
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</tbody>
</table>

In addition to employer financed superannuation, the Government will be giving consideration to using employee contributions and tax cuts to increase the total level of superannuation support by a further 3 per cent of earnings. By the end
of this decade virtually every employee in Australia will have annual superannuation saving equivalent to some 12 per cent of their earnings.

Labour Market Flexibility and Workplace Bargaining

The Government has fostered a more co-operative approach to industrial relations under the Accord framework. This has assisted the evolution of a more flexible industrial relations system.

Since 1987, labour market developments aimed at achieving a more skilled and flexible workforce have been an essential ingredient in the broader process of structural reform. In that regard, the new Industrial Relations Act introduced in 1988 provides an effective framework to decentralise the wages system and for award restructuring and workplace reform.

Award restructuring has provided a major incentive for employers and unions to fundamentally review and restructure their awards. This reform is also enabling greater flexibility to firms to meet changing circumstances, help remove structural impediments to greater efficiency, and provide workers with access to more varied, fulfilling and better paid jobs. Award restructuring has been complemented by a fundamental review of minimum award rates of pay to remove inequities and ensure that wage relationships are stable and reflect skill levels.

Union rationalisation has been encouraged by the Government, so that unions are moving closer to an industry basis of organisation and operation, rather than the craft and occupation-based system of the past. Where there are multiple unions at workplaces, there is now a major move to negotiate with employers as a single bargaining unit - a significant reform to streamline negotiations at the workplace level.

The Government's Workplace Reform and Best Practice Demonstration Programs are facilitating cooperative and fruitful negotiation at the workplace by providing funding for innovative projects that lead to demonstrable workplace reform, and specialist assistance on human resources management, industrial relations, production planning and design and work organisation.

The focus of reform has now shifted from the industry and award level to the individual workplace to generate the productivity gains necessary for Australia to reap the full benefits from general market liberalisation, structural adjustment and other microeconomic reforms.

The current shift to workplace bargaining is being encouraged by the Government and is strongly supported by employers and the trade union
movement. It has now been endorsed by the Australian Industrial Relations Commission (AIRC) through the introduction of its Enterprise Bargaining Principle in the October 1991 National Wage Case decision.

Workplace bargaining provides clear and direct incentives for the parties to seek out and share the maximum possible productivity gains. Real wage increases not supported by productivity gains are illusory, being eroded inevitably by higher prices, and eventually will only undermine job prospects. Workplace bargaining encourages the parties directly involved to accept responsibility for their industrial relations practices and outcomes.

Workplace bargaining allows real efficiency gains to be identified and implemented in individual enterprises, and hence provides greater scope for sustained improvements in real wages without increases in real unit labour costs. The significance of workplace bargaining lies in its potential to spread into each and every workplace, thereby maximising the productivity performance of the economy overall.

Thus workplace bargaining promises to make a fundamental contribution to achieving a low inflation rate, improving Australia's competitiveness and securing durable employment growth.

In 1988 the Labor Government provided industrial parties with greater ability to negotiate at the workplace level with the inclusion of certified agreements provisions (Section 115) in the Industrial Relations Act 1988. These provisions allowed the AIRC to certify fixed term, non-variable workplace agreements that were fair to all concerned but not necessarily in accordance with National Wage fixing principles.

The certified agreements provisions have become more important following the 1991 National Wage Case decision in which the AIRC decided that certified agreements and consent awards would be the vehicles for workplace bargaining.

The Government has decided to introduce further legislative changes to underpin the shift to decentralisation and greater workplace focus in industrial relations. The Industrial Relations Act will be amended to encourage the making of workplace agreements.

The Government will encourage agreements that are fixed term and preclude wage increases from other sources.

The Government is particularly concerned to ensure that future business investment in 'greenfields' developments, or major expansion of existing sites, is underpinned by successful industrial relations arrangements. Accordingly, the
Government and the ACTU have agreed to establish a framework for the development of 'Pre-start Industrial Agreements'. These agreements will address issues such as rationalisation of union and award coverage on sites, including the establishment of single bargaining units.

**Oil Industry Workplace Bargaining**

Even before the latest National Wage Case, the oil industry was moving to workplace bargaining. Years of hard work by the ACTU-led oil industry unions and the collective oil industry employers led to agreement last year to revamp the industry award structure, moving it away from the old industry award structure to workplace awards.

As a result, workplace agreements between Shell, Mobil, Ampol and BP and their unions have been ratified by the Australian Industrial Relations Commission. The agreements link better wages and conditions to productivity gains.

Productivity gains are being achieved by introducing new technology, new classification structures and changing work practices.

At the Shell Geelong refinery, for example, new technology for centralised control of refinery operations is allowing fewer operators to do a better job. Changes to work practices, such as operators performing some equipment maintenance tasks, are further increasing individual productivity. It is estimated that productivity in the operations area will improve by over 20 per cent. Operators are sharing in these gains through pay increases.

By linking workplace productivity with improvements in pay and conditions, the parties aim to avoid the wage leap-frogging that occurred during the turbulent industrial relations climate of the 1960s and 1970s.

The oil industry is confident that the new workplace agreements will lead to greater efficiencies and productivity, better employee relations and gains to the Australian economy.
ICI Botany

ICI Botany, a leading chemical manufacturer, has been undergoing significant workplace restructuring for a number of years in response to changes to tariff structures and foreign competition. The restructuring has been aimed at making Botany a world class manufacturer.

ICI has worked closely with the unions on site and together they have achieved outstanding success. ICI has become an inspiration to many other Australian companies and unions.

The main features of the workplace agreements reached at Botany include

- the introduction of all-inclusive salaries to replace the previous base wage, overtime payment, shift premiums and penalty rates
- guarantees by employees working in semi-autonomous teams to provide shift cover in the event of any absences from their team
- the inclusion of performance measures, including productivity measures
- a strong commitment to skills formation. The company has invested several million dollars on self-paced technical manuals to upgrade skills and has established two TAFE facilities on site. Remuneration will be related to skills

The results of the agreements have been spectacular. In contrast to Botany’s turbulent past there has been no strike action since February 1989. There is now no spurious absenteeism and labour turnover is virtually zero. Productivity has improved dramatically, with quality standards reaching world class.

Over 100 Australian companies have attended joint union/management seminars conducted by ICI Botany to learn from its experience of workplace reform.
Toyota: Obtaining International Best Practice Standards

In December 1991, Toyota reached a creative workplace agreement with its unions covering 6000 employees. Toyota anticipates significant improvements in productivity to flow from the agreement while workers and their unions welcome the opportunity for enhanced career paths and additional wage increases.

The agreement objectives are linked to obtaining international best practice manufacturing standards. Productivity improvements are to be gained from

- new shift arrangements to better utilise plant and equipment
- flexible application of other working time arrangements such as rostered days off and annual leave
- broader job functions and other measures to eliminate demarcation barriers
- the enhancement of skills and training to make best use of new technology

The agreement stipulates a range of factors to be considered in assessing the extent of productivity improvement. Targets will be established for these factors as part of an assessment framework. The factors include

- quality levels
- employee work performance
- vehicle delivery time
- lost time due to absenteeism and turnover
- workplace safety performance
- customer satisfaction
A pacesetting workplace agreement has been negotiated by ASTA Aircraft Services (ASTAAS), a heavy maintenance and modification centre for Boeing 747 aircraft, owned jointly by the Commonwealth-owned ASTA and a privately owned aircraft repair firm.

ASTAAS and its unions have been front-runners in industrial relations reform, and improvements in productivity at the plant have been exceptional. ASTAAS is entirely export-orientated and has gained valuable contracts with All Nippon Airways and British Airways. It was set up in 1988 with 100 staff - it now employs 720.

Significant features of the workplace agreements, which were ratified by the Australian Industrial Relations Commission last year, include

- the introduction of cellular working groups
- the introduction of Total Quality Management
- revised shift rostering arrangements
- performance and productivity measures to be enhanced based on international benchmarking

The agreements aim to achieve a reduction in overhead costs, improvements in on-time delivery and a 50 per cent increase in productive work time on aircraft.
Note Printing Australia:
Workplace Reform in a Government Business Enterprise

Following a wide-ranging review of its Note Printing Branch at Craigieburn, Victoria, the Reserve Bank established Note Printing Australia (NPA) in February 1990 to operate as a separate business enterprise. NPA’s primary role is to print Australia’s banknotes.

A restructuring program, completed during 1991, has reduced staffing levels by over 40 per cent, eliminated demarcation disputes, established more flexible work patterns and introduced a remuneration system based on skill acquisition. All these changes were implemented without industrial disputation.

The efficient manufacturing operation now in place is covered by a single industrial agreement, the Note Printing Australia Award ratified by the Australian Industrial Relations Commission in October last year. The Award provides common conditions for all NPA’s 280 staff and a framework for continued enterprise bargaining in the form of a joint union/management working group. This body acts as both a negotiating forum and a joint consultative committee for discussing matters of common concern.

In its first year of commercial operations, NPA delivered 445 million notes to the Reserve Bank, compared with 275 million in the previous year, at a 30 per cent lower cost.

As a result of these workplace reforms NPA is now poised to expand its business both within Australia and overseas.

Already many companies and unions have made significant progress with workplace bargaining. Whilst the number of finalised agreements under the Enterprise Bargaining Principle is not yet large, this reflects in part the considerable planning and development work that must be undertaken within workplaces if wholesale change is to be made with the involvement and commitment of the entire workforce.

The nature and the magnitude of the potential gains from workplace bargaining are illustrated by a consideration of some practical experiences as set out in the accompanying boxed summaries. They show the dynamism, diversity and creativity that can be embodied in workplace agreements, and the benefits that can accrue from a forward-looking, integrated approach to workplace reform.

The labour market changes that are now underway - award restructuring, trade union restructuring, the AIRC's review of award coverage, changes in employer and employee attitudes, combined with the development of a framework for 'pre-start industrial agreements' and the streamlining of the legislative provisions relating to workplace agreements - reaffirm and underscore this Government's commitment to making the Australian economy more productive, more competitive and more flexible in the 1990s.

EDUCATION, TRAINING AND THE LABOUR MARKET

Internationally competitive industries require a highly skilled and flexible workforce. The rate of technological and structural change also means that workers must be able and willing to acquire skills throughout their working lives. This requires a general knowledge and skill base on which to build vocational and job specific skills.

In this regard, Year 12 retention rates have increased from 41 per cent in 1983 to 71 per cent in 1991. Young people are entering the labour market with a much stronger knowledge base than in the past. We have also achieved substantial growth in university participation with a 50 per cent increase in Commonwealth funded places in higher education expected between 1983 and 1994. Over the 1992-1994 triennium, the Government plans to spend a total of $13 billion on higher education.

While we are rightly proud of these achievements, we recognise that they are not sufficient in themselves. To be internationally competitive, Australia requires a clever and capable workforce at all levels which is able to produce and deliver high quality goods and services and which is able to lower costs through the effective use of technology. The workforce must also be able to adjust more rapidly to change.

This Statement proposes the way forward through the development of a new system of vocational education and training and through reform of entry level training. These measures will not only help to produce the skills required to achieve structural change, but also open up career opportunities for our young people and reduce the high level of youth unemployment.

The Government also recognises that it is important to avoid the mistakes of the 1983 recession and to ensure that skill shortages do not constrain the recovery. To this end, the Statement contains measures to increase apprenticeship and traineeship intakes, to assist unemployed apprentices and trainees to complete their training and to increase assistance to Australians who are currently unemployed so that they can also participate in the recovery.
A New System of Vocational Education and Training

The Commonwealth is extending its original proposal to the States and Territories on TAFE funding and is now offering to take full funding responsibility for the development of a new and expanded system of institutes of vocational education. With the agreement of the States and Territories, the new system will build upon the existing TAFE network, but the arrangements will allow for flexible use of funds through both public and private providers as a more diverse and competitive training market emerges.

Our aim is to work with the States and Territories, the industrial parties and training providers to produce a vocational education and training system which our young people see as a high quality alternative to universities, and in which industry is more closely involved. In the context of this offer, the Commonwealth will provide an additional $720m over the 1993-1995 triennium to upgrade the system and ensure a sustained increase in participation in vocational education and training.

In contrast to the growth in participation and funding for higher education and schools, growth in TAFE has been severely restricted by the budgetary constraints faced by State and Territory governments which currently have prime responsibility for TAFE funding. Together, schools and universities have accounted for virtually all the growth in education and training since 1983. For example, the number of 15 to 24 year olds with university degrees has risen by 43 per cent over the period; in contrast, the number with trade qualifications has fallen by 11 per cent.

This pattern has been reinforced by rigid barriers between higher education and TAFE and the negative messages this sends about the relevance and value of TAFE. There is a danger of a serious mismatch between the skills available in the labour market and the skills required. Many of the latter are appropriately gained through TAFE rather than universities.

Two recent major reviews, headed by prominent business leaders, have recognised this problem and recommended substantial reform of, and increased expenditure on, TAFE and vocational training. The Deveson Report argued for a more diverse and responsive training system and for a substantial funding boost from governments and industry.

The Finn Review into Post-Compulsory Education and Training highlighted the fact that around 30 per cent of school leavers enter the workforce with no additional vocational education or training. This group is particularly vulnerable in the labour market, experiencing higher unemployment rates and longer spells of unemployment.
Governments have endorsed the Finn recommendation of universal participation in post-compulsory education and training by the year 2001 by young people. This involves an offer of an "education and training guarantee", entitling young people to a full secondary education or its equivalent in vocational education and training. Meeting these targets will require a 35 per cent increase in the number of students in vocational education and training between 1991 and 2001.

Last year the Commonwealth proposed that it accept funding responsibility for TAFE beyond the "education and training guarantee". Some States and Territories have expressed concern that the use of the "education and training guarantee" as a means of dividing responsibilities would not provide a clear delineation of government functions.

In recognition of this concern, the Commonwealth is today offering to assume full funding responsibility for TAFE and vocational education and training, including those areas covered by the "guarantee", and is proposing the transformation of TAFE into a new, higher status, better-resourced system of institutes of vocational education.

The Commonwealth is also offering triennial calendar year funding and sustained growth in vocational education and training. The details of the new system, including funding arrangements, will be developed in full consultation with participating States and Territories, and with industry. The Commonwealth is happy to discuss other proposals which are consistent with achieving the necessary enhancements to the status and funding of vocational education and training.

State and Territory governments would retain responsibility for the management and administration of vocational education and training, while the Commonwealth will be seeking a continuing partnership with States, Territories and industry to take forward the national agenda for training reform and to set in place the new institutes of vocational education.

As part of its proposal, the Commonwealth is offering an increase in funding of $70m each year for the 1993-1995 triennium. This is in addition to the increase of some $100m in funding in 1992 announced in the November 1991 Statement which will now be built into the funding base for future years. This means that the Commonwealth will be providing an extra $170m in 1993, $240m in 1994 and $310m in 1995 (a total figure of $720m over the 1993-1995 triennium) above that provided in 1991.

The Commonwealth's proposal will provide stable and assured funding for vocational education and training and enable the major expansion and upgrading of the system envisaged by both the Deveson and Finn Reports.
In addition to these medium-term changes, the Government is today announcing a further immediate increase in expenditure on TAFE by continuing into 1992-1993 funding for 10,000 pre-vocational training places from July at a cost of $49m (including associated AUSTUDY costs). These courses will provide training opportunities in the second semester of 1992 for young people who have been unable to obtain jobs and who are at risk of entering long-term unemployment.

Reform of Entry-Level Training and Training Wages

Apprenticeships and traineeships are currently the main form of structured entry level training, providing about one-third of all full time job opportunities for young people. While they have served some young Australians well, they have a number of serious shortcomings.

Only about half of school leavers not entering universities receive these training opportunities. There have also been persistent concerns regarding the limited industry and occupational coverage of the arrangements. The quality of training provided, particularly in terms of on-the-job training and its integration with off-the-job training, has been seriously questioned as has the inflexibility provided by quite separate apprenticeship and traineeship systems. These arrangements have also assisted young men more than young women.

It is widely accepted that there is substantial room for improvement. The Government is committed to developing entry-level training arrangements which produce the skilled and adaptable workers which industry needs and which provide individuals with access to satisfying and challenging jobs. The new arrangements must attract some of the brightest school students into vocational training and reflect the higher educational standards of future entrants.

Commonwealth and State Ministers have agreed to move toward a unified entry-level training system incorporating and expanding upon the apprenticeship and traineeship systems. The new arrangements must cover a wider range of industries and occupations, be directed to achieving agreed competencies, recognise the skills acquired by individuals both on and off the job and be responsive to industry's current and future skill requirements.

The increased emphasis on quality training suggests that there may be value in changing the emphasis from the employment relationship embodied in existing apprenticeships and traineeships to a training relationship. Those participating could be regarded as trainees rather than workers.
Existing arrangements regarding youth wages would then need to be examined to take account of the change in status of the individual, the higher quality of training provided and the need to ensure an adequate number of training positions within industry are available for young people.

The Government is committed to reform of entry-level training arrangements and acknowledges that this will require a concerted effort by the Commonwealth, the States and Territories, the industrial parties and training providers. The Employment and Skills Formation Council has been consulting with interested parties over the past few months on these issues. Their report is due by the end of March and this will provide the focus for immediate action by the Government. The Minister for Employment, Education and Training will be meeting with key groups and seeking their support for major and timely reform.

In the Government's own area of employment, discussions will commence shortly between union and employer representatives on reform of entry-level training arrangements for the Australian Public Service. The Public Service is a major employer of clerical staff and this will be the initial focus of discussions.

The reform of entry-level training and the new vocational education and training system will both be of particular benefit to young people. They will contribute to a lasting solution to the unacceptably high levels of youth unemployment by ensuring that young people enter the labour market with the skills that industry is seeking. The Government's policy of encouraging young people to remain in education has cushioned the effects of the recession on this group. While 30 per cent of 15 to 19 year olds in the full-time labour force are unemployed, they account for about 9 per cent of all 15 to 19 year olds. This compares with the situation in 1983 when a 27 per cent unemployment rate represented 12 per cent of all 15 to 19 year olds.

**Support for Apprentices and Trainees**

While the measures outlined above will provide major opportunities for our young people in the near future, the recession has seen a substantial cutback in intakes of first-year apprentices and trainees and some later year apprentices have lost their job or are in danger of doing so. Without further encouragement to industry now, this could result in costly skill shortages similar to those which followed the 1983 recession.

A number of measures were announced by the Government in early February to ensure maximum impact during the peak recruitment period. These included
• an extra payment of $2 000 for each additional first-year apprentice which employers take on in 1992 compared to the number in their employ at 30 September 1991. For additional first-year apprentices, the initial CRAFT payment will now be $3 500, and this is expected to encourage an additional 9 000 first-year apprentices during 1992.

• a doubling to $2 000 for 1992 of the incentive to employers of all trainees under the Australian Traineeship System (ATS) who commence after 1 January 1992. This is expected to encourage the recruitment of 10 000 trainees in 1992.

• $5 million to provide a wage subsidy to employers of second-year apprentices at risk of retrenchment (payable at $60 per week for 26 weeks). Some 3 200 young people are expected to be assisted by this measure.

The Government is also extending the package of measures announced in March 1991 to assist unemployed and "at risk" apprentices and trainees to complete their training. Some 7 000 young people are expected to be assisted. In addition, group training schemes, particularly those in rural and remote areas, will receive an additional $5.7 million to maximise training opportunities for apprentices and trainees.

Labour Market Programs

The Government's Active Employment Strategy, which integrates labour market program assistance and income support, both encourages and assists the unemployed back into employment. By assisting the unemployed to retain their skills and links with the workforce, the policy will both improve the efficient operation of the labour market by minimising any skill shortages during the recovery, and assist individuals currently unemployed to participate in employment growth during the recovery.

The Government has learnt from the lessons of the 1983 recession. Our approach to labour market programs must be one of preparing for recovery, rather than succumbing to the effects of a recession. The economy will turn around. There will be an increase in the demand for labour. There will be a need for a well-skilled workforce. Hence this Government is not interested in make-work schemes which offer no hope of real employment. We are concerned to improve the employability of those out of work and to help them to retain their links with the workforce. We put a particular emphasis on targeting the long-term unemployed because we know that they will require special assistance to take advantage of the recovery.
Measures announced in the Statement will bring total expenditure on labour market programs to $728.7m in 1991-92 and $905.7m in 1992-93. For the coming year, this represents a 28 per cent increase over current 1991-92 levels.

The specific measures include

- a $100m increase in funds between now and June 1993 for JOBSTART, which has proved to be a particularly effective program in assisting the unemployed, particularly the long-term unemployed, during the recession

- a $30m increase in 1992-93 funds for JOBSKILLS which offers six months work experience and training to the long-term unemployed. The program will be particularly targeted to the regions of highest unemployment

- a $15m increase in 1992-93 in the Special Intervention Program, which identifies the most disadvantaged job seekers early in their spell of unemployment and provides assistance through English language, literacy and numeracy courses

- a $17.6m increase in funding to June 1993 for the Self Employment Assistance Program to help job seekers become self-employed in viable new businesses

- a further $8m to June 1993 for regional employment development initiatives under the aegis of the Office of Labour Market Adjustment (OLMA) in regions of highest unemployment. Employment development activity will include planning and adjustment assistance to communities to develop local economic and employment strategies, and employment, education and training assistance to individuals affected by structural adjustment

In addition, we will redistribute labour market program funds so as to target more closely the long-term unemployed and to increase the effectiveness of programs in assisting the unemployed into employment.

In 1992-93, funds will be shifted from the JOBTRAIN program to provide increased support for work experience programs such as JOBSTART and JOBSKILLS, which are particularly effective during a recession. Expenditure on JOBTRAIN will subsequently be increased in 1993-94 to ensure that sufficient skills training places are available when and where they are needed.

Programs will continue to be delivered flexibly to match best the needs of particular individuals and localities.
The Government recognises that labour market programs are not a substitute for employment growth; rather the two are complementary. In fact, labour market programs are more effective in assisting the long-term unemployed into employment during periods of strong job growth.

Measures announced in this Statement will produce the strong economic and employment growth which, combined with the Government's Active Employment Strategy, will help to bring about significant reductions in total unemployment.

COMPETITION

It is no accident that Australia's most efficient and commercially successful producers have been those which have been subject to strong competition. And the most stringent competitive standards are those in world markets. Our farmers and miners match the levels of efficiency and best practice anywhere in the world. They have to be in order to compete successfully in fiercely contested (sometimes corrupt, in the case of agriculture) world commodities markets.

Suppliers of goods or services which are protected from international competition

- are not subject to the pressures which ensure efficient management and production techniques or delivery of high quality products
- can get away with shoddy or over priced goods and services without fear of loss of markets

When this occurs in sectors that service others, the effect is doubly damaging and debilitating for the rest of the economy. It imposes higher prices and poorer services on Australian consumers. And it puts those Australian companies competing overseas at a competitive disadvantage.

The Government has already taken important steps to address these problems, by introducing reforms to such key areas as the waterfront, telecommunications and coastal shipping. But we have done so at a time when the rest of the world has also recognised the economic benefits of greater competition, in terms of increasing productive capacity without generating inflationary or balance of payments pressures.

To keep up with the rest of the world and to secure the opportunities open to Australia the pace of reform must be accelerated and widened.
In terms of our tourism and value adding sectors the significant gains are to be found in aviation and electricity reform, respectively.

Further competition in the finance sector will be of benefit to the economy generally, particularly in its move out of recession.

**Aviation**

The Government has decided to accelerate reform of the Australian aviation industry.

The program establishes the framework and timetable for reducing the barrier between Australia's domestic and international aviation sectors, and opens the way for development of a single aviation market with New Zealand.

International aviation represented the doorway to Australia for 2.4m international visitors in 1991. Developing a strong outward-looking aviation industry will benefit the tourism industry, and provide our other industries with valuable commercial links with the fastest growing economies in the world.

The new policy will encourage greater competition, both domestically and internationally, and the development of a more robust, integrated and internationally competitive aviation sector. It also

- builds on the already substantial program of microeconomic reform in the international and domestic aviation industry with benefits for the national economy and, in particular, for the crucial areas of international and domestic tourism and trade

- recognises that Australasian aviation markets are relatively small, and that there must be an opportunity for the aviation industry in Australia and New Zealand to reorganise itself

- allows the privatisation process for Qantas and Australian Airlines to continue with greater certainty

- provides scope for greater regional diversity of international flights to and from Australia and for the development of Australian designated international carriers based outside Sydney

- ensures that the Government provides adequate terminal capacity to meet the needs of new entrants to the aviation industry
• encourages a vigorous, cost-effective regional aviation market by accelerating the final transfer of non-Federal Airport Corporation Commonwealth airports and withdrawal from the Aerodrome Local Ownership Plan

• recognises that the Civil Aviation Authority and the Bureau of Air Safety Investigation will continue to maintain national safety standards

By announcing all of the proposed changes at this time, the Government is giving industry and other interested parties a clear timetable on which their future planning and investment decisions can be based.

First Stage - Immediate implementation

Airlines sales process. Remove the aviation-specific restrictions on equity investments between Australian operators

• this will allow Qantas to consider possible investments in Australian Airlines or other domestic airlines, and the domestic airlines to consider equity investments in Qantas, subject to the provisions of the Trade Practices Act

• it will also facilitate the development of a more robust and internationally competitive aviation industry

Bilateral agreements. Renegotiate bilateral air service agreements with a view to securing multiple designation agreements with other countries, and a pro-competitive approach directed at achieving enhanced route and capacity arrangements

• the majority of Australia's bilateral agreements already make provision for the designation of more than one Australian international carrier. There will be a need, however, to obtain such a provision through negotiation in some other cases

• allied to this will be the need to secure enhanced route and capacity entitlements to give full effect to the opportunities resulting from multiple designation

Passenger and freight charters. Facilitate charter operations by Australian-based operators
• the Government's current charter guidelines provide the opportunity for
  Australian operators to provide international charter services. Under the
  single designation policy, it has been difficult for charter proponents to
develop services without directly impacting on single designation
  commitments

Second Stage - Implementation as soon as possible and by no later than 1993

Trans-Tasman services. Invite the New Zealand Government to agree to
  multiple designation on trans-Tasman routes for air services by any Australian
  or New Zealand airline

• this will allow Australasian domestic airlines to compete with Qantas, Air
  New Zealand and other international carriers on these routes

Qantas domestic carriage. As multiple designation takes place across the
  Tasman, allow Qantas to enter the domestic market, initially through the ability
to sell spare capacity on existing domestic sectors of its international services,
  and subsequently in its own right, as multiple designation is introduced more
  broadly

• this will allow Qantas initially to use empty seats on existing domestic
  sectors of its international services such as Perth-Melbourne-Sydney

• as multiple designation is introduced more broadly, Qantas will also be able
to operate purely domestic services such as Melbourne-Coolangatta,
     Perth-Adelaide, Darwin-Cairns or Sydney-Hobart

Multiple designation. Implement a policy of multiple designation for
  Australian international carriers, with the mechanism for allocation of rights to
  be the subject of consultation with the Australian aviation industry

• this will mean that additional Australian carriers will be able to operate
  international services, providing consumers with greater choice and the
  benefits of more competition, and enhance the prospects for long-term
  investment in the industry

Additional freight carriers. Allow additional Australian freight carriers to
  operate on international routes to and from Australia

• as with multiple designation of passenger carriers, this change will allow
  additional Australian carriers to operate international freight services
Multiple designation - New Zealand. Invite the New Zealand Government to participate in a multiple designation regime for Australasian carriers in international markets.

Third Stage - Implementation as soon as possible after the second stage - target 1994

Single market. Seek the New Zealand Government's agreement to implement a single aviation market (including a common border) with New Zealand, allowing Australian and New Zealand carriers full access to the Australasian market

- this will allow all Australian and New Zealand airlines to operate within Australia and New Zealand as well as across the Tasman. Ultimately, it will involve harmonisation of such matters as visa arrangements and quarantine facilities

Own stop-over and interline rights. Negotiate with other countries mutually beneficial approaches involving exchange of own stop-over and/or interline rights

- own stop-over rights will continue to be available on a bilaterally negotiated basis

- foreign carriers will also be allowed Australian interline rights where, through negotiation, a mutually beneficial outcome results. Carriage of Australian domestic passengers will not be considered for other than Australasian carriers

There have been initial consultations with the New Zealand Government on the key elements of this package as they affect Australasian interests.

The New Zealand Government has assured the Australian Government that moving towards the full integration of the aviation markets of our two countries continues to be a high priority from its point of view.

Officials of both countries will be working to achieve this objective as a matter of priority.

There have also been initial consultations with the Australian aviation industry. The changes outlined in this Statement are fundamental and their implementation could have significant potential impacts on employees, shareholders and the privatisation process. For that reason, great care needs to be taken in their detailed design.
All the major Australian carriers have indicated their readiness to participate in the urgent and detailed consultations that will now be required.

These consultations will be guided by a number of clear principles:

- the enhancement of tourism interests in providing competitive and more broadly-based international aviation capacity
- equitable access to international routes by existing domestic carriers, having regard to the interests of consumers, employees, shareholders and treaty obligations when Qantas gets full access to domestic markets
- the preservation of the sales processes for Qantas and Australian Airlines

Electricity

The electricity supply industry has annual sales of around $10.5 billion and a workforce in the order of 66,000. Electricity is a significant cost element of many manufacturing and resource-based industries, and power costs can be a major factor in determining the international competitiveness of many Australian industries. The Industry Commission has estimated that the potential gains from reform in the electricity industry are some $2.2 billion a year.

Australia holds a comparative advantage in the supply of electricity because of cheap natural sources of fuel. Most States and Territories - which have the predominant interest in the industry - have introduced reforms to improve the efficiency of their electricity utilities. Obstacles remain, however, to Australia obtaining greatest benefit from our comparative advantage and consolidating recent reform efforts.

Reforms now underway have seen the States and the Commonwealth more willing to adopt a national outlook to the supply of electricity. Heads of Government have agreed to establish a National Grid Management Council to manage the development of the industry in southern and eastern Australia. The Council is preparing a protocol to govern the operations of the industry, including access to the transmission grid and competitive sourcing of new generation capacity.

While the reforms flowing from the National Grid Management Council represent a significant break with the past, the industry will continue to be structured around separate State networks, with weak or non-existent transmission links between States. Public utilities will continue to dominate all stages of supply (generation, transmission and distribution).
Given the challenges facing Australia over the next decade, the pace of reform must be accelerated in order to achieve a much more competitive electricity market by the mid-1990s. The Commonwealth is therefore proposing, and will seek States agreement at the forthcoming 1992 Premiers' Conference, to establish a National Grid Corporation to operate a National Grid separate from existing generation and distribution interests. The National Grid Corporation would, by establishing an independent grid, strengthen a national approach to development of the transmission facility. It would provide a key for the development of strong competition between generators of electricity, and guarantee that all generators - public and privately owned - would have fair access to the grid.

Building on the protocol being developed by the National Grid Management Council, an independent National Grid Corporation would greatly enhance our ability to

- establish rules determining fair and open competition for the sale of electricity between generators, distributors and customers in a way which avoids the dumping of excess capacity
- permit direct links between major customers and generators for the supply of electricity, with the electricity supplied through the National Grid
- guarantee transparency of charges for access to the transmission grid
- ensure external scrutiny of the industry by the Trade Practices Commission and the Prices Surveillance Authority

A National Grid Corporation will enhance the operation and planning for the supply of power on a national basis and remove the ability of public monopolies in each state to control all stages of supply. To be effective it will be necessary to strengthen the present weak or non-existent transmission links between States. Feasibility studies will assist in establishing the economics of new or strengthened links between mainland States and between the mainland and Tasmania.

The Commonwealth is offering to contribute up to $100m towards upgrading the existing transmission link between NSW, Victoria and SA, subject to agreement with the relevant States on a timetable for the development of the National Grid Corporation and the separation of transmission assets to form part of the Corporation. The Commonwealth is proposing that any funding of improved transmission links and any assets provided to the Corporation should be reflected in the equity shares in the Corporation. The very substantial
transmission assets owned by the States would mean that the Commonwealth would be a minority shareholder in the Corporation.

Financial Sector

This Government has undertaken far-reaching reforms of the financial sector aimed at giving Australia one of the most efficient financial systems in the world.

Deregulation, despite some of its transitional problems, has not compromised the overall stability and integrity of the financial system. The Reserve Bank of Australia (RBA) continues to monitor the performance of the commercial banks to ensure that they are following sound business practices and satisfy risk-weighted capital adequacy requirements in accordance with guidelines developed by the Bank for International Settlements.

The Government referred to the House of Representatives Standing Committee on Finance and Public Administration an inquiry into the Australian Banking System to review the experience under financial deregulation. The report of this Committee, known as the Martin Report, was tabled in November 1991. The Government will respond in due course to the whole Report and to the Industry Commission's report on Availability of Capital. It has taken this opportunity, however, to address some of its major findings, so as to continue the process of making the financial sector more competitive and more flexible.

New Foreign Bank Licences

In 1985-86, 15 foreign banks were authorised under the Banking Act, as incorporated subsidiaries. Since then, Government policy has been not to authorise further foreign banks. The arguments in favour of limits on the number of foreign banks have lost much of their force with recent developments in the financial markets. Currently there are some 90 foreign institutions conducting quasi-banking or banking business in Australia, of which only 17 operate as authorised banks under RBA supervision. A further 56 operate as merchant banks outside RBA prudential control.

The Government has decided to permit the issue of banking authorities to foreign-owned banks, where the RBA is satisfied that the bank and its home supervisor are of sufficient standing, and where the bank agrees to comply with RBA prudential supervision and arrangements. This measure is in line with the Government's commitment to opening up the economy. It will bring benefits of competition in the domestic banking system and help its international competitiveness. It is a significant liberalisation in the context of the trade in financial services negotiations of the Uruguay Round of the GATT. It will
increase that part of the financial sector which is directly supervised by the Reserve Bank and will help to clarify distinctions between bank and non-bank institutions.

Money market corporations that are owned by foreign banks constitute a sizeable part of that market segment. They will be free to apply for a banking authority. So as to bring some clarity to the supervisory arrangements and to functions, exemptions granted to money market corporations to describe their operations as banking will be withdrawn when arrangements for the issue of banking authorities are in place.

The Government will consider bids by foreign banks on a case by case basis for second tier domestic banks (that is, other than the big four Australian banks).

Branch Banking

The Government has decided to permit foreign banks, which are authorised under the Banking Act, to operate as wholesale banks in the form of a branch. (Current supervisory arrangements require foreign banks to be incorporated locally as subsidiaries of the parent bank.) This should bring competitive gains and efficiencies, allowing greater flexibility in the provision of finance and cost advantages to Australian clients. It should also bring advantages to the banks and improve the international competitiveness of the Australian financial system.

Permitting foreign banks to operate as branches does not allow the RBA to ensure the same level of prudential supervision and depositor protection as can be applied to subsidiaries. The Government places great importance on protecting the interests of Australian bank depositors, and, to this end, the Government has decided to allow foreign branches for wholesale banking but require retail banking by a foreign bank to be conducted in a subsidiary.

These measures, to allow the entry of additional foreign banks and to allow foreign banks to operate as wholesale branches and to acquire second tier banks, should lead to a further improvement in the international competitiveness of the Australian financial sector, while not putting at risk the deposits of ordinary Australians.

INDUSTRY

The Government believes that Australia's well-being depends on the country having dynamic and internationally competitive industries.
The precise shape and nature of these industries will, in the end, be determined by how well they compete in domestic and overseas markets. But it is clear that the immense strength of our resource-based sector will continue to play a vital role in the economy, both through exporting the basic raw materials and adding value to them.

The recent strong growth in the tourism industry is also likely to continue and accelerate as it taps into the immense new market created by fast growing real incomes in the industrialised Asian countries.

New industries will emerge and grow in prominence, tapping into the improved knowledge and skills base created by Australia's substantial investment in education, skills training and science and technology.

The development of internationally competitive Australian businesses requires the commitment and cooperation of management, unions and governments at all levels.

An important role for government is to ensure that no unwarranted impediments exist to business taking advantage of emerging commercial opportunities.

In preparing this Statement, the Government has therefore listened closely to the views of business in order to determine where government action could be used most cost effectively:

- in the short term, to restore the confidence and ability to invest to take advantage of the increasing commercial opportunities as the world economy moves out of recession
- in the medium term, to reinforce the shift towards the traded sector, both by building on Australia's rich natural resource base and developing strengths in knowledge-based industries

The measures announced take full account of business views. But they also reflect careful analysis and judgements by the Government about where it can act most usefully without jeopardising the long-term benefits to business offered by responsible fiscal settings and low inflation.

The impact of the measures will in general vary according to the structure and nature of particular industries. But it is essentially a matter for management and shareholders to take advantage of them and to choose when, where and how to invest.
Depreciation

In recent times many business representatives have put the view that the business tax system in Australia, particularly the depreciation allowances available for longer lived plant and equipment, including certain infrastructure assets presently treated as structural improvements, and for industrial buildings and tourist accommodation, tends to reinforce the emphasis frequently held in Australia on short-term returns. Although it needs to be remembered that Australia's imputation system means that at the personal tax level the effective tax rate on investment is competitive with comparable OECD countries, recent evidence suggests that effective corporate tax rates on long-lived investment are relatively high in Australia. The Government considers that an internationally competitive business tax regime is of critical importance to Australia's economic development.

Treatment of Plant and Equipment

The Government has decided to provide substantial acceleration of depreciation deductions for plant and equipment for tax purposes.

The new arrangements will be effective for plant acquired after 26 February 1992.

This acceleration of the depreciation schedules has the effect of substantially reducing the effective tax rate on domestic investment in plant and equipment.

The tax preference for domestic plant and equipment will encourage such investment relative to alternatives, including foreign investment by Australian companies.

This will reinforce the effect of the dividend imputation system, which also favours business activity in Australia relative to investment abroad.

The acceleration of depreciation for plant and equipment will be focussed particularly on assets with long effective lives. Under the new arrangements, assets with a 5 year effective life will have a write-off life equivalent of 3 3/4 years, while the corresponding write-off life equivalents for 10 year and 20 year assets will be respectively 6 and 7 1/2 years. Table 5 and Chart 12, respectively, compare the implied write-off life of assets and the effective life loading under the new depreciation arrangements with the previous system.
Table 5: Implied Write-Off Life

<table>
<thead>
<tr>
<th>Effective Life Class</th>
<th>New Rate of Depreciation</th>
<th>Implied Write-Off Life</th>
<th>Previous Rates (inclusive of loading)</th>
<th>Implied Write-Off Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years</td>
<td>%</td>
<td>%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 3</td>
<td>100</td>
<td>1</td>
<td>100</td>
<td>1</td>
</tr>
<tr>
<td>3 to less than 5</td>
<td>60</td>
<td>2.5</td>
<td>60</td>
<td>2.5</td>
</tr>
<tr>
<td>5 to less than 6 2/3</td>
<td>40</td>
<td>3.75</td>
<td>36</td>
<td>4.2</td>
</tr>
<tr>
<td>6 2/3 to less than 10</td>
<td>30</td>
<td>5</td>
<td>27</td>
<td>5.6</td>
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<td>6</td>
<td>18</td>
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<td>11.1</td>
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<td>7.5</td>
<td>9</td>
<td>16.7</td>
</tr>
<tr>
<td>30 and over</td>
<td>10</td>
<td>15</td>
<td>9 or 4.5</td>
<td>16.7 or 33.3</td>
</tr>
</tbody>
</table>

Chart 12. Loading Equivalents for New Depreciation Arrangements

Chart 13 demonstrates how the new arrangements impact on the international comparability of Australia’s depreciation system for assets with effective lives of 5, 10 and 20 years. As this chart shows, the new measures will ensure that the Australian system is internationally competitive.

The changed depreciation arrangements follow a review by officials of the tax treatment of businesses in Australia compared to selected OECD and Asian countries.
Chart 13. Present Value of Depreciation for Manufacturing Plant\(^{(a)(b)}\)

**Panel A: 5 Year Effective Life**

Increase in present value of depreciation under new arrangements

**Panel B: 10 Year Effective Life**

Increase in present value of depreciation under new arrangements

**Panel C: 20 Year Effective Life**

Increase in present value of depreciation under new arrangements

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(a) Discount rates for each country correspond to 10 year bond rates (as at week ending 14 February 1992) where available or the estimated rate of inflation (Asian Development Bank estimates November 1991) plus 5 per cent.

(b) Depreciation deductions are based on published country data and excludes any special allowances or incentives that may apply.

(c) Present value of depreciation based on an asset worth 1000 units of the local currency.
That review showed that depreciation allowances in Australia were not significantly different from other countries on short (5 year) and medium (10 year) life assets, but that on assets with long (20 year) lives, the Australian system was less generous.

The taxation law is also to be amended so that the fact of a property's attachment to Crown land does not, of itself, prevent depreciation deductions being allowed in respect of the property.

Treatment of Buildings and Structural Improvements

The Government has also decided to accelerate the write-off available for certain income-producing buildings.

Capital expenditure on the construction of buildings used for short-term traveller accommodation and industrial buildings will be able to be written-off at 4 per cent per annum on a straight line basis. At present such buildings are eligible for write-off at 2 1/2 per cent per annum.

The measure will apply in respect of buildings where construction commences after 26 February 1992.

The Government has also decided to extend depreciation eligibility to certain structural improvements at the 2 1/2 per cent rate accorded income producing buildings.

The measures complement the decisions taken to accelerate depreciation of plant and equipment and make Australia's write-off arrangements competitive with those in other jurisdictions.

Development Allowance

The acceleration of depreciation for plant and equipment gives Australia a more competitive investment environment.

The Government wishes to build on this advantage and promote an early upturn in investment in new plant and equipment for projects which offer particular benefits for Australia's competitiveness in world markets.

It has therefore decided to supplement the depreciation changes for a limited period by introducing a development allowance for certain larger scale investments. The development allowance will be at the rate of 10 per cent and allowed when plant is first used or installed ready for use. It will be modelled broadly on the investment allowance that operated between 1976 and 1985.
To be eligible for this allowance projects must involve a total capital cost of $50m or more, and must be completed within a tight timeframe. The allowance will only be available on the plant and equipment component of the investment.

To receive the allowance, the projects must demonstrate that they meet criteria designed to ensure they are world competitive in respect of proposed practices of employers, employees and governments at all levels. Broad criteria intended to identify such projects relate to

- the absence of any substantial assistance or protection
- positive facilitation by State and local governments in relation to such matters as project approval processes and, where appropriate, the economic and efficient pricing of inputs under the control of public utilities and statutory marketing authorities. Where a need for similar or complementary action at the Commonwealth level is identified, it will be taken
- employers and employees committing to management and industrial relations arrangements which promote the achievement of world best practice

Mr Bill Scales, Chairperson and Chief Executive of the Automotive Industry Authority, will report to the Government within 30 days advising it on how best to

- elaborate the criteria set out above
- determine the most appropriate institutional arrangements for administering the Development Allowance

This new incentive will not select on the basis of preferred industry sectors. A number of industries have been identified as promising ones for Australia into the 21st century. Many of these are activities which add value to our rich resource base. These include food, fibre and mineral processing. They also include waste and environmental management technology, scientific and medical equipment and health services, pulp and paper, tourism and education. This incentive should significantly facilitate the further development of eligible projects in these, as in other, sectors.

Pooled Development Funds

The Government has been concerned for some time about the difficulty small and medium sized enterprises can experience in obtaining equity capital. This concern was reinforced during the Ministerial discussions with industry.
The availability of equity capital can be a critical element for the success of small and medium sized firms. Small firms, however, often have difficulty in obtaining this form of finance because

- they do not have access to the same range of sources of capital as larger firms, particularly as there is no reliable and easily accessible market for trading equity in small businesses, such as the Stock Exchange
- adverse economic conditions have encouraged investors to concentrate on established, larger and safer enterprises

The Block and Coghlan Reports also identified an underdeveloped equity market for small to medium firms and a short-term focus to investment as impediments to the commercialisation of research in Australia.

The Government has decided to provide for the establishment of concessionally taxed investment companies for investment in established small to medium sized firms. To be called Pooled Development Funds (PDFs), these would have as their sole purpose the provision of patient equity capital for eligible investments in companies which are resident in Australia and which have total assets of less than $30m.

Eligible equity interests will be restricted to new capital primarily for established companies which are expanding production capacity or markets. A small proportion of the funds will be available for start-up ventures.

The income of PDFs will be taxed at the rate of 30 per cent. Distributions of dividends from the funds and capital gains on the disposal by taxpayers of PDF shares will be tax exempt.

PDFs will need to be registered and to comply with a number of criteria. They will

- be incorporated, and hence be subject to the Corporations Law
- not be allowed to borrow, except for short-term liquidity purposes, nor be permitted to buy back their own shares
- not invest more than 5 per cent of fund assets in start-up ventures, and not more than 10 per cent of fund assets in any one enterprise
- there will be regular auditing of the Funds to ensure compliance with the guidelines
PDFs will not be able to invest in retailing operations or real estate other than tourism projects and industrial buildings used in a manufacturing project.

Because this program supports equity investment in new developments, its costs are not expected to be large in the first years following its introduction.

**Tax on Offshore Banking Units**

To help establish Offshore Banking Units (OBUs) in Australia, the industry requested a number of concessions from the Commonwealth. After careful examination, the Government decided that its contribution to the industry's efforts would take the form of a favourable company tax rate for OBUs. This was identified by the industry as the most important of the concessions sought from the Commonwealth.

The Government has decided that the taxable income derived from pure offshore banking transactions by an authorised offshore banking unit in Australia will be taxed at the reduced rate of 10 per cent from 1 July 1992. This decision recognises the unique character of offshore banking as a highly specialised activity distinct from the core business of the banking sector. As such, the concession will be strictly limited to pure offshore banking and there will be severe penalties for tax avoidance.

Further consideration is being given to the details of the arrangements, which will be announced prior to 1 July. A 10 per cent tax rate for profits from offshore banking will provide further stimulus to the development of offshore banking in Australia at a time when such activity might be shifted from Hong Kong to elsewhere in the Asia Pacific region. The Government has already provided an exemption from interest withholding tax for OBUs. Development of offshore banking in Australia would help to integrate Australia more closely with the Asia Pacific growth economies by becoming an expanding financial centre of the region.

**Debt Write-off and Equity Swaps**

The Government is aware that there is some uncertainty as to the operation of the taxation law in relation to bad debts. This uncertainty in the law may give creditors a tax incentive to resort to complete foreclosures, with the whole debt being written off, in order to obtain recognition of losses from bad debts for tax purposes. That is, businesses may be forced into liquidation because of taxation considerations, with consequent lay-off of employees, rather than being allowed to trade their way out of difficulty.
The Government will legislate to ensure taxpayers who can claim deductions when they write off bad debts will be able to claim deductions for partial debt write-offs, and for losses incurred in debt for equity swaps for debts written off after 26 February 1992. The deduction allowable to taxpayers who enter into debt for equity swaps with their debtors and write off the debt will be the difference between the book value of the debt and the greater of the market value of the equity or the value at which it is recorded in the taxpayer's books.

These measures should ensure the appropriate taxation outcome in the process of debt restructuring via partial write-offs or debt for equity swaps and should result in some reduction in the number of cases where businesses are liquidated.

GENERAL ASSISTANCE

Australian Technology Group

The Government has given full and detailed consideration to the Block and Coghlan Reports into the commercialisation of research. In the light of these reports, it has decided to establish an Australian Technology Group (ATG).

The redirection of Australian industry towards international best practice and opportunities to compete overseas has meant that a restructuring of Australia's research, development and innovation efforts is essential. While business expenditure on formal Research and Development (R&D) has grown substantially as a result of Government encouragement, and the opening up of the economy to competitive forces, Australia still provides the bulk of its research funds through public sector institutions. Much has been done to encourage relevant institutions to refocus their R&D towards Australian industry needs and to give industry the incentive to use these institutions.

Nevertheless, a significant gap remains. Translation of ideas, research results and breakthroughs into commercial reality is not always well supported by existing market structures. There is a need for an effective link between research institutions and the market-place.

Such a link requires a good understanding of, and relationship with, our research institutions and a sound appreciation of market requirements.

The ATG will

- have a one-off capital base of $30m
- act as a small, commercially focused company
• help to identify research with commercial potential, particularly from public sector research bodies, but not limited to the public sector

• secure effective control and protection of intellectual property (eg patents) for itself and its partners

• market research output to Australian and overseas companies (including, where necessary, by providing seed capital to bring the idea to a stage where it would be attractive to private sector partners)

• further develop an export industry in intellectual property

The ATG will be initially government-owned but need not be in the longer term, and will aim to be self-financing from fee and investment income. It will not have the authority to raise borrowings.

It will be able to offer small and medium-sized companies unable to afford in-house research a service through which research could be commissioned from public sector institutions.

The ATG will be tailored to meet Australian needs. It will be expected to achieve commercial success by competing vigorously but fairly for the right to exploit the wealth of ideas generated by our public sector research base. It will therefore have no monopoly rights or special access to institutions, nor preferential access to, or control over, government grants.

The ATG will be operational as early as practicable in 1992-93. The Government will quickly settle the guidelines for its operation, including the structure and board of directors. Consultation will take place with interested parties in finalising these details within the framework outlined above.

The ATG provides an innovative, practical way of building on our research strengths, thereby assisting in achieving the Government's primary objective of a stronger and more competitive economy.

Export Assistance

The internationalisation of the Australian economy needs to proceed - at its broadest - on two fronts: the adoption at home of best practices and pricing structures which allow our industries to compete with imports and gain greater export share; and policies to promote access to international markets.

In this latter area, efforts often underestimated but of vital interest to Australia's long-term trade interests are being made by the Government to improve access
to overseas markets within a liberal, stable and fair international trading environment. The General Agreement on Tariffs and Trade (GATT) is the central element of such an environment.

We are committed to the strengthening of GATT principles and broadening its operational scope. Australia cannot afford to respond to the actions of a number of international trading partners by adopting more protectionist policies, thereby further distorting the trading environment for efficient producers. A positive conclusion of the Uruguay Round is unarguably the most important policy development for Australia's export and import-competing industries; and, through them, to all Australians.

Complementing multilateral trade policy are bilateral and regional efforts, including this Government's singular success in initiating the Asia-Pacific Economic Cooperation process, bringing together the Pacific Rim's most powerful and dynamic economies as a vehicle for trade and related economic consultations including tourism, transport and telecommunications. A National Trade Strategy is being developed in consultation with the States and industry, sharpening our international trade efforts in key markets and improving promotion of trade and investment.

In addition, Australian exporters are provided with a range of mechanisms designed to overcome particular problems in accessing export markets. AUSTRADE provides advice on market opportunities and means of meeting them. The Government has decided to allocate an additional $5m each year for the next three years to AUSTRADE to open new offices in the Asia-Pacific region.

Small to medium businesses which have export potential have difficulty in committing the personnel and obtaining the knowledge to take up export opportunities. An innovative program, Export Access, has been developed by the Government in co-operation with Australian industry organisations to provide the expertise to small firms to meet this need. The Government will treble the size of this three year program, increasing funding from $4m to $12m over the period. As a result, the number of firms able to participate in the program will rise from 250 to 700.

The Development Import Finance Facility (DIFF) enables the Export Finance and Insurance Corporation (EFIC) to provide substantial support to developing countries, enabling them to obtain better credit terms for essential imports, and to selected Australian firms, enabling them to increase the penetration of Australian exports. The size of the DIFF will be boosted to about $120m next financial year.
The Government introduced an EFIC Performance Bond Facility last year. The Facility has been an immediate success and its resources are substantially committed, providing guarantees of performance for large markets such as China. The Government has decided to expand the Performance Bond Facility, in conjunction with EFIC, from the present $50m to $150m.

**Facilitating Major Projects**

Australia has clearly benefited from the development of major projects which draw on our wealth of natural resources, technical skills and innovative business and government leadership.

There is a range of factors which affect the assessment by companies of possible major projects. The Government has recognised this and drawn on the consultations between the Prime Minister, other Ministers and industry in framing elements of this Statement which together provide a suite of measures in support of major projects. These include the investment allowance for larger projects; investments in new road, rail and electricity infrastructure and supply structures; depreciation rates which provide a more favourable regime for long-lived assets; and modification of the process of foreign investment approvals for mining projects (excluding uranium).

Accompanying these changes are improvements to the project approval process. Effective approval processes are essential for balancing the competing demands on project proponents. Industry has increasingly expressed concern that present processes are prone to delay, duplication, conflict and uncertainty

- the Commonwealth Government recognises the seriousness of these issues. In addition to the continuation of the Ecologically Sustainable Development process, it will introduce new arrangements, outlined in this chapter, to increase the efficiency of approval processes

**Project Approvals**

To reinforce the Government's commitment to an efficient projects approval process, changes in areas under direct Commonwealth control are announced in this Statement

- the Government will establish within the Department of Prime Minister and Cabinet a small unit at senior level charged with the task of guiding proponents through the Commonwealth's elements of the approval processes where necessary, and of ensuring that the Commonwealth answers any suggestions of duplication or delay
This unit will be administered by the Parliamentary Secretary to the Prime Minister, on a day-to-day basis, but with access to the Prime Minister where necessary. It will work closely with the Major Projects Group chaired by the Department of Industry, Technology and Commerce and with State Departments and may include seconded officers for particular projects.

In addressing the Commonwealth's own responsibilities, the primary task is to develop a better understanding between project proponents and government. The need is to ensure that processes suit objectives; that duplication and unreasonable delay do not occur; that uncertainty is reduced; that legitimate environmental and heritage concerns are addressed; and that confidence returns to those who will generate the wealth to maintain this country's living standards.

The Commonwealth Government will ensure that its processes for major projects address all relevant issues at the outset, ensure that arbitrary revisiting of settled matters does not occur, and provide for adequate on-going monitoring.

As the Industry Commission observed in its 1991 Report on Mining and Minerals Processing:

"The Commission recognises that it is State and Territory Governments which primarily influence the development of Australia's mineral resources. Much of what needs to be done therefore needs to be done by the States/Territories."

- The Prime Minister will be writing to Premiers and Chief Ministers seeking their commitment to reform in all relevant areas covered by this Statement, aiming to achieve a joint review of requirements facing major project proponents. Local Government issues will be addressed via the States in the first instance.

There is a need, too, for major project proponents to know how to cut through an issue at the Commonwealth level if it seems likely to impose a delay or result in duplication.

Project proponents have expressed concern at the size and scope of the assessment task, delays and the overlapping nature of our Commonwealth-State system.

- With respect to environmental and heritage matters, the Commonwealth will seek the cooperation of the States to offer to proponents of major projects an integrated Commonwealth-State and Territory project assessment process working to deadlines agreed on a case-by-case basis and co-ordinated by a joint project team. The process will include agreed periods within which
Commonwealth requirements for environmental impact assessments will be settled, an action Minister is designated, and the Australian Heritage Commission will provide advice to the action Minister.

Clearly, the Government will need to settle details in this area with the Premiers and Chief Ministers. This process will only work where the project is of a nature and the benefits of a national scale sufficient to warrant Commonwealth-State arrangements of this kind.

Again, this arrangement will be administered by the Parliamentary Secretary to the Prime Minister.

- The Government has decided to improve the processes by which it establishes new National Parks and Marine Parks, by more fully integrating economic and environmental considerations.

Concerns have been expressed by resource industries that decisions may be taken under conservation and heritage legislation which have the effect of stopping any future economic activity in the area in question, without taking into account the known economic potential of the area. But in most cases, there is a misconception as to the impact of the legislation.

It should be stressed that in regard to areas of world heritage, national estate and aboriginal heritage, the nomination or declaration by the Commonwealth of a new area does not in itself exclude economic activities, provided they can be conducted in a way which does not detract from the conservation and heritage values of the region.

The Government will continue to consider those issues on a case-by-case basis, and in the context of management plans, before limiting any existing or proposed economic activity.

In some cases, however, conservation and heritage decisions may involve the exclusion of some or all classes of economic activity from a particular area.

Under the National Parks and Wildlife Conservation Act, for example, mining is specifically prohibited in Kakadu National Park. In relation to national parks generally, and marine parks and reserves created under that Act, exploration and mining activities are not permitted unless approved in a relevant management plan.

Accordingly, the Government has decided that, when considering proposals to establish new national or marine parks and reserves and where such action would constrain future access to resources within them, a prior assessment of the
economic values and potential of the area will be routinely carried out. The Government will take into account the best available information on the impacts of such action.

Assessments made on the basis of that information will cover the full range of relevant potential alternative uses of the area and the economic opportunities associated with the conservation uses of the area, such as tourism. It is not proposed that they would normally involve new on-site surveys.

Export Controls

Export controls are a matter of some interest to major project proponents in examining the attractiveness of some investments in Australia

- the Government has decided to lift all export controls on, and related to, Commonwealth decisions in relation to exports of iron ore

- the system of export controls on mineral sands will also be simplified: annual export approvals for existing and new projects are to be replaced by a system of 'life of mine' approvals

Forest Resources

The Government remains committed to facilitating major investment in the forest industry by providing security for industry while at the same time ensuring that environmental standards are not compromised.

In a bid to provide greater certainty over resource availability, the Australian Heritage Commission (AHC), working in close association with relevant State Government bodies, has developed a regional approach to identify significant forests for the Register of the National Estate. The first of three regional surveys was undertaken in the Southern Forest Region of WA. This culminated in the signing of a Memorandum of Understanding (MOU) which provides an agreed basis for the conservation and management of the region's forests.

The provision of security of access to resources will be greatly assisted by such thorough assessments being carried out prior to considering development proposals either for a region or a major project

- accordingly, the Commonwealth - in co-operation with the States - commits itself to an accelerated and expanded program of joint regional assessments of national estate forest values based on the WA model
In addition to the Forest Conservation and Development Bill, the Government has announced a non-legislative form of resource security for the bulk of the hardwood sawmilling sector, by way of enhanced intergovernmental agreements; these agreements are contingent upon industry commitment to value-adding investment or restructuring.

Intergovernmental Agreement on the Environment

The Commonwealth and the States have already recognised the need for more effective co-ordination on environmental issues.

The Intergovernmental Agreement on the Environment (IGAE) establishes the ground rules under which Commonwealth, State, Territory and Local Governments will interact on the environment and sets out cooperative arrangements on a wide range of specific issues. It delineates for the first time the responsibilities and interests of the three spheres of government

- the Commonwealth has now settled the IGAE text with the States and Territories

The Agreement specifies mechanisms for the Commonwealth and States to handle those issues where both have an involvement. These include the accreditation by the Commonwealth (or a State or Territory) of the decision-making processes or systems of the other sphere of government.

Where Commonwealth or State responsibilities for an issue are not clear, the Agreement requires consultation to determine the nature and handling of that issue. These consultations will be subject to strict time limits. The Agreement also includes a commitment to eliminate functional duplication between the Commonwealth and the States.

A more streamlined approach to Environmental Impact Assessment processes is provided for in the Agreement. The Commonwealth Government is committed to implementation of a single assessment process for Australia. This would eliminate duplication and ensure that any differences are resolved quickly and effectively.

To reduce uncertainty, national criteria will be developed for those classes and types of proposals that will normally attract the application of formal environmental impact assessment procedures. This will guide industry on the likely assessment requirements even before project proposals are developed. In addition, industry-wide guidelines will be developed which can be readily applied to specific projects.
The Government remains firmly committed to environment protection through an effective environmental impact assessment process. The Government is equally committed to an efficient process which minimises delay and uncertainty.

Aboriginal Heritage

Project proponents have suggested that uncertainty over Commonwealth and State responsibilities in the Aboriginal heritage area is an issue needing to be addressed. While the Aboriginal and Torres Strait Islander Heritage Protection Act 1984 has never been used to stop a project, there is scope for improved integration of State/Territory and Commonwealth decision making in this area.

• the Government will initiate immediate action to obtain intergovernmental agreements on the joint development of co-operative mechanisms to streamline the process for assessment of Aboriginal heritage concerns.

These agreements will result in speedy and comprehensive assessment of Aboriginal heritage protection issues at the State level, including proper consultation with the relevant Aboriginal communities and the proponents, provision for dispute resolution and the maintenance of effective channels of communication between the Commonwealth and the State. The new national processes for environmental assessment provide a model for decision making. Such mechanisms would improve both Aboriginal and industry confidence in the approval process and will reinforce the position that the Commonwealth Act operates only where State laws are inadequate or are not properly applied.

The fostering of understanding, communication and confidence between industry and Aboriginal people is essential if conflict over major projects is to be avoided. This is particularly the case in relation to mining.

As a further tangible initiative in the process of reconciliation, and to improve dialogue between the mining industry and Aboriginal people, the Government will invite the Council for Aboriginal Reconciliation to appoint a committee of Aboriginal, national mining industry and government representatives to promote further initiatives to achieve better relations. The Committee will aim for improvements in the consultative process, mediation and dispute resolution, codes of conduct, and cultural awareness. The Government will also work with industry bodies, with the support of the Department of Employment, Education and Training to initiate a national Aboriginal employment strategy for the mining industry.
Foreign Investment Policy Changes

The Government has decided to make two major liberalisations to its foreign investment policy guidelines, to take effect from today. First, the thresholds, below which foreign investment proposals are not examined in certain sectors of the economy, set out below, are increased to $50m, from below $3m for rural properties, below $5m for acquisitions of a substantial interest in a business and below $10m for a new business.

Second, the 50 per cent Australian equity guideline for new mines has been abolished.

The Government will cease to examine proposals by foreign interests (other than foreign governments) in the sectors set out below, where the foreign interests propose: to acquire 15 per cent or more of a company or business with total assets of less than $50m; or establishment of a new business with a total investment of less than $50m.

The sectors to which the previous paragraph applies are manufacturing, services, resource processing, oil and gas, mining (excluding uranium), non-bank financial intermediaries, insurance, stockbroking, tourism (hotels and resorts), rural properties, agriculture, forestry and fishing.

Notwithstanding this change to the examination of proposals, the Government has decided to make no change to the notification provisions of the Foreign Acquisitions and Takeovers Act and the policy.

It has also abolished the guideline for 50 per cent Australian equity and joint control of new mines (excluding uranium) and the guideline for the demonstration of economic benefits in respect of foreign acquisitions of existing mines (excluding uranium).

This change will bring the guidelines for mining into line with those for oil and gas, and most other sectors, where foreign investment proposals above the relevant threshold are normally approved unless judged contrary to the national interest.

The Government has also decided that, in considering whether a proposal for a new mine over $50m is against the national interest, it will give weight to the opportunities it provides for downstream, value adding processing. This reflects the Government's interest in encouraging the development of commercially feasible, value adding projects in Australia.
Proposals in the banking, civil aviation and media sectors will continue to be examined on a case by case basis. Policy in respect of urban real estate is unchanged. The new policy in respect of banking is set out elsewhere in the Statement.

The liberalisation of the foreign investment guidelines will lead to new projects being established in the economy which would otherwise have started later, or not at all. For example, in the mining sector, the policy changes will over time facilitate the development of new mines and thus generate additional employment (in both the construction and operating stages), exports, royalties and tax revenues.

OTHER MEASURES

Tourism

A record 2.4 million international visitors arrived in Australia in 1991, a year in which tourism to OECD countries generally was stagnant. International tourist arrivals have increased by 155 per cent in just 8 years. With export earnings in 1990-91 of $7.3 billion, tourism is now our largest single export earner. Tourism accounts for 10 per cent of Australia’s total export earnings, more than the earnings from wool, wheat, meat or iron ore.

In the next eight years international tourism to Australia is forecast to more than double and 200 000 new jobs could be generated. With the changes to aviation policy in this Statement, there is the prospect for even greater growth.

Deregulation of the domestic aviation market in October 1990 was a major factor in the increase in domestic tourism and domestic air travel. The further changes proposed to aviation policies will result in a further boost in domestic tourism, and act to improve services provided to international travellers. It offers Australian domestic carriers such as Ansett and Australian Airlines the opportunity to serve international routes, and Qantas and Air New Zealand to serve domestic routes.

Australian consumers, the Australian tourism industry and the Australian economy more generally can be expected to gain substantially from improved services and continued competitive prices.

Depreciation of Buildings and Tourist Plant

The Government has taken a number of taxation decisions which will directly benefit the tourism industry.
First, the Government has decided that short-term traveller accommodation will be able to be written-off at 4 per cent per year (up from 2 1/2 per cent) on a straight-line basis. The measure will apply to hotels, motels and serviced apartments used to accommodate tourists and other travellers. The new arrangements will better enable the tourism industry to offer modern facilities at a competitive price and assist the sector to realise its full potential as a significant employer and export earner.

Second, the Government has decided that certain structural improvements that have not been eligible for write-off under taxation law, will be able to be written-off at 2 1/2 per cent per year. Assets covered by this new measure may form part of tourist developments and may include such items as carparks, roads, runways, covered shelters for paths and outdoor activities and sea walls.

Third, the tourism industry will benefit from the new accelerated depreciation arrangements for plant and equipment, particularly for those longer-lived assets that are employed by the industry. For example, furniture and fittings and air conditioning plant, which were previously able to be depreciated at a declining balance rate of 13 1/2 per cent will now be able to be written-off at 20 per cent.

Tourism Department

To ensure that tourism interests are effectively represented before the Government, a new Department of Tourism has been established. To give the new department the capacity to support the strategic development of the industry and play an influential role within the Government, additional resources of some $6m per year have been provided for the new Department.

Australian Tourist Commission Promotion

To assist the development of the industry, the Government will provide a further $5m in 1991-92, and $10m in 1992-93 to fund international marketing activities by the Australian Tourist Commission (ATC). New advertising campaigns last year by the ATC contributed to increased visitor arrivals in the latter half of 1991 of 15 per cent from Japan and 77 per cent from Korea, compared with the equivalent period in 1990. The ATC pioneered tourism advertising on Korean television and this acted as a major stimulus to growth from that market. Australia is now the preferred travel destination in most of our major tourism markets - including importantly the United States, Japan and New Zealand.

The additional funding for the ATC will enable high profile TV advertising to be extended and more specific targeting of high yield, special interest travellers.
The Government will ensure that the ATC commences the additional promotions as soon as possible, to achieve an early boost to activity in the tourism sector.

The impact of ATC's marketing in generating inbound tourism and associated foreign exchange earnings can be expected to boost employment considerably.

This additional funding builds on a sixfold increase in funding for the ATC since 1982-83. In December 1990, the Government provided the ATC with a $23m boost to funding, to bring total funding for the Commission to $64.5m.

Primary Industries

Australia's rural industries are vital to Australia's economic well being. Their performance has significant implications for the rest of the national economy. In recent times this sector has been hard hit by both the downturn in world farm commodity prices and severe drought. For its part, the Commonwealth has made very considerable efforts to assist our primary producers through these difficulties. Decisions announced since 1990 directly assisting the rural sector will cost the Commonwealth Budget more than $1 billion.

There have been encouraging signs that 1991-92 will be the trough of the current rural downturn with some recovery now occurring in commodity prices, particularly for wool and wheat. Nevertheless, many farmers will continue to experience financial hardship for some time to come. The Government will continue to provide appropriately targeted short-term support for rural people. It is also essential that the process of longer term structural adjustment in the rural sector continue. This will further enhance both the resilience and international competitiveness of the farm sector as well as its capacity to contribute to the national economy.

Rural Adjustment Scheme - Structural Adjustment

The Rural Adjustment Scheme (RAS) is the Commonwealth Government's principal mechanism for providing both longer term and short-term carry on financial assistance to the rural sector. Total RAS funding in 1991-92 was $193.9m.

RAS Part A is directed at longer term structural adjustment measures, such as farm amalgamation, better on-farm production practices and the diversification of farm enterprises. Additional Part A funding of $46.4m was approved during 1991. A further $10m will be made available in each of 1991-92, 1992-93 and 1993-94. This funding will support $145m of rural debt in each of the three years.
Crop Planting Assistance

While most commodity prices are improving and recent rains appear to have broken the drought in much of Australia, crop producers are facing more immediate problems. There is an urgent need for winter crops to be planted over the coming weeks. This year's winter and summer crops will provide important opportunities for many farmers to improve their financial position.

Some farmers, however, have liquidity and cash problems which could result in lower acreages being planted than desirable. The most effective solution to the particular problems facing cropping industries is to provide a one-off program to assist this year's crop plantings. The crop planting scheme will be targeted at broadacre producers, including cereals, coarse grains oil seeds and grain legumes as well as some sugar producers.

The scheme will be Commonwealth funded and will be available to eligible farmers through a new addition to the current RAS Part B with a 75 per cent interest subsidy on commercial carry on loans. Additional funds of $10.8m and $6m will be available for this purpose in 1991-92 and 1992-93 respectively, which will support up to an additional $180m in rural debt.

Wool

Wool growers have suffered very sharp declines in their incomes over the last few years. Following the collapse of the reserve price scheme for wool last year, the Government introduced new arrangements to assist the recovery of this key export industry and to manage the disposal of the large wool stockpile and to discharge the industry's $2.8 billion debt. Since these arrangements were put in place, wool supply has contracted faster than expected resulting in higher prices, although grower incomes remain at low levels.

One of the consequences has been that the Australian Wool Realisation Commission (AWRC) has now considerably exceeded its required debt reduction payment for this year. In view of this, and the more positive outlook for wool prices, the Government considers that it is now appropriate to introduce more flexibility into the current debt reduction arrangements.

A new cumulative debt reduction schedule will replace the current system of fixed annual debt reduction targets. This arrangement will still require the AWRC debt to be repaid at the same rate as the existing fixed schedule, but will provide greater flexibility in managing revenue earned from stockpile sales.

The Government will make decisions on the application of those funds not prudently required by the AWRC to meet its debt repayment requirements. If
there are surplus funds in excess of these requirements, and after allowance for costs of distribution, in any one year of the life of the AWRC, then they may be used as a rebate to woolgrowers in the form of a separate cash payment. The Government will consult with the wool industry on the use of any surplus funds and on the distribution of any such funds to growers.

Rural Counselling Program (RCP)

The Rural Counselling Program (RCP) provides on the spot support and financial advice to farmers about options for the future as well as making referrals to other support programs such as the Rural Adjustment Scheme and social security. It is, therefore, an important element in helping maintain the viability of farms through the current rural downturn and achieving longer term structural adjustment in this sector.

Although the RCP has doubled in size in the last 12 months, the current rural downturn has placed the existing program under pressure. Additional funding of $0.2m will be provided in 1991-92 for eight new services with a further $0.8m being provided in each of 1992-93, 1993-94 and 1994-95 to maintain these services and establish an additional five new services.

Small Business

The Government acknowledges the important role played by small businesses in the economy, including their significant contribution to employment creation and innovation.

Small firms make up to 96 per cent of non-agricultural private sector enterprises in Australia. In 1988-89 they employed more than 2 million Australians, or 48 per cent of private sector employees.

More importantly, it is from today's small businesses that future new industries will grow. Small firms can be a source of innovation, employment and competition in both existing and new industries. They also play an important role in improving our export performance.

The Government recognises that many viable small businesses have experienced some difficulty in the present downturn.

Against this background, the Government will implement two measures of direct benefit to small business, in addition to work already taking place under the Small and Medium Enterprise Development Program and the Export-Access Program.
CGT and Goodwill

The Government has decided to increase the capital gains tax goodwill exemption for small business from 20 per cent to 50 per cent and to double the eligibility ceiling from $1m to $2m of net business interests.

These provisions are to be effective for disposals of goodwill after 26 February 1992 and the eligibility ceiling is to be indexed from 1 July 1993.

The increase in the eligibility ceiling to $2m of net business interests more than compensates for inflation since the exemption was first introduced with the capital gains tax in 1985, while the increase in the exemption rate will provide small business taxpayers with a substantial benefit over the previous provisions.

In reducing tax paid on the disposal of goodwill, the measures will facilitate greater capital mobility in the small business sector and improve the ability of small business taxpayers to provide for their retirement by reinvesting in their own businesses.

Deferral of Income Tax for Small Business

Another measure to assist small business is that smaller companies will be given a deferral of their initial tax instalment for the 1991-92 income year.

Smaller companies which are due to make an initial payment of company tax in respect of the 1991-92 income year after 26 February 1992 will be able to defer that payment until the 28th day of the third month following the balancing month.

For a smaller company balancing in June 1992, the 85 per cent initial payment will now be due on 28 September 1992 in lieu of 28 July 1992.

Smaller companies are those with notional or estimated tax for the 1991-92 income year of less than $400 000 which pay their tax by instalments.

The deferral of the initial payment of company tax will assist smaller companies experiencing cash flow difficulties. A similar deferral was provided last year.

Textiles, Clothing and Footwear

The Government remains committed to planned reductions in protection for the Textiles, Clothing and Footwear (TCF) industries. However, the Government also recognises the special needs of the TCF industries and the need to provide targeted adjustment assistance for TCF firms as they come to terms with
increasing competition. The Government has decided, therefore, to provide additional funding of $51m to the Textiles, Clothing and Footwear Development Authority (TCFDA) to promote industry adjustment. This will bring total funding to $130m to 1994-95.

An augmented TCF Industries Development Strategy will give a high priority to helping existing firms restructure. The TCFDA's programs are designed to improve the efficiency and effectiveness of firms, for example through support for updating equipment, workforce training, value adding, advice on better management and production techniques, and restructuring. The additional funds will enable these programs to be expanded, and appropriate new programs to be developed. For example, this could allow the TCFDA to provide funding for a demonstration workplace reform program.

This funding will help support the Government's policy of promoting lower costs for industry and consumers and at the same time develop a competitive and outward looking manufacturing sector which also includes a viable, restructured TCF industry.

**Wholesale Sales Tax on Passenger Motor Vehicles**

The Australian automotive industry is one of Australia's major manufacturing activities with production of motor vehicles and components accounting for about 5 per cent of value added and 6 per cent of manufacturing sector employment.

Sales of passenger motor vehicles have suffered heavily in the economic downturn. Registrations are now about one-quarter below their March 1990 peak. This has had adverse employment effects throughout the economy for domestic manufacturers, retailers and importers.

To stimulate the demand for passenger motor vehicles (other than luxury vehicles), the rate of wholesale sales tax (WST) applying to sub-luxury passenger motor vehicles will be reduced from the present general rate of 20 per cent to a new rate of 15 per cent. The 30 per cent rate applying to luxury vehicles will continue unchanged. The new rate will apply to sales which occur on or after 27 February 1992.

The WST rate cut will reduce the price of an average sedan by over 3 per cent, or about $800 on a standard six cylinder sedan. The Government expects this cut in tax to be passed on in full to car buyers. The CPI could be reduced by about 0.2 percentage points by the measure. The cost to WST revenue is expected to be around $40m in 1991-92 and $185m in 1992-93.
Information Technology Industries

The rapid development worldwide of the computer and telecommunications industries provides excellent growth prospects for Australia's information technology (IT) industries. The Australian IT market is one of the fastest growing sectors of the economy. Valued at $11.5 billion in 1991, the market is expected to grow to $19 billion in 1995.

In response to this growth, the Government has successfully implemented an Information Industries Strategy to promote the development of an Australian industry which is more innovative and successful in export markets. A key component of the Strategy is to ensure that local companies can benefit from the opportunities provided by Government purchasing which accounts for over 40 per cent of the Australian market.

Systems integration and software development are the fastest growing segments and account for over 20 per cent of the total market by value. Australian firms have competitive strengths in software development and are at the leading edge of some IT applications. Their capacity to expand in the public sector market has, however, been limited by the high risks involved. Unlike private sector contracts where risk sharing between suppliers and users is common, the Government has insisted that suppliers bear all the potential costs of system failures.

The Government will remove this impediment to expansion of the industry by applying the concept of "limited liability" in its systems integration and software development contracts. Following an assessment of the risks involved in individual contracts, the Government will consider accepting more of the risk and setting limits to the suppliers' liability for damages. This will provide wider opportunities for companies to access the valuable public sector market and will enhance the prospects of the local industry.

INFRASTRUCTURE

A fundamental determinant of Australia's international competitiveness is an efficient infrastructure base. Efficient transport and communications sectors, for example, are essential to minimise the cost impact of our global isolation, of the location of our natural resources and of the dispersion of our major cities.

In view of Australia's continuing shortage of savings, however, it is critical that we achieve the best use of our existing infrastructure and allocate additional funds to projects that provide lasting benefits and high returns.
In this respect, the Government will not repeat the mistakes made in the past, where investment in projects such as the Ord River Scheme and the over-provision of power generation capacity by the States in the early 1980s took scarce funds away from productive alternatives.

The Commonwealth is achieving significant gains in getting better use of our existing infrastructure through targeted structural reform. Increased competition in aviation and telecommunications, commercialisation of government business enterprises, more effective management of public sector infrastructure and workplace reforms, act to reduce input costs to industry, generally raise productivity (and community living standards) and assist our export capability.

Our current economic conditions and the medium term fiscal outlook now provide an opportunity for the Government to complement the achievements already made, and to accelerate the pace of microeconomic reform through an immediate boost to infrastructure investment.

A responsible acceleration of infrastructure investment can directly boost employment in the short run, while facilitating increased competition and improving the economy's long-term growth potential by providing a platform for increased productivity benefits and further structural reform.

The decisions made by the Government recognise that additional investment of itself will not guarantee efficiency gains. To this end, funds have been made conditional, in key areas such as rail investment, on successful labour and management reform outcomes. Unless the Government is satisfied with the progress of reforms, funds will be reallocated and deployed in other areas that will provide an effective return.

**Rail and Associated Intermodal Works**

Rail freight services in Australia have typically been regarded as unreliable, unresponsive to customers' needs and, especially in the case of interstate freight, inefficient because of the institutional differences developed over time between the five mainland government systems.

The recent establishment of the National Rail Corporation (NRC) as a company, in which the Commonwealth, NSW, Victoria and WA hold equity, offers realistic expectations of major reform in interstate rail freight.

The success of the NRC will hinge upon its ability to present an integrated approach to the interstate freight task, to obtain large productivity improvements and to target effectively increased capital investment.
Chart 14: Additional Rail Funding

- Fremantle-Kalgoorlie line upgrade: $13.0m
- Kwinana-Picton line upgrade: $13.5m
- Fremantle-Kalgoorlie line upgrade: $13.0m
- Standard gauge Port connection: $30.0m
- Pt Augusta Workshops upgrade: $3.5m
- Connection to Melbourne docks: $5.0m
- Improved rail to Port: $8.0m
- Melbourne-Adelaide standardization: $115.0m
- Dynon Freight Terminal upgrade: $20.0m
- Dynon Freight Terminal upgrade: $20.0m
- Launceston Workshops relocation: $7.5m
- Campbelltown-Enfield dedicated freight line: $71.0m
- Sydney-Brisbane line upgrade: $82.0m
- Melbourne-Sydney line upgrade: $110.0m
- Launceston Workshops relocation: $7.5m
The Government considers a national standard gauge inter-capital network is essential to the capability of rail to perform those tasks to which it is best suited. Accordingly, the Commonwealth will provide $454m over the next two years to complement the NRC's ten year $1.7 billion investment program to provide, by 1995

- a complete standard gauge mainline network between Brisbane and Perth
- a reliable 12 hour terminal-to-terminal train transit time between Sydney and Melbourne
- a reliable 16 hour terminal-to-terminal train transit time between Sydney and Brisbane

At the same time, funding of effective rail links to ports in Brisbane, Fremantle and Adelaide and the improvement of intermodal links in Melbourne will ensure that mainline efficiency gains are not frustrated by handling delays at trans-shipment points.

These projects will enable the NRC to advance its market share targets and will provide shippers with a reliable alternative to road and sea transport. They will stimulate port competition and provide greater potential for land bridging to other capitals by road and rail for freight from Perth, Adelaide and Brisbane.

In order that the Government can be assured that this additional investment in rail is used to full effect, several conditions will need to be met before funds will be released. These conditions require

- firm commitments from the unions to support a "greenfields" NRC enterprise award incorporating labour arrangements which are already set out in the NRC Shareholders' Agreement
- firm commitments from State governments to accelerate the process of reform in their rail systems, including the early adoption of relevant recommendations from the Industry Commission's 1991 Report on the Rail Industry
- where additional rail investment is channelled through the States, that
  - the NRC must agree to design and standards to apply before contracts are let
  - all contracts are to be subject to competitive bidding
on completion of each project, the upgraded asset is to be managed and maintained to the standards specified by the NRC, and appropriate recognition given to the Commonwealth's equity in the Corporation for assets that become part of the NRC network.

The Government firmly believes that the above conditions need to be met for benefits to accrue to the nation. Efficient transport links are an essential element in lifting national productivity. If an efficiently operating rail network cannot be achieved, higher levels of investment will be required in other transport infrastructure.

To provide for some flexibility in the Commonwealth's position therefore, investment funds are to be appropriated to the Australian Land Transport Trust Fund in such a way as to allow reallocation, if the Government is dissatisfied with progress achieved with the NRC enterprise agreement and State rail system reform.

The individual rail initiatives are all designed to return benefits to the rail industry and the Australian community, subject to the conditions set out above, and can be begun without delay to stimulate employment as quickly as possible. These initiatives will provide some 4,000 jobs in 1992-93 and 2,100 in 1993-94.

The Government has decided to provide $115m to fund the standardisation of the line between Melbourne to Adelaide via Ballarat - the "missing link" in the interstate standard gauge rail network. No longer will east-west freight be delayed by "break of gauge" at Adelaide, and faster transit times will permit a major rationalisation of national freight flows by the NRC. As a result of standardisation and low usage of the line, the Commonwealth and SA Governments have accepted that the previous Mt Gambier passenger services in South Australia will not be restored. Spur lines in Victoria off the main line between Melbourne and Adelaide are a matter for the Victorian Government.

Upgrading the rail corridors between Melbourne and Sydney ($181m), and between Sydney and Brisbane ($82m), will permit the NRC to operate longer trains, with reduced transit times and greater reliability for its customers. In both corridors, rail will be placed in a much more competitive position with road transport.

Included in the Melbourne-Sydney corridor funding is $71m to the NRC for construction of a new dedicated freight line in Sydney from Campbelltown to Enfield, where the Corporation is proposing to spend some $40m over the next two years for an efficient freight terminal. This will allow the NRC to handle freight in Sydney at its own terminal, and to carry it through Sydney without the delays inherent in having to operate over Sydney's urban passenger rail network.
Together with new work practices, investment on the Sydney-Melbourne corridor will reduce transit times from a minimum of 13 1/2 hours to a reliable 12 hours by 1994, thus allowing rail to compete for a greater share of business in Australia's largest freight corridor. Sydney-Brisbane freight will benefit from greater reliability and a transit time reduced from 18 to 16 hours (similar to road transport), thus bringing major benefits to Queensland, particularly to those living in the rapidly growing south-east.

In addition, Queensland will benefit from a Commonwealth contribution of up to $30m to the cost of providing a standard gauge rail connection to the port of Brisbane. The remainder of the $60m cost of this project is to be provided by Queensland and the NRC. This connection will enhance the ability of shippers to use Brisbane as a port of entry, increasing competitive pressure on the port of Sydney and its stevedoring costs to the benefit of users of that port as well. The Commonwealth will also contribute a further $20m for other transport infrastructure, including development of the port of Townsville.

In Melbourne, the Commonwealth will provide $20m to upgrade the rail freight terminal at South Dynon. These improvements, to be carried out in conjunction with standardising the line to Adelaide and improved management and work practices to be introduced by the NRC, will lift Dynon's annual throughput by 50 000 containers to 300 000.

The Government will also provide $5m to build a direct road connection from South Dynon to Swanson and Appleton Docks in Melbourne, so that costs and handling time of the sea/rail transfer of freight can be significantly reduced. This more efficient linking of port and rail infrastructure will complement the development of East Swanson Dock by the Port of Melbourne Authority as a world class container and intermodal facility.

In Adelaide, the Government will provide $8m for a rail loop at Outer Harbour which will allow block trains to serve the port. This is a crucial first step in SA's plans to develop an international standard port terminal concentrating on the efficient handling of urgent containers. The remainder of the $100m required for the port upgrading is to be met from private sources once the rail link is in place.

In WA, the Commonwealth is to provide $13m for rail transfer improvements at Fremantle's North Wharf to accommodate longer double-stacked trains and infrastructure improvements to the mainline track between Fremantle and Islington in SA. Further funds of up to $13.5m will be allocated to WA to duplicate and improve the effectiveness of the Kwinana-Picton line.
The Government's investment program also includes $11m for key Australian National (AN) rail workshops. Upgraded facilities in Port Augusta will give AN an enhanced ability to compete for NRC work when the Corporation calls for competitive bids for its maintenance and other work. Relocation of the Launceston workshops is a basic part of AN's strategy of improving Tasrail operations.

**Roads**

The Government is to provide an additional $25m in 1991-92, $437.5m in 1992-93 and $140m in 1993-94 for augmenting and rehabilitating the National Highway System (NHS), accelerating selected National Arterial projects, and expanding the Black Spots program. This package will generate 15 000 jobs in the period up to 1993-94.

A key objective of this Government is to rationalise the role of each level of government to remove overlapping and therefore confusing responsibilities. In this context, the addition of routes based on the existing Sturt (Sydney-Adelaide) and Newell (Melbourne-Brisbane) highways represents a logical extension of the inter-capital NHS.

In view of the importance of these corridors to interstate trade, and the inability of individual States to reap all the benefits of investment (for example, upgrading the Newell will largely occur in NSW, but traffic originating from or destined for Queensland will be the principal beneficiary), the Commonwealth is offering to assume responsibility for these routes.

To balance a heavy emphasis in recent years on NHS construction works, $223m will be made available in 1992-93 and a further $32m in 1993-94 as a short-term boost to national roads maintenance and upgrading works. Not only will this assist in the longer term protection of the Commonwealth's road assets, but it will provide labour intensive work in widely dispersed geographical regions.

Further funding of $80m in 1992-93 and $60m in 1993-94 has also been allocated to accelerate investment specifically on National Arterial roads to consolidate the gains that have already been made through Commonwealth involvement. Projects on the port of Brisbane link, the Liverpool-Hornsby ring road in Sydney and the Western Ring Road in Melbourne will be accelerated prior to the end of the existing roads program in 1993.
Chart 15: Additional Roads Funding

<table>
<thead>
<tr>
<th>Project Details</th>
<th>Funding (m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perth/Katherine</td>
<td>$16.4m</td>
</tr>
<tr>
<td>Adelaide/Perth</td>
<td>$23.7m</td>
</tr>
<tr>
<td>Darwin/Fort Augusta</td>
<td>$1.7m</td>
</tr>
<tr>
<td>Kakadu Hwy</td>
<td>$6.0m</td>
</tr>
<tr>
<td>Brisbane/Three Ways</td>
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<td>Adelaide/Sydney</td>
<td>$60.7m</td>
</tr>
<tr>
<td>Brisbane/Sydney</td>
<td>$60.0m</td>
</tr>
<tr>
<td>Canberra/Connections</td>
<td>$4.0m</td>
</tr>
<tr>
<td>Western Ring Road</td>
<td>$75.0m</td>
</tr>
<tr>
<td>Port of Brisbane Link</td>
<td>$40.0m</td>
</tr>
<tr>
<td>Liverpool/Hornsby</td>
<td>$25.0m</td>
</tr>
<tr>
<td>Canberra/Adelaide</td>
<td>$9.2m</td>
</tr>
<tr>
<td>Adelaide/Perth</td>
<td>$23.7m</td>
</tr>
<tr>
<td>Hobart/Burnie</td>
<td>$20.0m</td>
</tr>
<tr>
<td>Sydney/Melbourne</td>
<td>$28.2m</td>
</tr>
<tr>
<td>Newcastle/Taree</td>
<td>$11.0m</td>
</tr>
<tr>
<td>Maitland/Port Stephens</td>
<td>$7.9m</td>
</tr>
</tbody>
</table>
Arrangements need to be made with regard to road funding responsibilities of each level of government in 1994 and beyond. Increased responsibility of the States will, however, be matched by the untying of $350m of Commonwealth roads funds to the States so that their fiscal capabilities are maintained. These funds will be distributed having regard to the per capita relativities underlying the distribution of general revenue assistance.

The Black Spots program is directed to relatively small-scale works to improve the safety of known crash sites. Additional funding of $25m for the remainder of 1991-92 and $45m in 1992-93 will allow projects with high benefit-cost ratios to be undertaken with the clear goal of reducing road crashes. Significant employment opportunities in rural, remote and urban areas will arise from the more than 800 projects that will be undertaken.

Aviation

Over the next decade, the major task in relation to aviation infrastructure will be to develop facilities which are appropriate to the radically new aviation policy environment announced elsewhere in this Statement.

The early development of common user domestic terminal facilities will ensure that access to terminal facilities does not inhibit competition or contestability in the domestic aviation market. The Government has decided to support the development by the Federal Airports Corporation (FAC) of common user facilities at Sydney and Melbourne airports and will discuss with the FAC the provision of such facilities at Adelaide, Perth and Coolangatta (other major airports have sufficient terminal capacity).

In recognition of the importance of Melbourne as one of Australia's primary international gateways, the Government will propose that the FAC bring forward the construction of a satellite arrivals and departure centre for international passengers.

In response to concerns that demand for international travel to Queensland will increase faster than originally forecast, the Government will also propose to the FAC that it brings forward the completion of the new international terminal from 1996 to 1995.

Finally, in line with the Commonwealth's view that local interests are best placed to exploit the commercial potential of smaller regional airports, the Government has decided to accelerate the transfer of Commonwealth (non-FAC) civil airports to local ownership. Local authorities will also be encouraged to take over full responsibility for local airports that are jointly funded by the Commonwealth under the Aerodrome Local Ownership Plan.
An additional $27.5m will be provided in order to complete the program two years ahead of schedule. With this additional investment, regional aviation infrastructure will be well placed to meet the demands of growth over the next decade or so.

Building Better Cities

An important component of the Government's micro-reform agenda is making our cities more efficient, while improving their environmental and social amenity.

Failure to treat infrastructure planning and provision of housing and services in a coordinated way within and between governments, and deal with fundamental deficiencies in pricing and regulatory regimes, is leading to unsustainable levels of congestion, pollution and urban sprawl. It is also imposing unnecessarily high costs on all levels of governments, industry and individuals. No one level of government in isolation can deal with these problems.

The Building Better Cities (BBC) program will demonstrate on an area basis the benefits of better urban planning and management by all levels of government. This will involve linking the provision of infrastructure and housing with better access to employment, education and training and with service delivery. The demonstrations will be in both inner and outer areas of capital cities and in some regional centres, and better public transport systems are a key component of many of them. Specific area strategies will aim to reduce urban development costs; improve urban land use, including disused industrial sites; reduce the costs associated with traffic congestion and pollution; and increase housing choice and affordability. There will be annual reviews of progress in achieving agreed outcomes. The Government's BBC program will provide $816m to the States and Territories over five years for concerted action to show how these problems can be tackled and to act as a catalyst for change. The BBC program will be refocussed, through negotiation with the States and Territories, to enhance its infrastructure component.

On the basis of the detailed proposals received to date, some 54 per cent of Commonwealth funds would be directed to infrastructure. Commonwealth funding will create more than 20,000 jobs, and generate a further 30,000 through related expenditure by the States and local government.

Major infrastructure components agreed so far include

- the Brisbane-Gold Coast railway, linked with housing and services around public transport nodes
- upgrading the Geelong-Werribee-Melbourne rail link in the South-West Corridor and modal transport interchanges in the South-East Corridor of Victoria, to advance labour mobility within the regions, and promote economic development, employment and training

- the Multi-Function Polis, near Adelaide, where new industries at the leading edge of research, education and technologies will be linked with interconnected urban villages

In addition to BBC funding, the Government will provide $20m for sewerage in WA. This program will also demonstrate the benefits of applying new Australian technology to other Australian centres, as well as overseas. These funds will be linked with area-based strategies to increase residential densities.

**Restoration of Heritage Buildings**

Improving the amenity of our cities and enhancing the quality of our social infrastructure requires also that we treasure and care for our heritage buildings. The Government has decided to provide $20m for the restoration of heritage buildings. These funds will be distributed to the States on a per capita basis with the States to be responsible for the selection and administration of restoration projects.

**Taxation and Infrastructure**

Traditionally the bulk of the nation's infrastructure has been provided by governments. In recent times, however, there has been increased interest by the private sector in investing in infrastructure development.

Clearly, greater private sector involvement is consistent with the Government's drive for greater efficiency and a more commercial focus for Government Trading Enterprises and a rationalisation of the range of services provided by government.

Business groups have, however, expressed concerns that the operation of the income tax laws is posing an impediment to such increased private investment.

The Government has closely examined the tax treatment of infrastructure investment and has decided to

- extend and make more generous the depreciation treatment of infrastructure assets
allow private investors to issue non-deductible and non-assessable bonds to finance development and operation of new public land transport infrastructure and public electricity generation projects

In addition, the Australian Taxation Office (ATO) is streamlining processes for the provision of private rulings on the tax treatment of proposed private sector ventures.

The Government considers that these initiatives provide an appropriate level of support for private sector involvement in infrastructure. They reflect also the outcome of a thorough-going review by officials of the tax treatment of infrastructure.

Fundamentally, these proposals are to assist private sector projects, not new forms of financing the public sector. That is, the private infrastructure provider is to earn a return from the demand for the services that they provide to the public and not from some public underwriting of risk.

**Depreciation Treatment of 'Infrastructure Assets'**

Concerns have been raised that the existing taxation law inappropriately denies depreciation deductions to certain assets which for tax purposes are considered structural improvements rather than plant.

Some infrastructure projects may involve a substantial level of investment in non-plant depreciating assets, such as roads, runways, retaining walls and pipelines and, in the absence of an appropriate amortisation deduction, investments in such projects could be discouraged.

In the past, the tax treatment of these assets has generally not been an issue because infrastructure projects have been undertaken primarily by the (non-taxable) public sector. With greater private sector involvement in the construction, ownership and operation of infrastructure related assets, however, it is appropriate that the taxation law recognises the cost of structural improvements in calculating taxable income.

Accordingly, the Government has decided that income-producing structural improvements be eligible for write-off allowances at the 2.5 per cent rate.

**Non-deductible/Non-assessable Bonds**

The Government recognises that the tax system can help in encouraging infrastructure activities where there has been some lag in private sector
responses, and where projects provide "public services" and so generate wider community benefits.

Against this background, the Government has decided to amend the tax law to provide the facility for non-assessable/non-deductible bonds to be issued to finance certain transport and electricity projects.

The measure recognises the fact that in the past such infrastructure investment has been predominantly undertaken by the public sector and that an additional incentive may be warranted to enable the private sector to deliver services on a competitive and profitable basis. It also reflects the Government's assessment that such projects can make an important contribution to economic development.

The measure will assist companies undertaking eligible activities by reducing the cost of capital in circumstances where the companies could not themselves have used interest deductions.

Under this measure, the interest on eligible bonds will neither be deductible to the issuer nor assessable to the lender.

Eligibility shall be confined to borrowings wholly undertaken by incorporated companies subject to Commonwealth income tax for the purpose of financing the acquisition or construction of new public land transport infrastructure and sea port facilities, or public electricity generating projects, in Australia. Moreover, to be eligible it will have to be the intention that the project will be owned, operated and used by the issuing company for the purpose of producing assessable income for a period of not less than 30 years. Eligible bonds shall have a maximum term of 10 years.

Companies will not be eligible if the arrangements for the financing or use of the property would attract the provisions of Section 51AD or Division 16D of the Income Tax Assessment Act 1936.

The new arrangements will apply to eligible borrowings undertaken on or after 1 July 1992.

Streamlining ATO processes

The willingness of private sector investors to participate in public infrastructure investment has, at times, been hampered by uncertainty over the tax treatment of such investment.
In order to facilitate and encourage private sector investment in infrastructure, the ATO is introducing streamlined processes for private rulings on public infrastructure projects.

Abuses of tax effective financing by tax exempt public sector bodies led the Government to prevent certain of these arrangements through Section 51AD and Division 16D of the *Income Tax Assessment Act 1936*. These provisions deal with arrangements under which private financiers seek to receive a taxation benefit but do not carry the risk associated with ownership or operation of the assets in question.

Section 51AD and Division 16D do not prevent a private investor who genuinely participates in a public infrastructure project, by carrying the risk of ownership and by having the capacity to exert control over the project, from writing off tax deductible expenses against income. The position of such an investor is similar to that of other investors in the private sector.

The cost and importance of public infrastructure projects usually dictate that both the public sector institution and prospective private investors need to know at the earliest possible time whether or not the private investment arrangements would be adversely affected by Section 51AD or Division 16D. It has become routine practice to seek a ruling from the ATO before final commitment to a project.

Section 51AD and Division 16D deal with arrangements which usually raise complex legal and factual issues and require detailed consideration by the Commissioner of Taxation on a case-by-case basis.

Under current processes, the Commissioner needs to have available all relevant information, including copies of legal documentation, to determine the tax consequences of a proposed investment and provide an individual ruling.

Since infrastructure projects, however, usually entail a long development stage sufficient detail and documentation often cannot be finalised until an advanced stage in the process. These factors can make it difficult to obtain early rulings.

The ATO is forming a national team of experienced officers which will give priority to requests for advice under the streamlined processes. Every effort will be made to respond speedily once all necessary information about a project has been provided. The streamlined processes would have a positive effect on the development of genuine investment in public infrastructure. Details are being separately announced by the Commissioner of Taxation.
Education

As part of its broader strategy to bring forward investment in productive infrastructure, the Government has provided a major boost in funding for educational infrastructure.

An additional $20m will be provided in 1992-93 for the refurbishment of Australia’s universities, bringing total planned capital expenditure in 1992 to around $300m.

In addition, $30m will be provided on a one-off basis during 1992 and 1993 for capital works in non-government schools. The longer-term capital needs of non-government schools will be addressed as part of the current review of the Capital Grants Program. Government school requirements will also be kept under review in the context of current proposals for new funding arrangements with the States and Territories.

The upgrading of facilities will ease pressures resulting from substantial increases in participation in both sectors and will contribute to a more highly educated and skilled population, and hence improve the nation’s economic capacity in the longer term.

Renovation and refurbishment projects generally have a high labour content, and can commence quickly, with immediate effects on economic activity and employment.

Funding for university projects has the added advantage of attracting matching funding from the institutions so that the additional $20m provided by the Commonwealth will result in projects worth $40m. Increased capital funding for non-government schools is expected to be accompanied by private investment of $18m.

In addition, because of their widely distributed networks, these infrastructure projects can provide assistance to some of the more disadvantaged areas of the country.

SOCIAL JUSTICE

The Government recognises that many Australians have experienced difficulty in recent times. For this reason the Government has decided to provide direct and immediate assistance to the unemployed - the most vulnerable and those hardest hit by the recession - and to provide further improvements in assistance for over 1.9 million families.
Assistance to Families

The Government is building on its already impressive record through a significant increase in assistance to low and middle income families with children.

The rate of Family Allowance Supplement (FAS) for each child under 16 will be increased by $3 per week, with effect from the first payday on or after 3 April 1992. This, combined with the increase in the FAS threshold on 2 April 1992, as announced in the last Budget, will significantly increase both the level of payment and the number of families receiving FAS. The maximum rate of FAS for children under 13 will now be $30.40 per week, and for those aged 13-15, $42.95.

This increase, which will also apply to pensioners and beneficiaries with children, means that the benchmark standards of adequacy the Government has established for family payments will be exceeded. The cost of this initiative will be $50m in 1991-92 and $240m in 1992-93 and will be of particular benefit to families affected by unemployment.

This measure, along with the one-off payment to families in receipt of Family Allowance, will mean that a family with two children, one under and one over 13 years of age, which is eligible for the maximum FAS payment, will receive in April a lump sum of $175 plus a weekly tax-free FAS payment of over $73 and a weekly tax-free Family Allowance payment of $20.70.

Assistance to the Unemployed

High unemployment has led to undue hardship among many families, placing increased pressure on non-government welfare organisations. The Government has therefore decided to provide an additional $5m to these organisations during the rest of 1992 under the Emergency Relief program ($2m in 1991-92 and $3m in 1992-93).

To ease hardship which may be experienced by the unemployed, the Government has decided to remove the waiting period for rent assistance for single people aged 18 and over, and couples without children, who are in receipt of Job Search and Newstart Allowance. This measure will also apply to recipients of Sickness Allowance and Special Benefit, and to disability support pensioners aged under 21.

This measure targets those in greatest need of assistance - those renting privately. It will ensure that these people will have to wait no longer than pensioners and beneficiaries with children for assistance with rental costs. This
provision will come into effect from 20 March 1992 at a cost of $15m in 1991-92 and $50m in 1992-93.

CONCLUSION

This package addresses the immediate needs of our current situation in a way that preserves our hard-won gains and promises prosperity in the medium term. The package provides the needed spur to the recovery and substantially accelerates the restructuring and re-invigoration of Australian industries. The diversity of measures in the package illustrates the comprehensiveness of the Government's strategy.
# CHAPTER 4: ECONOMIC OUTLOOK TO 1995-96

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CHAPTER 4: ECONOMIC OUTLOOK TO 1995-96

INTRODUCTION

Chapter 3 set out the Government’s economic strategy underlying this Statement

• to provide a short-term stimulus to the economy to assist the recovery process

• to ensure that wage outcomes are consistent with keeping inflation low, comparable with our major trading partners

• to facilitate improvement in the economy’s productive capacity - both directly through infrastructure initiatives as well as through incentives to boost private investment

All arms of policy will be directed to achieving these objectives which will ultimately translate into sustainable, low inflationary, growth and lower unemployment

• fiscal policy will deliver a short-term economic stimulus, but contribute to national saving in the medium term

• wages policy will be directed to achieving the Government’s inflation objective and improving the productivity and flexibility of the labour market

• monetary policy will be consistent with permanently lowering inflationary expectations and provide the appropriate support to wages policy

• structural policy will continue to ensure continuing improvements in productivity - the key to rising living standards

Against that background, this chapter considers Australia’s short-term economic prospects in the light of the measures announced in this Statement, and explores some possible medium-term implications for the economy.

It is important to recognise that Australia is now much better placed to generate sustained growth than it was coming out of earlier recessions. In particular

• the current low rate of inflation provides an opportunity to improve our competitiveness and to lock in low inflationary expectations, leading to lower interest rates and improved resource allocation
• continuing structural reform measures, including the greater reliance on workplace bargaining in the wage system, hold the prospect for significant improvements in productivity, competitiveness and real income growth. The structural reform initiatives announced in this Statement will further enhance that process.

• real wage restraint under the Accord has meant that the downturn in profitability during this recession has been less marked than in the 1982-83 recession. This leaves business well placed to take advantage of opportunities to invest and expand output.

Chart 16 shows the profit share and the underlying rate of inflation over the period 1972-73 to 1990-91.

A medium-term scenario for the Australian economy is discussed later in the chapter. That scenario illustrates that, despite the constraints on growth flowing from international economic conditions, the Government's strategy can deliver strong economic growth and reductions in unemployment in the 1990s. This is, in part, because of our closer integration with the rapidly growing economies of Asia. That outcome, however, will depend importantly on successfully meeting a number of policy challenges. In particular, it is crucial that inflation remains low, that consumer and investor confidence is restored and that microeconomic reform delivers improved productivity. Central elements of the Government's strategy are designed to ensure that these objectives are met.
Keeping inflation low, and convincing people that the Government is determined to keep it low, is the most effective way of providing the stable and vigorous economic climate that will improve the competitiveness of Australian industry, allow sustainable reductions in interest rates and encourage investment. Locking in low inflation is an essential pre-condition if growth is to be sustained over an extended period.

The continued move to workplace bargaining, in combination with restraint on the general level of wage increases, will help to achieve low inflation outcomes consistent with the performance of our major trading partners. At the same time, this process will deliver greater productivity - the key to higher real incomes for Australian employees. Improving our competitiveness will allow faster growth without worsening our current account position.

The build-up in external debt during the 1980s means that we need to consider the implications of growth for the current account. High levels of external debt leave us more exposed to external developments, such as slowing world growth and falls in commodity prices, that could set in train processes leading to sharp reductions in national wealth and living standards. In the medium term, policies will need to be directed to ensuring that output and productive capacity grow faster than demand, allowing an increasing proportion of output to be exported.

As an important part of that process, we must work towards funding more of our investment needs from domestic saving. The Government is promoting increased private sector saving through increased superannuation contributions, with the Superannuation Guarantee Levy ensuring rising contributions throughout the 1990s.

While superannuation policies can exert some influence on private saving, the most effective way for the Government to influence aggregate saving is through its own spending patterns. Reducing the public sector's call on national saving in the medium term is an important part of the Government's economic strategy.

Consistent with the need to reduce the public sector's call on national saving, the Government aims to restore the Commonwealth budget to a surplus by 1995-96, and this is reflected in the scenario.


Last year's budget papers forecast a slow recovery in 1991-92, with the pace of the recovery quickening and unemployment starting to fall in the first half of 1992. The recovery was expected to be driven by a strong turnaround in the housing industry, modest private consumption growth and the non-farm stock cycle. Net exports were expected to contribute further to growth, although the world economy was forecast to show subdued growth and the terms of trade to continue to fall.
The Budget forecasts assumed that macroeconomic settings would remain firm

- monetary policy was assumed to remain firm enough to restrain or reduce inflationary expectations but not jeopardise the recovery

- a $13 billion turnaround from budget surplus to deficit predominantly reflected cyclical factors and maintained a budget structure which would recover substantially along with the economy

- bearing in mind the adverse impact of wage increases on employment, wages policy was to remain focused on restraining nominal wages and on linking pay increases to rises in workplace productivity

Since the Budget, the outlook has deteriorated, implying weaker economic growth and lower inflation than expected. The deterioration reflects

- very subdued consumer and business confidence

- the onset of drought and its impact on the farm sector

- weaker international prospects

1991-92

These factors have delayed the recovery and made its timing more uncertain. They have also raised concerns about whether early inroads into unemployment would be achieved. The recent depreciation of the Australian dollar and the measures announced in this Statement are not expected to impact significantly on the forecasts for 1991-92

- GDP is now expected to show little or no growth in year average terms; through the year growth has been revised down by 1 percentage point to 2 3/4 per cent

- unemployment may drift up further before the recovery puts it on a downward trend

- the inflation outlook has improved further, reflecting weaker demand and lower wages growth

  - the CPI is expected to increase by around 2 1/4 per cent through 1991-92
the outlook for the current account deficit and the terms of trade remain broadly unchanged from the Budget estimates, with both imports and exports stronger than expected

1992-93

The measures in this Statement will help to underpin and sustain the recovery into 1992-93 and beyond by providing a short-term stimulus, bolstering business and consumer confidence; reducing structural impediments to growth, improving the prospects for a low inflation environment and increasing competitiveness.

Forecasts for 1992-93 are necessarily surrounded by a greater degree of uncertainty than forecasts for 1991-92. Supported by the measures announced in this Statement, there are a number of forces that will be operating to underpin the recovery

- lower interest rates, flowing from the progressive easing in monetary policy as inflationary expectations have abated
- improving (although still subdued) international economic conditions
- the depreciation in the exchange rate since late 1991
- a cyclical recovery in stocks
- the breaking of the drought should enable farm product to recover and also contribute significantly to growth

These factors should see the consolidation of the recovery on a broader front in 1992-93.

In this first full year of recovery, GDP is expected to grow by around 4 3/4 per cent due mainly to the recovery in private final demand, with stronger public final demand augmenting this growth

- private consumption expenditure could grow by around 3 3/4 per cent, following two years of relatively subdued growth. This growth would be supported by a pick-up in household disposable income, reflecting a recovery in employment growth
- assisted by the measures announced in this Statement, renewed growth in plant and equipment investment should emerge
• dwelling investment should grow strongly in 1992-93, consistent with forecasts by the Indicative Planning Council for the Housing Industry.

Employment is expected to trend upward through 1992 and could grow by about 2 1/4 per cent in 1992-93. This would be consistent with a steady fall in the unemployment rate to 10 per cent in 1992-93 in year average terms and to around 9 1/2 per cent by mid-1993.

• the moderate employment growth and the gradual fall in the unemployment rate reflects the relatively moderate pace of the recovery, the extent of excess capacity at present, and the increases in labour productivity likely to flow through from the business restructuring that has occurred during this recession.

The restrained wages outlook and moderate demand growth, coupled with the lower inflationary expectations and cost cutting behaviour of business, will assist in locking in a low inflation environment.

• CPI inflation could increase by around 3 1/2 per cent in 1992-93, although it may rise to over 4 per cent over the year to the June quarter 1993 as the one-off effect of the recent depreciation in the $A passes through the system.

• earnings growth is expected to be around 4 3/4 per cent in 1992-93, although the outcome will be affected by developments concerning workplace bargaining and generalised wage increases.

With the recovery in activity and a further modest fall in the terms of trade, the current account deficit could increase to a little over 4 per cent of GDP in 1992-93.

• the net income deficit could also increase as a result of the servicing costs of higher net external liabilities.

• ongoing structural changes, however, will be improving the competitiveness of both exporters and import-competing industries.

**THE MEDIUM-TERM FORECASTING FRAMEWORK**

As part of the preparation for this Statement, the Government established a Task Force of officials from the Treasury, the Reserve Bank of Australia, and the Departments of the Prime Minister and Cabinet, and Finance, along with representatives from the Prime Minister's Office and the Treasurer's Office. Bearing in mind the uncertainty about economic conditions beyond 1992-93, the Task Force was commissioned to examine Australia's medium-term economic outlook and to produce a medium-term scenario for the economy.
A small and relatively simple model of the Australian economy was constructed to assist in the process. The model was used as an analytical tool embodying the more important relationships in the economy which provided a basis for making judgments about a possible medium-term scenario for Australia consistent with the Government's economic strategy. Because of the greater degree of uncertainty about the economic outlook further out in time, the Task Force adopted a number of key assumptions in developing the scenario.

The medium-term scenario should not be viewed as the same as the forecasts for the current year or the year ahead but rather as an achievable outcome conditional on these key assumptions and the related policy settings.

The starting point for the scenario is the forecasts for 1992-93 described in the previous section. Projections produced by other organisations - including the Australian Bureau of Statistics (ABS), the Australian Bureau of Agricultural and Resource Economics (ABARE) and the International Monetary Fund (IMF) - were also used in the medium-term scenario over the period 1993-94 to 1995-96.

In developing the medium-term scenario, the model provided a necessary framework for linking sectors and ensuring overall consistency. The sectors include the domestic expenditure sector, the external trade sector and the labour market. The focus is on real variables - production, employment and trade - but variables such as the current account deficit and the public sector borrowing requirement (PSBR) are also obviously important in determining possible policy implications.

A description of the model is at Attachment A.

A key assumption underlying the model is growth in wage costs at a rate consistent with the achievement of the Government's policy objective of keeping Australia's inflation rate comparable with the assumed 3 1/2 per cent annual rate of our trading partners. This assumption underscores the strength of the Government's commitment to achieve this low inflation objective. Stable low inflation is likely to mean that inflationary expectations will also stay low, which would be consistent with, on average, some reduction in long-term nominal interest rates.

Other important assumptions incorporated in this scenario include

- a constant nominal exchange rate
- terms of trade rising from current low levels by about 5 per cent over the three years to 1995-96 (largely as a result of ABARE's forecasts for the prices of rural and mining exports)
• non-commodity export growth consistent with the experience over the last economic cycle

• annual major trading partner growth of about 3 per cent during the period

The scenario includes underlying productivity growth of around 1 1/2 per cent per year. That largely reflects the experience of the past two decades and may well prove to be conservative in the light of workplace reform and increased incentives for investment. This productivity growth would be consistent with wage outcomes of around 4 per cent per year while permitting a steady decline in unemployment. Higher productivity and higher wage outcomes, however, would still be consistent with a similar inflation performance.

In summary, the scenario is based on realistic assumptions, reflecting recent experience and Government policy commitments. It is possible, however, that Australia's economic performance could be better than that outlined in the scenario. Attachment A provides an indication of how outcomes would change if the assumptions were varied.

ECONOMIC OUTLOOK TO 1995-96

The key result to emerge from the medium-term scenario is that, given the model's assumptions and in the light of policy measures announced in this Statement, there is the prospect of strong economic growth through to 1995-96 and beyond with substantial reductions in unemployment. This growth can be achieved with continued low inflation.

Table 6: Economic Outlook to 1995-96
(Percentage growth in real terms, unless otherwise stated)

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<td>Private:</td>
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<td>Consumption</td>
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<td>Employment</td>
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<td>3 1/2</td>
<td>3 3/4</td>
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(a) Income based measure of GDP. On the basis of the Statistician's preferred measure of GDP (GDP(A)), growth in 1991-92 would be 3/4 per cent. Growth rates in the other years are identical.

(b) As measured by the CPL.
The scenario reflects a viable economic strategy to achieve sustained growth - at an average rate of 4 1/4 per cent per annum through to 1995-96. Along with the assumption of real wage restraint, this growth rate is consistent with average employment growth of 3 per cent per year, with the unemployment rate declining to 7 3/4 per cent by 1995-96. After rising during the early stages of recovery to about 4 1/2 per cent of GDP, the current account deficit declines to 3 3/4 per cent of GDP.

A summary of the scenario is provided in Table 6 (along with the forecasts for 1991-92 and 1992-93) and discussed briefly above.

EXPENDITURE

Domestic expenditure is projected to grow strongly as the recovery consolidates, rising to about 5 1/4 per cent in 1993-94 before easing to around 3 1/4 per cent in 1995-96.

Strong growth of over 10 per cent is expected in business investment in 1993-94 and 1994-95 as the corporate sector responds to improved profitability from the upturn in sales in 1992-93, low interest rates, falling real unit labour costs and the lower after-tax cost of capital that will result from the changes in depreciation allowances announced in the Statement. This combination of factors could have been expected to generate rapid growth in investment before 1993-94, but continuing weakness in some corporate balance sheets and excess capacity are likely to delay the pick-up.

As the housing stock approaches the community's long-term requirements, growth in dwelling investment is projected to slow over the period from the strong growth rate forecast for 1992-93 to a more sustainable rate by 1995-96.

After a number of years of strong growth, private consumption is expected to return to a reasonably stable growth rate of around 3 per cent by 1995-96. In this period, consumers will be responding to the improving economic outlook, including more employment opportunities, and the tax cuts and family assistance measures announced in this Statement will also stimulate consumption.

The projected growth in public final demand of 3 per cent in 1993-94 reflects the fiscal stimulus announced in this Statement. Consistent with the need to reduce the public sector's call on national saving as the economy recovers, there is an unwinding of the fiscal stimulus through 1994-95 and 1995-96.

OUTPUT

GDP is expected to grow by 4 1/2 per cent in 1993-94, and by about 4 1/4 per cent in 1994-95, before settling down to a more stable rate of about 3 3/4 per cent in 1995-96. Expenditure will, therefore, grow a little more
quickly than output until 1994-95, when net exports begin again to make a positive contribution to growth. Stronger growth in expenditure than in production is not an unusual feature of an economy emerging from recession, reflecting the impact on expenditure of spending plans deferred during the downturn. In addition, unlike Australia's experience in the 1980s, the recovery from this cycle is unlikely to coincide with rapid growth in the world economy.

Chart 17 compares the projected growth rates in key aggregates with the outcomes following the 1982-83 recession. Chart 18 shows the contributions to growth from the domestic and external sectors.

**Chart 18. Contributions to Real GDP Growth**

![Chart showing contributions to Real GDP Growth]

**EXTERNAL SECTOR**

As noted above, net exports are expected to make a negative contribution to growth in 1993-94 as the recovery in domestic demand results in higher import growth. Part of the deterioration in the trade account flows from the rapid growth in business investment, which is adding to productive potential. From 1994-95, however, the trade account is expected to improve to the point where net exports contribute to growth. This improvement reflects continued strong growth in exports while import growth slows after the initial recovery phase. The outcome for the trade account in this scenario is also assisted by the assumed slight upward drift in the terms of trade from current low levels (consistent with ABARE commodity price forecasts).
The net income deficit is expected to continue rising throughout the forecast period, reflecting the growing servicing costs of continued deficits on the current account. This trend is expected to offset part of the improvement in the trade account, but it is likely that there will be an improvement in the current account deficit (as a percentage of GDP) from a peak of 4 1/2 per cent in 1993-94 to 3 3/4 per cent in 1995-96.

This would be consistent with a slight drift upwards in the ratio of net external liabilities to GDP. As the ratio of debt to equity financing, however, returns towards levels which existed prior to the excessive leveraging in the late 1980s, the net external debt to GDP ratio could stabilise or decline slowly.

SAVING

With the economy growing quickly, and especially strong investment growth in prospect, the projection of the current account deficit as a proportion of GDP at about the levels recorded in the recession implies substantial growth in domestic saving.

After peaking at around 2 per cent of GDP in 1992-93, the Commonwealth fiscal deficit is expected to be in surplus by 1995-96. As well as the timing of the fiscal measures announced in the Statement, including the phased unwinding of the stimulus, other contributing factors to this outcome include the effects of faster growth in profits and employment on the revenue base, as well as reductions in the number of unemployment benefit recipients.

After allowing for real growth in State and local government receipts and outlays, the PSBR falls from its current expected level of about 4 per cent of GDP in 1991-92 to around 2 per cent of GDP in 1995-96. This is largely achieved through restoration of the Commonwealth Budget balance, relying on restraint in outlays which decline as a proportion of GDP from 1992-93, partly offset by a decline in revenue as a proportion of GDP.

The reduction in the PSBR in the scenario thus allows for faster growth in net private sector borrowings (to finance private investment) without causing a deterioration in the current account position.

Other factors are expected to contribute to higher domestic saving, and hence exert downward pressure on the current account deficit in the face of strong economic growth

• the private saving rate is expected to restore savings balances run down during the recession

• the Government's reforms to superannuation, including the introduction of the Superannuation Guarantee Levy from 1 July 1992, will encourage private saving in the 1990s
While this scenario is encouraging given the strong growth, the Government is aware that there is no room for complacency about Australia's external accounts, particularly at a time when the prospects for world growth are uncertain. Reducing the public sector's call on national saving, extending private saving through increased superannuation contributions resulting from the Superannuation Guarantee Levy, improving the efficiency with which the capital stock is used, and keeping inflation low, all have a part to play in helping to reduce the saving-investment imbalance and hence in stabilising the build-up in external debt.

Chart 19 shows the contribution to the current account deficit outcome from the lower PSBR during a period when private investment is recovering (reflected in a decline in net lending).

**Chart 19. Sectoral Balances**

EMPLOYMENT

The strong pick-up in activity is expected to stimulate employment growth of around 3 per cent each year during the period. With employment responding to changes in activity with a lag, growth in jobs is expected to be slightly faster in 1994-95 and 1995-96 than in 1993-94. Significant falls in unemployment are projected despite continued relatively rapid growth in the labour force as better employment prospects encourage entry of those outside the labour force and as a result of social factors. The unemployment rate is projected to fall to
7 3/4 per cent by 1995-96; further declines in the unemployment rate are in prospect through the remainder of the 1990s. The participation rate is projected to increase to about 64 1/4 per cent by 1995-96 - around the middle of the range of estimates produced by the Department of Employment, Education and Training, adjusted for differences in the projected economic cycle.

Clearly, this outcome requires a combination of wage restraint, continued low inflation and productivity growth. Wage restraint is essential if the maximum possible employment gains from recovery are to be achieved but, as the scenario illustrates, restraint in real unit labour costs can be consistent with rising real wage incomes if we have sustained productivity growth. The move to workplace bargaining will help to secure additional employment growth through the recovery and beyond by ensuring that wage increases are more directly linked to improvements in productivity.

Through raising profitability, improvements in underlying productivity can also be reflected in higher investment, faster employment growth and lower unemployment.

Chart 20 shows the annual changes in real wages and real unit labour costs under the scenario.

Chart 20. Real Wages and Real Unit Labour Cost
Percentage Change on Preceding Year

With output expected to grow strongly, but employment growth slightly delayed, labour productivity is expected to grow relatively quickly by over
2 per cent in 1993-94 but, as employment expands, it may slow to about 1 per cent in 1995-96.

Chart 21 shows labour productivity performance in the scenario period compared with that following the 1982-83 recession.

**Chart 21. Productivity Growth Rate Comparison**

![Chart showing productivity growth rate comparison]

**CONCLUSION**

The Australian economy can achieve a period of sustainable economic growth in a low inflation environment, with rising real wages and living standards based on rising productivity.

In the short term, the measures introduced in this Statement will help to bolster and sustain a recovery in activity and hasten the fall in unemployment. But the Government's focus in this Statement remains firmly on establishing the conditions for sustaining growth over the medium to longer term.

The medium-term economic scenario reported in this chapter shows that the Government's strategy can deliver strong economic growth and continued reductions in unemployment in the 1990s. Under this scenario, unemployment is projected to fall to $7 \frac{3}{4}$ per cent by 1995-96 with the current account at $3 \frac{3}{4}$ per cent of GDP. That sustained growth can be achieved through a strategy to hold down inflation and improve productivity and competitiveness, including by upgrading important infrastructure.
CHAPTER 5: CONCLUSION

As we recover from the recession and resume steady growth over the next four years, Australians will begin to enjoy some of the rewards of nearly a decade of economic reform. The painful tasks of knocking down the walls between employers and employees, between government businesses and their customers, between Australia and the world, are steadily being accomplished. We have discovered we can cooperate at home, and compete and succeed abroad. And while the bitter blow of the recession has set us back on the road to reconstruction, we do not intend to let it undermine our determination to continue the transformation of our economy and society to one nation, succeeding by working together.

As the preceding chapters have explained, we will bring forward recovery from recession with a well timed and sensibly designed fiscal boost, which will strengthen our national transport system for the return of prosperity. We will give spending an immediate shot in the arm by making a special one-off payment to families with children. We will increase spending to help the unemployed back into jobs and offer special help to farmers hit by poor seasons and poor prices.

At the same time as we give immediate help, we will lay down the framework for a stronger and more prosperous society. The public investment which creates jobs now will also make for faster and more reliable freight transport, better ports, better airports and better training centres in the future. The reforms to the business tax system will encourage firms to invest in new machines, new equipment and new factories to house them. Changes in the aviation and electricity industries will increase competition and lower costs. The encouragement we will give to workplace bargaining will continue the revolution in our industrial relations, which has already seen a new spirit of cooperation unimaginable a decade ago.

As the economy expands, the Accord between the Government and the nation’s three million union members will be the framework in which productivity bargaining proliferates, and in which low inflation becomes not only a necessary and desirable achievement, but also a habit.

The Keating Government will underpin the Accord, and increase the rewards of working and saving, by introducing new tax scales which will cut to 30 cents the maximum rate most people will pay on their last dollar of income.

Under the Keating Government’s strategy, within four years the Federal Budget will once again be in surplus; we will have created more than 800 000 new jobs;
the economy will be bigger; and Australians will enjoy the higher standard of living which is the reward for their willingness to welcome change.
ATTACHMENT A: DETAILS OF THE MEDIUM-TERM SCENARIO

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ATTACHMENT A: DETAILS OF THE MEDIUM-TERM SCENARIO

The scenario described in Chapter 4 illustrates that the Australian economy is capable of achieving a period of sustained economic growth provided certain key assumptions and related policy challenges are met. Such an outcome would be consistent with substantial reductions in unemployment, but also with the maintenance of a low inflationary environment, an unwinding of the cyclical deterioration in the Government's fiscal position and moving towards stabilising our foreign debt. The scenario also incorporates the expected impact of the measures announced in the Statement.

The scenario reflects both the results generated from a "mini-model" of the Australian economy and judgments about economic relationships and behaviour.

This Attachment provides details of that mini-model framework, details of judgemental adjustments made to the mini-model framework in arriving at the scenario, and some sensitivity analyses which indicate how the projections would be affected by the changes to key assumptions.

MINI-MODEL STRUCTURE

The mini model is an annual representation of the Australian economy. It consists of 6 behavioural equations which are estimated over the period since the early 1970s and accompanying identities. The model framework can therefore produce a scenario which, for a given set of policy settings and other exogenous variables, is consistent with the National Accounting framework of identities and the major historically observed behavioural relationships.

DOMESTIC EXPENDITURE

The main components of private domestic expenditure are determined by a set of 3 equations.

Private Consumption

Private consumption expenditure is determined by real private disposable income. This is defined as

- the real value of total incomes in the economy from labour and capital plus government transfer payments and interest income from government debt

- less taxes paid to the government and net transfers to the overseas sector (such as net investment income on foreign liabilities)
Thus the appropriate income measure is broader than just household disposable income. In the short run, an increase in per capita income is estimated to generate a less than proportionate increase in per capita consumption. A 1 per cent increase in income will raise consumption spending by only about 1/2 per cent in the same year. In the long run, however, the level of consumption is constrained to be proportional to the level of income with about one third of the outstanding adjustment occurring in each subsequent year.

This specification ensures that the equation replicates the two important features of consumption spending

- its short-run tendency to be less volatile than income with the saving ratio rising in times of rapid growth and falling during recessions
- the long-run stability of the private saving ratio

**Private Business Investment**

In equilibrium, private business investment is assumed to be sufficient to ensure that the capital stock grows in line with output. Deviations from this equilibrium condition are reflected in the difference between the actual rate of return on capital and the cost of finance (as measured by the real interest rate). If the rate of return on capital exceeds the real interest rate by a significant margin, it will become profitable to increase investment and therefore raise the growth rate of the capital stock above that of output.

The rate of return on capital is the ratio of profits to the value of the capital stock. In turn, profits are defined as the difference between the value of output and labour costs. Therefore investment will rise in response to either

- an increase in output
- a fall in real unit labour costs
- a fall in real interest rates

**Dwelling Investment**

Households are taken to have a desired ratio of consumption of dwelling services (as measured by the stock of dwellings) to total consumption. This ratio is assumed to be inversely related to the real interest rate. Therefore, for a given real interest rate and level of consumption, it is possible to estimate the desired level of dwelling stock. The level of dwelling investment (and therefore the growth rate of the dwelling capital stock) responds to the difference between the actual stock of dwellings and its desired or equilibrium level.
The equation is also specified so that, when there is no excess demand or supply of dwellings, investment will be sufficient to ensure that the dwelling capital stock grows at the same underlying rate as the rest of the economy.

Non-Farm Stockbuilding

Non-farm stockbuilding is determined by the change in the desired level of stocks. The desired level of stocks is assumed to be proportional to the level of sales (as measured by final domestic demand). The ratio of stocks to sales is expected to decline slowly from 1993-94. This represents a continuation of the trend decline over the 1980s in response to progressive implementation of better stock management techniques and the rise in the relative importance of service industries.

Other Components of Domestic Demand

The other main components of domestic demand are government investment and consumption expenditure, farm stockbuilding and real estate transfer expenses. Government investment and consumption spending are exogenous policy variables in the model. Farm stockbuilding is treated as exogenous. Real estate transfer expenses are assumed to grow in line with dwelling investment.

EXTERNAL SECTOR

The external sector of the model consists of a behavioural equation for imports, and assumptions for commodity and non-commodity exports as well as a set of identities for the current account deficit and net foreign liabilities.

Non-commodity Exports

Non-commodity exports are assumed to grow at a rate similar to that recorded over the last economic cycle.

Commodity Exports

Commodity exports are exogenous in the model. Projected growth in the volume of agricultural and mining exports from 1993-94 onwards is based on the latest Australian Bureau of Agricultural and Resource Economics (ABARE) projections - adjusted for differences in exchange rate assumptions used by ABARE and the Task Force.

The growth rates of the foreign currency prices of these exports are also exogenous, being taken from the ABARE forecasts. The Australian currency price of these exports is then determined by reference to the exchange rate, which in this exercise is set throughout the projection period at 0.74 $US/$A and 55 TWI.
Imports of Goods and Services

The demand for imports is determined by GNE and the relative price of imports. Because import volumes are typically more volatile than GNE, the estimated short-run elasticity of demand for imports exceeds unity. A 1 per cent increase in GNE is found to increase imports by 1 1/4 per cent in the first year. This response peaks at 1 3/4 per cent in the second year and then falls back to 1 per cent thereafter.

The foreign currency price of imports is treated as exogenous. Therefore the relative price of imports depends on their foreign currency price, the exchange rate, tariff rates and the GNE deflator. The estimated response of import volumes to a 1 per cent increase in their relative price is a fall of almost 1/2 per cent.

Over the 1970s and 1980s, there was a trend increase in the import penetration ratio which was not associated with a similar trend in competitiveness. Therefore the estimated import demand equation includes a time trend. This indicates that with no change in competitiveness, import volumes would tend to increase by around 1 1/4 per cent per annum faster than GNE.

The Current Account Balance

The current account balance is defined as the sum of the value of net exports and net transfers overseas. Net transfers overseas is divided into three components

- net investment income
- migrant transfers
- other net income

Net investment income includes interest and dividend payments on Australian net foreign liabilities. These payments are modelled using a weighted average of domestic and foreign interest rates and equity yields.

The foreign currency value of average migrant transfer credits is assumed to grow in line with nominal foreign income. Therefore, the growth rate of migrant transfer credits is equal to the sum of growth rates of foreign nominal income and the number of migrants.

Other net income is assumed to remain unchanged over the projection period.
Net Foreign Liabilities

There are two major sources of growth in net foreign liabilities

- new borrowing (or equity sales) to fund a current account deficit
- valuation effects caused by changes in the exchange rate and equity prices

The model incorporates exchange rate valuation effects by assuming that the proportion of net foreign liabilities, which are denominated in foreign currency, is unchanged over the projection period.

OUTPUT, LABOUR DEMAND AND SUPPLY

The model divides total output in the economy into two components

- dwelling sector output which is proportional to the dwelling capital stock
- non-dwelling sector output which is defined as GDP less dwelling sector output

The Demand for Labour

Since the dwelling sector produces dwelling services without using any labour, the demand for labour equation is based on the output of the non-dwelling sector. The equation relates the demand for labour (expressed in hours) to

- non-dwelling output
- real labour costs (including payroll tax) adjusted for trend productivity
- trend productivity

The estimation results indicate that a 1 per cent increase in real labour costs will reduce employment by about 1/3 per cent in the first year. The long run fall in employment grows to around 1/2 per cent. The equation also estimates that the trend increase in labour productivity is about 1 1/2 per cent per annum.

Real wages are set exogenously.

The Supply of Labour

Because of the increasing relative importance of part-time work, the average hours worked per employee is projected to decline slightly over the period to 1995-96.
Historically, improved employment prospects have led to increased labour force participation rates. The participation rate equation includes the ratio of employment to adult population as a measure of this encouraged worker effect.

The estimation results indicate that an increase in employment of 1 per cent will initially increase the labour force by about $\frac{1}{3}$ per cent rising to $\frac{1}{2}$ per cent after 2 years.

A time trend is also included in the equation to capture the trend increase in the participation rate which appears to be related to the secular rise in the participation rate of married women.

**PRICES SECTOR**

The price of non-commodity output grows at about 3 1/2 per cent per annum over the projection horizon. Since the prices of commodity exports are determined by foreign commodity prices and the exchange rate, it is possible to derive the GDP deflator as a weighted average of the deflator for non-commodity output and commodity export prices.

The GNE deflator is determined by a weighted average of non-commodity output prices and import prices. The deflators of all the individual components of GNE (such as private consumption, investment and government spending) are assumed to move in line with the GNE deflator over the projection horizon.

**PUBLIC SECTOR**

**Government Spending**

Public sector expenditure is divided into 6 major components

- consumption expenditure
- unemployment benefits
- other transfers
- interest payments
- investment spending
- other outlays

The volumes of government consumption and investment spending are treated as exogenous policy variables. The impact of the measures announced in this Statement is incorporated. As mentioned above, the prices of these items are assumed to grow in line with the aggregate GNE deflator.
The value of unemployment benefits is primarily determined by the number of 
unemployed and the private consumption deflator.

Other transfers, which includes pensions, are related to population growth and 
the private consumption deflator.

Interest payments on outstanding government debt are modelled using a 
weighted average of current and past nominal interest rates.

Other expenditure is assumed to remain broadly unchanged over the projection 
period.

Government Revenue

Over the projection horizon, government revenue was calculated as the 
difference between the PSBR and public expenditure, with adjustments to 
ensure consistency with the measures announced in this Statement.

ADJUSTMENTS TO THE MINI-MODEL FRAMEWORK

This section outlines the more important adjustments made to the mini-model 
framework results in order to produce the scenario. These adjustments 
incorporate information which is not included in the estimated equation. 
Examples of such information include

- partial and leading indicators of economic activity
- surveys and anecdotal evidence about qualitative influences such as business 
  and consumer confidence
- judgments about the likely effects of changes in policy and the economic 
  environment on historical relationships

Adjustments have been made to the business investment equation to lower the 
projected growth rates. It was considered that business investment in 1992-93, 
in particular, would be lower than its historical relationship with profits and 
interest rates would suggest because

- consumer and business confidence is currently lower than it has been at this 
  stage of previous recessions
- weakness in some business and household balance sheets, combined with 
  low confidence is likely to see increased income and profits initially used to 
  reduce debt rather than increase investment
- investment is also likely to be restrained by an oversupply of some types of 
  capital, most notably office buildings
This judgment is also supported by the ABS business expectations survey for 1992-93.

Beyond 1992-93, the business investment equation has been adjusted so that investment growth is initially slower than past relationships would suggest.

The dwelling investment equation was modified to grow at the same rate as GDP after reaching "underlying demand" in 1993-94.

Small adjustments have also been made to increase private consumption over the period from 1993-94 to 1995-96. This reflects an expected improvement in consumer confidence as the recovery proceeds.

Small adjustments were made to increase both employment and the labour force in 1993-94. These were made to ensure consistency between the detailed quarterly labour market projections made for 1992-93 and the annual estimates produced by the equations in 1993-94.

Another small adjustment was made to the participation rate equation to reduce slightly the influence of the time trend. This reflected judgments about the impact of lower immigration levels in recent years, the impact of a further ageing of the population and the slower (but more sustainable) rate of economic growth on the scenario period. After the adjustment, the participation rate is about in the middle of (cyclically adjusted) estimates produced by the Department of Employment, Education and Training.

**SENSITIVITY ANALYSIS**

Apart from anything else, as the time period for the scenario extends to four years, the projections are critically dependent on a number of key assumptions about the external and domestic economic environment. This section examines the impact of changing the terms of trade, real wage, productivity and real interest rate assumptions.

**TERMS OF TRADE**

As noted above, the scenario implies a modest improvement in the terms of trade via increases in commodity prices. Fluctuations in the terms of trade would have important implications for the real economy, prices and the current account.

The terms of trade are currently at quite low levels and thus an improvement can be expected over the projection period. The terms of trade can be volatile, however, and could well be noticeably higher or lower than assumed in the scenarios.
Lower terms of trade could be expected to reduce the value of national income to households - an effect which would be exacerbated by a likely re-adjustment in exchange rates. Lower commodity prices and lower consumption expenditure would also reduce business profitability, causing reductions in business and dwelling investment. Lower overall levels of activity could be expected (in the absence of extra wage restraint) to lead to lower levels of employment - and higher unemployment (although part of this could be expected to be cushioned by a more subdued encouraged worker effect).

Changes in the terms of trade, through the exchange rate, are also likely to complicate inflation control and, in the short run, add to our external imbalance.

**HIGHER REAL WAGES**

The scenario has a $1\frac{1}{2}$ per cent per annum increase in real wages (and around 1 per cent per annum fall in real wages adjusted for underlying productivity). If real wages increased more rapidly without any compensating increase in productivity, there would be a significant reduction in the demand for labour.

Over a 3 year period, lower employment could be expected to offset the effects of higher real wages on private incomes, while investment would fall in the face of higher costs of production. The current account deficit would be lower but that would mainly reflect cyclical influences.

**HIGHER PRODUCTIVITY GROWTH**

The current scenario is based on the assumption of underlying productivity growth of around $1\frac{1}{2}$ per cent per annum. This is broadly in line with the experience of the 1970s and 1980s, after allowing for the effects of real wage moderation on employment. The productivity assumption could be regarded as conservative - given the broader structural reform measures (including workplace bargaining) that are ongoing and allowing for the measures in this Statement.

Higher productivity growth by definition increases the amount of output which can be produced by the existing workforce. This raises the aggregate level of supply in the economy, including the supply of exports. Initially, it also reduces real unit labour costs and increases profits. This raises the level of business investment and therefore increases aggregate supply further.

Higher business investment and exports could be expected to generate an increase in employment, output and household income and therefore consumption spending.

The combination of lower unit labour costs and the increase in supply also tends to lower prices. Over the medium term, higher productivity growth
accommodates a faster increase in real wages, output and demand, and allows a slightly faster reduction in unemployment.

LOWER REAL INTEREST RATES

The scenario assumes that the differential between Australian and major overseas real interest rates remains constant. As inflation is projected to stabilise at a level well below that experienced over the last two decades, this real interest rate differential may well narrow.

First, because of the nature of the interaction between inflation and the tax system, a reduction in inflation can be expected to result in a more than proportionate reduction in after tax real interest rates. Since it is after-tax real interest rates that matter in equilibrating international capital markets, a reduction in inflation will cause some closing of the differential.

Second, permanently lower inflation against the background of relative stability in the ratio of net foreign liabilities to GDP, may also produce some reduction in the risk premium on Australian borrowing. This too would contribute to a closing of the differential.

Within the scenario, lower real interest rates would lead to higher investment with consequent increases in output and employment.
ATTACHMENT B: PROJECTIONS OF BUDGET OUTLAYS AND REVENUE

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ATTACHMENT B: PROJECTIONS OF BUDGET OUTLAYS AND REVENUE

OVERVIEW

The projected budget deficit for 1991-92 is $6.8 billion and includes measures in this Statement amounting to $0.5 billion. The deficit rises in 1992-93 before falling over the next two years, and the Budget balance is projected to return to surplus in 1995-96. The increase in the deficit in 1992-93 is primarily due to the short-term impact of the Economic Statement, and the improvement in budget balance thereafter due to restraint of outlays and significant real growth in revenue in response to the improvement in economic activity.

Table 7 shows the outlays and revenue projections from 1991-92 to 1995-96. These projections are based on the economic outlook discussed in Chapter 4 and described in detail in Attachment A. The relationship between published budget time estimates of outlays and the pre-statement estimates is outlined below. Projections of revenue for the forward years are not published in the budget documentation.

Table 7: Summary of Budget Aggregates

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<tr>
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<td>119.5</td>
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<td>108.9</td>
<td>113.6</td>
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<td>1.5</td>
<td>-0.3</td>
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<tr>
<td>Proportion of GDP (%)</td>
<td>26.6</td>
<td>25.8</td>
<td>24.6</td>
<td>23.3</td>
<td>22.6</td>
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<td><strong>REVENUE</strong></td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Pre-Statement estimate</td>
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<td>101.1</td>
<td>109.5</td>
<td>119.6</td>
<td>129.1</td>
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<td>Proportion of GDP (%)</td>
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<td>23.9</td>
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(a) The additional Public Debt Interest (PDI) costs associated with both the outlay and revenue measures.
Projections of existing policy show that, after rising by 5 per cent in real terms in 1991-92, total outlays including the impact of the Economic Statement, will rise by 0.4 per cent in real terms from 1991-92 to 1995-96. Total revenue would increase from 1991-92 to 1995-96 by 9.3 per cent real as the economy recovers, but decline as a proportion of GDP from 24.8 per cent to 23.0 per cent.

The ratio of outlays to GDP is projected to decline steadily over the period, reaching 22.6 per cent by 1995-96. The ratio of revenue to GDP is expected to fall to 23.0 per cent over the same period. Chart 22 shows trends in outlays, revenue and budget balance as a proportion of GDP over the period 1980-81 to 1995-96.

Chart 22: Commonwealth Budget Aggregates
(per cent of GDP)

The forward estimates of outlays record the minimum cost of maintaining ongoing policy. They are adjusted from time to time by the Department of Finance for the effects of policy decisions, changes to economic parameters and other necessary variations. The forward estimates constitute a base for future Government decision making and do not represent policy targets. The estimates do not include any provision for new programs, or for expansion of existing programs that has not been agreed by the Government. However, to avoid a conservative bias in the estimates an allowance is included within program estimates for renewal of some elements of existing policy for which present
authority terminates during the forward years. A bulk allowance is also made to balance conservative bias evident in the estimates of the cost of existing policy.

(A more detailed description of the forward estimates system was provided in the 1991-92 Budget Paper No 1, pp 3-11 to 3-12.)

In the 1991-92 Budget the Government published outlays estimates for the budget year 1991-92, and for the forward estimates out to 1994-95.

### Table 8: Changes to 1991-92 Budget and Forward Estimates of outlays (a)

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<tr>
<th></th>
<th>1991-92 Estimate $m</th>
<th>1992-93 Estimate $m</th>
<th>1993-94 Estimate $m</th>
<th>1994-95 Estimate $m</th>
<th>1995-96 Estimate $m (b)</th>
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<td>Outlays as proportion of GDP (%)</td>
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<td>24.9</td>
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<td>717</td>
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<td>3418</td>
<td>3989</td>
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<td>842</td>
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<tr>
<td>Additional Public Debt Interest (PDI) Cost</td>
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<td>261</td>
<td>469</td>
<td>842</td>
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<td><strong>1991-92 REvised AND UPDATED FORWARD ESTIMATES (c)</strong></td>
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<td>108852</td>
<td>113630</td>
<td>116060</td>
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<td>-0.3</td>
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<tr>
<td>Outlays as proportion of GDP (%)</td>
<td>26.6</td>
<td>25.8</td>
<td>24.6</td>
<td>23.3</td>
<td>22.6</td>
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</table>

(a) Totals may not add due to rounding.
(b) Estimates for 1995-96 were not available for the 1991-92 Budget, and explicit reasons for variations for 1995-96 were not recorded prior to February 1992.
(c) Budget and Forward estimates published in the 1991-92 Budget and updated for variations made since the last Budget.

These estimates have been updated to reflect changes in economic parameters, further information on the cost of programs, the effects of policy decisions announced in this Statement and those previously announced. As part of the
rolling forward estimates system, a further year is added in the first half of each calendar year and accordingly estimates for 1995-96 are presented for the first time in this Statement.

Revised outlay estimates for 1991-92 and for each of the forward years are presented in Table 8 together with the reasons for the change since the 1991-92 Budget.

Outlay estimates for 1991-92 have increased by $1 859m over the levels provided for in the 1991-92 Budget. The growth is primarily due to policy decisions including $494m announced in this Economic Statement and $170m announced in the November 1991 Statement on the Economy and Employment. Slippage of asset sales from 1991-92 to 1992-93 has also increased outlays by about $500m. These increases are partially offset by a fall in public debt interest payments of $516m. These changes combined with a lower than expected level of GDP, have increased outlays as a proportion of GDP from 25.7 per cent at Budget time to 26.6 per cent, and real growth over 1990-91 has increased from 2.6 per cent at budget time to 5.0 per cent (due in part to a lower than anticipated inflation outcome).

Table 8 shows that aggregate outlays are expected to rise by a further 1.5 per cent in 1992-93 before falling in real terms over the forward years. As a proportion of GDP, however, outlays are expected to fall steadily over the forward estimates period.

Decisions taken since the 1991-92 Budget but prior to the preparation of this Economic Statement have added $844m to 1991-92 outlays and $1083m to 1992-93. The major initiatives include the November Statement, the decision to withdraw the Medicare co-payment, changes to the capital structure of AOTC, costs associated with the sale of AUSSAT, assistance to asylum seekers and increased assistance to aboriginal health. The cost of these decisions grows over the forward years to $1466m by 1994-95. A list of major policy changes made prior to the preparation of this Statement is provided in Table 10 at the end of this Attachment.

Outlays initiatives announced in this Statement will add to outlays in each year of the forward estimates period. The major spending is concentrated in 1992-93; and the cost of the outlays measures reduces significantly over the forward estimates period.

A summary list of measures and their cost, together with a concise description of each measure is provided at Attachment C.

Since the 1991-92 Budget was brought down there have been other significant revisions to outlays estimates due to changed general economic parameters and also due to increased demand for entitlement programs.
- Public debt interest outlays are now expected to be lower in 1991-92 because of interest rate falls and the accounting for premiums on bonds issued, but higher in the outyears because of a widening in the budget deficit.

- Outlays for many programs will be lower than the level of budget estimates due to the lower projected rates of increase in prices and wages.

- A rise in the expected number of unemployment beneficiaries in the later years relative to Budget time estimates.

- Increases in the number of social security beneficiaries (other than the unemployed) and higher average rates of payment.

There has also been some slippage of expected receipts from asset sales from 1991-92 to 1992-93 reflecting slower than expected progress with sale arrangements.

Table 9 provides a full reconciliation of forward estimates of outlays against the 1991-92 Budget estimates for each functional area of outlays.

Current revenue estimates for 1991-92 are $0.2 billion less than Budget estimates.

Chart 23 shows the contribution to real growth by each functional area of outlays over the forward estimates period. Over the forward estimates period the growth in outlays is expected to be in Health, Assistance to Other Governments, Public Debt Interest and Education. The growth in Health outlays reflects the general increase in the demand for health services. Growth in Assistance to Other Governments primarily reflects the relatively high level of receipts (which are accounted as an offset to outlays) from the States in 1991-92 to the National Debt Sinking Fund.

Major declines are expected in the Social Security and Welfare function, reflecting reduced levels of unemployment, in Industry Assistance and Development reflecting mainly reduced levels of outlays for agriculture, and in the Administrative Services function reflecting the completion of large government construction programs.
Table 9: Reconciliation of Forward and Updated Estimates 1992-93, by Function ($ millions) (a)

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<td>7. Economic Services</td>
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<td>936</td>
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<td>4</td>
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<td>1854</td>
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<td>632</td>
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(a) Totals may not add due to rounding
Chart 23: Contributions to Real Growth
1991-92 TO 1995-96
(1991-92 PRICES)

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<th>Category</th>
<th>Percentage Points of Growth in Total Outlays</th>
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<td>Revised Medicare arrangements (a)</td>
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<td>Sale of AUSSAT</td>
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<td>Development of Badgers Creek airport</td>
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<td>Provision of income support to farming families in financial hardship</td>
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<td>Rural Adjustment Scheme funding arrangements</td>
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<td>Australian contribution to a peacekeeping force in Cambodia</td>
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(a) Comprises the impact of the revisions made to the Medicare arrangements in October 1991 and February 1992.
# FISCAL IMPACT OF STATEMENT

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(a) Columns may not add due to rounding.
(b) Cost of revenue measures.
### OUTLAYS MEASURES

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<th>Summary of Measures by Function</th>
<th>Estimated effect on outlays</th>
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#### 2. EDUCATION

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**TOTAL EDUCATION**

|                | 7.0 | 79.1 | 113.0 | 175.0 | 210.0 |

#### 4. SOCIAL SECURITY AND WELFARE

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<td>One-Off Family Allowance Payment</td>
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**TOTAL SOCIAL SECURITY AND WELFARE**

|                | 377.7 | 244.0 | 281.4 | 299.0 | 304.0 |

#### 5. HOUSING AND COMMUNITY AMENITIES

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**TOTAL HOUSING AND COMMUNITY AMENITIES**

|                | 2.0    | 12.0   | 6.0     | -       | -       |

#### 6. CULTURE AND RECREATION

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**TOTAL CULTURE AND RECREATION**

|                | 20.0   | -       | -       | -       | -       |

#### 7. ECONOMIC SERVICES

#### 7A. TRANSPORT AND COMMUNICATION

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**TOTAL TRANSPORT AND COMMUNICATION**

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<td>$m</td>
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<td><strong>7C. LABOUR AND EMPLOYMENT</strong></td>
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<td>Summary of Measures by Function</td>
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<td>---------------------------------</td>
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<td>8E. ADMINISTRATIVE SERVICES</td>
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<td>9A. ASSISTANCE TO OTHER GOVERNMENTS, NEC</td>
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DESCRIPTION OF OUTLAYS MEASURES BY FUNCTION

EDUCATION

Non-Government Schools - Infrastructure Funding

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<td>$m</td>
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<td>15.0</td>
<td>8.0</td>
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</tbody>
</table>

These funds will be used to upgrade existing facilities and equipment in non-government schools and to underpin the increased student retention rates.

Higher Education - Infrastructure Funding

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<tr>
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<tbody>
<tr>
<td>$m</td>
<td>-</td>
<td>20.0</td>
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</table>

These funds provide for a one-off increase for higher education capital to be matched dollar for dollar by institutions. This measure is expected to address urgent renovation and refurbishment of existing facilities.

Post-School Vocational Education Program

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<tbody>
<tr>
<td>$m</td>
<td>-</td>
<td>35.0</td>
<td>105.0</td>
<td>175.0</td>
<td>210.0</td>
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</tbody>
</table>

The Commonwealth is offering to assume full funding responsibility for vocational education and is proposing, in full consultation with participating States and Territories, the transformation of TAFE into a new, higher status, better resourced system of institutes of vocational education. In this context, the Commonwealth is offering to increase further its funding for post-school vocational education and training by $70m in each year in the 1993-95 triennium. This is in addition to the increase of some $100m in funding in 1992 announced in the November 1991 Statement and which now will be built into the funding for future years.
Continuation of Pre-Vocational Places - AUSTUDY Costs

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<td>9.1</td>
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The creation of 10,000 additional pre-vocational training places at TAFE in 1992-93 will require increased expenditure on AUSTUDY. Details of the pre-vocational training courses are provided under Labour and Employment.

SOCIAL SECURITY AND WELFARE

One-Off Family Allowance Payment

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<tbody>
<tr>
<td>$m</td>
<td>317.0</td>
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</table>

A one-off lump sum payment will be made to all families to whom Family Allowance is payable on 2 April 1992, in addition to their normal payments on the payday 2 April 1992. The rate per family will be $125 for a family with one child, $175 for two children, $200 for three children, $225 for four children and $250 for families with five or more children. The rate for children in institutions will be $125 per child.

Increased Assistance for Low Income Families

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<tr>
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<tbody>
<tr>
<td>$m</td>
<td>50.0</td>
<td>240.0</td>
<td>255.0</td>
<td>260.0</td>
<td>270.0</td>
</tr>
</tbody>
</table>

Family Allowance Supplement for low income working families with children under the age of 16 years and equivalent payments to pensioners and beneficiaries will rise by $3 per week per child starting from the first payday on or after 3 April 1992. This ongoing increase will be in addition to the one-off lump sum payment to Family Allowance families.
Abolition of Rent Assistance Waiting Period for Single Adults and Couples without Children

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</thead>
<tbody>
<tr>
<td>$m</td>
<td>15.0</td>
<td>50.0</td>
<td>46.0</td>
<td>39.0</td>
<td>34.0</td>
</tr>
</tbody>
</table>

From 20 March 1992, single people aged 18 years and over and married couples without children who are in receipt of Job Search Allowance, Newstart Allowance, Sickness Allowance or Special Benefit will be eligible for rent assistance (RA) without a rent assistance waiting period. Also from 20 March 1992, persons aged under 21 in receipt of the Disability Support Pension will be eligible for RA without a rent assistance waiting period. Currently, recipients in these groups must wait 26 weeks before receiving rent assistance. Only single beneficiaries aged under 18 years without dependent children will continue to serve a rent assistance waiting period. For this group, the waiting period will reduce from 26 to 18 weeks from 20 March 1992.

Offsets to Labour Market and Training Programs in Job Search and Newstart Allowances

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<tr>
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The cost of labour market and training initiatives is offset by reductions in Job Search and Newstart allowances arising from unemployed people moving onto labour market and training programs and from enhanced employment prospects of program participants.

Increase in Emergency Relief

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This measure will provide additional funds to non-government community welfare agencies for distribution as short-term emergency assistance to people in financial crisis.
HOUSING AND COMMUNITY AMENITIES

Sewerage System Development WA

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This measure will provide for construction of sewerage systems in WA using new state-of-the-art Australian technologies. The adoption of these new technologies will offer economic and environmental benefits in terms of water re-use and demonstrate their application both within Australia and overseas.

CULTURE AND RECREATION

Assistance for Restoration of Heritage Buildings

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A one-off amount of $20m has been provided to the States and Territories in 1991-92 for the restoration of heritage buildings. Funding will be distributed on a per capita basis with the States and Territories responsible for the selection of projects and administration of the restoration work.

TRANSPORT AND COMMUNICATION

Investment in a National Rail Network

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</table>

The Government proposes to provide up to $454m to secure an upgraded standard gauge rail network to provide reliable services from Brisbane to Perth, including efficient connections to ports. Individual projects include
- **Sydney-Melbourne** ($181m)
  Construction of passing loops, replacement of wooden bridges, resleepering and the construction of a dedicated freight line from Campbelltown to the Enfield terminal in Sydney

- **Sydney-Brisbane** ($82m)
  Construction of passing loops, replacement of bridges, resleepering and track upgrading

- **Melbourne Rail Terminal** ($20m)
  Assistance to the NRC to increase the capacity of the South Dynon terminal and improve the efficiency of container handling

- **Melbourne Port Interface** ($5m)
  Provision of a direct road link between Swanson and Appleton Docks and the South Dynon Rail Terminal

- **Melbourne - Adelaide Gauge Standardisation** ($115m)
  Conversion of the broad gauge mainline to standard gauge to complete a direct Brisbane-Sydney-Melbourne -Adelaide-Perth standard gauge link

- **Outer-Harbour improvements in Adelaide** ($8m)
  Construction of a rail loop at Outer Harbour to allow block trains to be used at an upgraded intermodal facility at the port

- **Fremantle-Kalgoorlie-Adelaide** ($13m)
  Intermodal upgrading, track improvements and extension of passing loops

- **Port of Brisbane** ($30m)
  Extension of the standard gauge rail link to Fisherman Island from Acacia Ridge

### Upgrade Launceston and Port Augusta Rail Workshops

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</table>

Australian National Railways Commission's existing Launceston railway workshops will be relocated from the Central Business District to a site better suited to Tasrail's operations. Upgrading the Port Augusta workshop will allow the more effective utilisation of the facility.
Contribution to Transport Infrastructure Development in Queensland

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</table>

The Government is to provide funds to assist in the further development of transport infrastructure, including Townsville port.

Contribution to Transport Infrastructure Development in WA

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</table>

The Government is to provide funds to improve the operational efficiency of the Kwinana-Picton rail line.

Increase in Black Spots Road Funding

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</table>

The Black Spots Program is directed towards road sites where inadequacies in the existing facilities have led to poor crash records. The Government has decided to provide an additional $25m in 1991-92 and $45m in 1992-93 for this program, bringing to $180m the amount to be spent on the program over the three years since 1990-91.

More than 800 additional projects will be undertaken. All projects will have high benefit-cost ratios, have short lead times, and will generate considerable employment opportunities spread widely across urban as well as rural and remote regions.

National Roads Upgrading and Maintenance

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The short-term funding boost will be used to address the major deficiencies in the network. Expenditure will be directed to maintenance and upgrading of the
National Highway and other high priority construction projects such as the Kakadu Highway, upgrading the Princes Freeway West and the duplication of Portarlington Road, both in Victoria.

### Accelerated Funding for Selected National Arterial Projects

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<tr>
<td>Victoria - Western Ring Road ($75m)</td>
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<td>Work on the Ring Road is divided into four stages - the first stage, linking the Hume Highway and the Tullamarine Freeway, will be completed later this year. Stage 2, which upgrades the link between the Calder Highway and the Western Highway will be accelerated so that it is completed by the end of 1993-94. By that time it is expected that the major structures (eg interchanges) associated with Stage 3 (linking the Princes Freeway to the Western Highway) would be completed, with traffic flowing on the entire ring route via upgraded roads in the remaining stages</td>
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<td>Port of Brisbane Link ($40m)</td>
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<td>This route provides a 41km link from the existing National Highway at Ipswich to the port at Fisherman Island. Upgrading this route as a major transport link to the port will take over ten years. The additional funds provided by the Government will, however, accelerate the high priority projects such as grade separated interchanges</td>
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<tr>
<td>Liverpool-Hornsby Ring Road (Sydney) ($25m)</td>
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<tr>
<td>This route provides a direct link between the Hume Highway at Liverpool and the Sydney-Newcastle Freeway. The additional Government funding for this project will enable the completion of the section covered by Pennant Hills Road, upgrading it to six lanes and improving the existing arterial routes. These measures will assist in relieving the traffic pressure on these roads</td>
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Addition to the National Highway System of Interstate Freight Routes

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<td>89.5</td>
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The addition of routes based on the Sturt and Newell Highways represents a logical extension to the existing National Highway System by adding strategic freight links between Adelaide-Sydney and Melbourne-Brisbane.

Aerodrome Local Ownership Program (net of offsets)

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Additional funding will be provided to enable the completion, two years ahead of schedule, of the program for transferring remaining Commonwealth (non-FAC) civil airports to local ownership and providing local authorities with full responsibility for airports that are jointly funded by the Commonwealth under the Aerodrome Local Ownership Plan. The funds will be allocated as one-off grants for agreed works and maintenance requirements at the regional airports in question.

Provision of Domestic Airport Common User Terminal Facilities

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The Commonwealth will support the development of common user facilities at Sydney and Melbourne Airports by the Federal Airports Corporation (FAC) and will negotiate with the FAC to ensure their early completion. The assistance required by the FAC from the Government will be subject to commercial negotiation and cannot be specified. The Government will also liaise with the FAC regarding the need for subsequent development of such facilities at Adelaide, Perth and Coolangatta Airports.
Export Access Scheme for Small and Medium Sized Enterprises

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<td>2.6</td>
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This measure builds on Export Access, which is part of the Commonwealth's Small and Medium Enterprise Development Program announced in the 1991-92 Budget. Its aim is to assist small and medium sized firms gain access to the skills required to enter export markets successfully.

Performance Bonds for Exports

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Performance bonds are often required by exporters to provide for payments to overseas buyers when performance specified under contracts is not achieved.

In the March 1991 Statement the Government established a $50m National Interest performance bond facility to provide performance bonds required by Australian firms undertaking contract work overseas. The facility, administered by the Export Finance and Insurance Corporation (EFIC), has been expanded to $150m. The Commonwealth will be liable for up to $100m under the National Interest provisions of the EFIC Act 1991, and EFIC will provide up to $50m in bonding support on its commercial account.

Expansion of Austrade

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<td>5.0</td>
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The measure will enable the accelerated strengthening of Austrade's international network, particularly in the Asia-Pacific region as recommended in the 1990 McKinsey Review of the Australian Trade Commission. Increasing Australia's presence in Asia-Pacific markets will result in an almost immediate increase in both the amount and quality of market information and identified business opportunities available to exporters. Austrade expects an increase of $50m in exports in the first year.
Additional Funds Allocated to the Textile, Clothing and Footwear (TCF) Industry Development Strategy

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This measure provides additional funds for the TCF Industry Development Strategy, to assist the restructuring of the TCF industry and the promotion of adjustment processes in response to the phase-down arrangements for tariffs and quotas. This brings the total proposed expenditure on the program to $130m over the eight year period to 1994-95.

Equity in the National Electricity Grid Corporation

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The Government is to provide, as equity, $100m to upgrade the transmission link between NSW, Victoria and South Australia, subject to the States agreeing to establish a National Grid Corporation.

Crop Planting Scheme

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Additional funding is being provided for a one-off crop planting assistance scheme under the Rural Adjustment Scheme to crop farmers who are viable but are currently in severe financial difficulties because of the rural downturn. The Scheme will help ensure adequate crop plantings for the 1992 winter and 1992-93 summer seasons.

Wool Industry Strategy

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On the basis of a more positive outlook for wool prices, the Government has decided to introduce a more flexible cumulative debt reduction schedule for the
Australian Wool Realisation Commission (AWRC). The Government will also consult with the wool industry on the allocation of surplus AWRC funds, including the possibility of providing rebates to woolgrowers.

Additional Funding for Rural Counselling

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Additional funding for the Rural Counselling Program is provided in response to the increased demand for financial counselling services as a result of the rural downturn.

Increased Funding for the Rural Adjustment Scheme

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This measure provides, through the Rural Adjustment Scheme, increased Commonwealth funding of interest subsidies for farm finance to meet the structural adjustment needs of the rural sector.

Feasibility Study into Steel Mill - Bunbury WA

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Subject to matching funding from the WA Government, the Commonwealth has committed up to $1m for a final feasibility study into a steel mill in Bunbury WA.
Australian Tourist Commission (ATC) - Additional Funding for Overseas Marketing

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Additional funding will be provided to the ATC in 1991-92 and 1992-93 for increased overseas promotional activity.

Newcastle Economic Development Initiative

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<td>$1.4</td>
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With support from the NSW Government, local industry and appropriate local bodies, this measure will help provide an Industry Development Centre, upgrade Williamtown Airport and support civic redevelopment in Newcastle.

Funding for the new Department of Tourism

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<td>$5.9</td>
<td>$6.1</td>
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These funds provide for establishment of the new Department of Tourism with enhanced capacity for the development of policies for this industry.

LABOUR AND EMPLOYMENT

Additional First Year Apprentice Incentive - CRAFT

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To encourage the employment of more first year apprentices, the initial instalment of the CRAFT apprentice training incentive will be increased by $2,000 to a total of $3,500 for 1992, for every first year apprentice who is additional to a firm's intake as at the end of September 1991. It is expected that
this measure will generate an additional 9,000 first year apprenticeship opportunities.

**Australian Traineeship System (ATS) - Increased First Year Trainee Incentive**

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<td>3.3</td>
<td>6.8</td>
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The ATS employer incentive will be increased by $1,000 to $2,000 for the 1992 calendar year. One half of the additional incentive ($500) will be paid to employers together with the standard first instalment of the existing ATS employer incentive of $500 upon registration of the training agreement. Subject to the trainees' continued employment, employers will be able to claim the other $500 on completion of the Traineeship.

**Continuation of Measures to Assist Unemployed and 'At Risk' Apprentices and Trainees**

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<td>10.5</td>
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The package of measures announced in the March 1991 Statement to assist unemployed and 'at risk' trainees and apprentices will be extended for a further year. Some 7,000 apprentices and trainees will be assisted by these initiatives in the coming financial year.

**Assistance to 'At Risk' Second Year Apprentices**

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Employers will receive a wage subsidy of $60 per week for 26 weeks to encourage the retention of apprentices who have completed the first year of their indenture and where otherwise, owing to financial difficulties or shortage of work, the apprenticeships would be suspended or cancelled.
Assistance to Group Training Schemes

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<tbody>
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<td>$m</td>
<td>1.6</td>
<td>3.2</td>
<td>0.9</td>
<td>-</td>
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</tbody>
</table>

Non-recurrent funding will be provided for pilot projects that provide additional employment and training opportunities, and that assist the retention of indentured apprentices in training during periods of downtime. Priority will be given to schemes in rural and remote areas.

Continuation of Pre-Vocational Places

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A further 10 000 pre-vocational training places will be funded from July 1992 to provide training opportunities for young people who have not been able to obtain jobs and who are at risk of extended unemployment.

Reallocations from Entry Level Training Programs

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<td>-11.0</td>
<td>-36.8</td>
<td>-11.4</td>
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</tbody>
</table>

The cost of vocational and entry level training initiatives is partly offset by redistributing current allocations in existing programs. Underspends resulting from low take-up of apprentice and trainee incentive payments by employers will be used to partly fund new measures to stimulate apprentice and trainee recruitment and alternative training opportunities for young people.

Labour Market Programs

- **JOBSKILLS - Additional Funding**

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</table>

Some 2 400 work experience places will be created in 1992-93 under the existing JOBSKILLS program. These will provide 6 months of employment
and training with local government and community organisations for the long-term unemployed.

- **JOBSTART - Additional Funding**

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Increased funding under the JOBSTART element of the Employment Access Program (EAP) will create additional job opportunities for up to 44,400 unemployed people through wage subsidies to employers. Increased priority will be given to the longer-term unemployed and regions with high levels of unemployment.

- **JOBTRAIN - Reallocation**

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</table>

In 1992-93 the focus of labour market programs will be shifted away from short-term training under the JOBTRAIN element of the EAP towards other forms of assistance. Funds for JOBTRAIN will subsequently be increased in 1993-94 to provide training places when they will be most effective.

- **Special Intervention - Additional Funding**

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</table>

The Special Intervention Program, which provides assistance in English language, literacy and numeracy training for the most disadvantaged job seekers, will be expanded to cater for an additional 6,700 clients in 1992-93.
- **Self-Employment Assistance Program (SEAP) - Additional Funding**

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</table>

The Self-Employment Assistance Program helps job seekers launch commercially viable small businesses through the provision of advice and financial assistance. Additional funding will allow the number of people assisted under the program to be increased by over 500 places in 1991-92 and 1100 in 1992-93.

- **Regional Employment Initiatives**

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<td>4.0</td>
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</table>

Resources available to the Office of Labour Market Adjustment will be expanded to increase the coverage of non-metropolitan regions with high unemployment and to increase the assistance to 15 regions under existing packages. Funds will be used to promote community and industry involvement in developing responses to structural change affecting these regions.

- **Reallocation from Labour Market Programs**

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</table>

The cost of enhanced labour market program opportunities is partly offset by redistributing current allocations in existing programs. Underspends in 1991-92 resulting from delays in implementing the Training and Skills Program (TASK) administered by the Office of Labour Market Adjustment will be used to fund other labour market program initiatives.
FOREIGN AFFAIRS AND OVERSEAS AID

Development Import Finance Facility

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</table>

This measure assists Australian businesses supplying developmentally important export goods and services. The additional funds will be provided as aid grants by the Australian International Development Assistance Bureau to be combined with loans by the Export Finance Insurance Corporation to selected developing countries to acquire capital goods and services from Australian exporters. It will generate about $50m worth of direct purchases from Australian businesses.

GENERAL AND SCIENTIFIC RESEARCH, NEC

Funding for the Establishment of an Australian Technology Group (ATG)

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</tbody>
</table>

Funding will be provided to establish an ATG. It is intended that the ATG will operate as a Government Business Enterprise and that its operations will involve such functions as identifying research with commercial potential; securing effective control and protection for intellectual property; and marketing the research output both within Australia and overseas. It could include provision of seed capital to bring an idea to a stage where it would be attractive to private sector partners. These activities will be directed at improving the rate at which Australian research is commercialised.
The extent of liability in Commonwealth contracts for development of computer software and in the use of system integration services will be determined on the basis of a case-by-case risk assessment undertaken by the buying agency together with the Department of Administrative Services and the Attorney-General's Department. Limitations on liability will be negotiated with suppliers as part of the acquisition process. This risk sharing initiative will assist industry development and reduce the cost of doing business with the Commonwealth. All other purchases will be under existing arrangements.

ASSISTANCE TO OTHER GOVERNMENTS, NEC

General Purpose Capital Assistance - Building Better Cities (BBC)

The BBC Program will be refocussed, through negotiation with States and Territories, to enhance its infrastructure component. Projects to be funded under the Program include infrastructure provisions for the Multi-Function Polis in SA, extension of the Brisbane-Gold Coast railway from Beenleigh to Robina, upgrading of the Geelong-Werribee-Melbourne rail link and construction of railway stations and expanded modal interchange facilities on the Pakenham and Cranbourne lines in Victoria.
### III REVENUE MEASURES

#### Summary of Measures

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<tbody>
<tr>
<td>Personal Tax Cut</td>
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</tr>
<tr>
<td>Depreciation Arrangements</td>
<td>-</td>
<td>30</td>
<td>215</td>
<td>360</td>
<td>490</td>
</tr>
<tr>
<td>Write-Off of Certain Income Producing Buildings</td>
<td>-</td>
<td>-</td>
<td>5</td>
<td>15</td>
<td>30</td>
</tr>
<tr>
<td>Private Investment in Public Infrastructure Streamlining ATO Processes</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Non Assesable/Non Deductible Bonds</td>
<td></td>
<td>-</td>
<td>10</td>
<td>35</td>
<td>100</td>
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<tr>
<td>Development Allowance</td>
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<tr>
<td>Pooled Development Funds</td>
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<td>Capital Gains Tax Goodwill Exemption</td>
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<td>10</td>
</tr>
<tr>
<td>Offshore Banking Units</td>
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<td>-</td>
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<td>5</td>
<td>5</td>
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<tr>
<td>Company Tax Deferral</td>
<td>10</td>
<td>-10(a)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deductions for Bad Debts</td>
<td>-</td>
<td>(b)</td>
<td>(b)</td>
<td>(b)</td>
<td>(b)</td>
</tr>
<tr>
<td>Motor Vehicles (WST)</td>
<td>40</td>
<td>185</td>
<td>210</td>
<td>250</td>
<td>275</td>
</tr>
<tr>
<td><strong>TOTAL COST TO REVENUE</strong></td>
<td>50</td>
<td>210</td>
<td>455</td>
<td>4140</td>
<td>6205</td>
</tr>
</tbody>
</table>

(a) Revenue gain.

(b) The nature of this measure is such that its cost cannot be reliably estimated.
DESCRIPTION OF REVENUE MEASURES

Personal Tax Cut

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<tbody>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>3 420</td>
<td>5 220</td>
<td></td>
</tr>
</tbody>
</table>

Rates of personal income tax will be reduced across the low-middle and middle income ranges from 1 July 1994 and from 1 January 1996.

From 1 July 1994, the present 38 cent rate will be reduced to 34 cents in the dollar, the threshold for the 46 cent rate will be raised from its present income level of $36,000 to $38,000, and the 46 cent rate will be reduced to 43 cents.

From 1 January 1996, the 34 cent rate will be reduced to 30 cents, the threshold for the 43 cent rate will be raised to $40,000, and the 43 cent rate will be reduced to 40 cents.

The present and future rates scales are

<table>
<thead>
<tr>
<th>Current Income ($pa)</th>
<th>Marginal Rate (%)</th>
<th>From 1 July 1994 Income ($pa)</th>
<th>Marginal Rate (%)</th>
<th>From 1 January 1996 Income ($pa)</th>
<th>Marginal Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-5400</td>
<td>0</td>
<td>0-5400</td>
<td>0</td>
<td>0-5400</td>
<td>0</td>
</tr>
<tr>
<td>5400-20700</td>
<td>20</td>
<td>5400-20700</td>
<td>20</td>
<td>5400-20700</td>
<td>20</td>
</tr>
<tr>
<td>20700-36000</td>
<td>38</td>
<td>20700-38000</td>
<td>34</td>
<td>20700-40000</td>
<td>30</td>
</tr>
<tr>
<td>36000-50000</td>
<td>46</td>
<td>38000-50000</td>
<td>43</td>
<td>40000-50000</td>
<td>40</td>
</tr>
<tr>
<td>Over 50000</td>
<td>47</td>
<td>Over 50000</td>
<td>47</td>
<td>Over 50000</td>
<td>47</td>
</tr>
</tbody>
</table>

The income tax rate reductions are targeted on the marginal rates that now apply within the range of $20,700 to $50,000.

Depreciation Arrangements

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<td>30</td>
<td>215</td>
<td>360</td>
<td>490</td>
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</tr>
</tbody>
</table>
(i) Depreciation of Plant and Equipment

The taxation law will be amended to provide further acceleration of taxation depreciation deductions for plant and equipment beyond effective life rates for most asset classes.

Under the new arrangements

- a 7 band schedule will apply

- depreciation under the general provisions will be permissible only on the declining balance method

- the existing 20 per cent loading on depreciation rates will be subsumed into the new accelerated rate scales

- provisions will be enacted to prevent taxpayers becoming eligible for new accelerated depreciation rates where there is no change in beneficial ownership of assets, or in effective end user. For example, on transfer of assets within a company group and sale-leaseback transactions

The new rate schedules, compared to those introduced in March 1991 are

<table>
<thead>
<tr>
<th>Effective Life Class</th>
<th>New Rate of Depreciation</th>
<th>Implied Write-Off Life</th>
<th>Previous Rates (inclusive of loading)</th>
<th>Implied Write-Off Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Less than 3</td>
<td>100</td>
<td>1</td>
<td>100</td>
<td>1</td>
</tr>
<tr>
<td>3 to less than 5</td>
<td>60</td>
<td>2.5</td>
<td>60</td>
<td>2.5</td>
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<tr>
<td>5 to less than 6 2/3</td>
<td>40</td>
<td>3.75</td>
<td>36</td>
<td>4.2</td>
</tr>
<tr>
<td>6 2/3 to less than 10</td>
<td>30</td>
<td>5</td>
<td>27</td>
<td>5.6</td>
</tr>
<tr>
<td>10 to less than 13</td>
<td>25</td>
<td>6</td>
<td>18</td>
<td>8.3</td>
</tr>
<tr>
<td>13 to less than 20</td>
<td>20</td>
<td>7.5</td>
<td>13.5</td>
<td>11.1</td>
</tr>
<tr>
<td>20 to less than 30</td>
<td>20</td>
<td>7.5</td>
<td>9</td>
<td>16.7</td>
</tr>
<tr>
<td>30 and over</td>
<td>10</td>
<td>15</td>
<td>9 or 4.5</td>
<td>16.7 or 33.3</td>
</tr>
</tbody>
</table>

The following exceptions are to apply to the new schedule

- passenger motor vehicles and derivatives designed to carry less than nine people will continue to be depreciable under the regime effective from 1 July 1991

- paintings and certain other art works will also continue to be depreciable under the regime effective from 1 July 1991
• the special five-year straight-line write-off for trading ships will remain unaltered

• the special depreciation rate for employee amenities will be retained

• plant and equipment used in eligible research and development will continue to be deductible at 50 per cent over each of three years

Consistent with the arrangements announced in the March 1991 Statement, the rate of depreciation for each asset can be determined either with reference to the depreciation schedules published by the Commissioner of Taxation, or be self-assessed as to its effective life by the taxpayer.

The new arrangements will apply to plant and equipment, including second-hand plant, acquired or commenced to be constructed on, or after, 27 February 1992.

(ii) Structural Improvements

The cost of income-producing structural improvements will be eligible for write-off for tax purposes on the same basis as income producing buildings.

This provides a fixed write-off rate of 2½ per cent based on construction costs, with no balancing adjustments. The measure will ensure that the treatment of income producing structures will be comparable to that of buildings generally.

Consistent with existing capital write-offs, earthworks will be eligible for write-off where they formed an integral part of installing an income-producing structural improvement.

The measure reflects a view that structural improvements may be an integral part of a business operation and, like income-producing buildings, depreciate in the course of producing income.

Some improvements to realty, however, simply constitute mere changes to the landscape. These improvements typically do not depreciate and, therefore, it is inappropriate to allow depreciation deductions. As a result, items such as golf courses, landscaping and playing fields will not be eligible for write-off.

The measure will apply to income-producing structural improvements commenced to be constructed on, or after, 27 February 1992.

(iii) Depreciation of Property Installed on Leased Crown Land

The taxation law is to be amended so that the fact of a property's attachment to Crown land does not, of itself, prevent depreciation deductions being allowed in respect of the property.
Under the existing law, for certain Crown leases, a lessee who installed improvements would not be considered to be the owner of the property for depreciation purposes. The proposed amendment will address an anomaly in the law which has become apparent as a result of increasing private sector investment in infrastructure projects where such investment can involve private investors installing property on leased Crown land.

A taxpayer's entitlement to a deduction in these circumstances will depend on whether the taxpayer has incurred the capital cost, has proprietary rights akin to "ownership" and is the real end-user of the plant in production of assessable income.

In cases where tax exempt bodies are involved in the project, the requirements of Section 51AD and Division 16D of the *Income Tax Assessment Act* will still have to be satisfied before depreciation deductions were allowed.

The measure will apply in respect of plant and equipment acquired, or commenced to be constructed on, or after, 27 February 1992. The measure will also apply in respect of plant and equipment acquired prior to that time based on a notional written down value on 27 February 1992.

### Write-off of Certain Income Producing Buildings

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<td>15</td>
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</table>

Capital expenditure on the construction of buildings used for short-term traveller accommodation and industrial buildings, including capital expenditure on alterations and improvements, will be able to be written off at 4 per cent per annum on a straight-line basis.

At present such buildings are eligible for write-off at 2 1/2 per cent per annum. Other income-producing buildings will continue to be written off at this rate.

Buildings eligible for write-off as short-term traveller accommodation are those qualifying under Division 10C of the *Income Tax Assessment Act* and include hotels, motels and certain apartments.

An industrial building will constitute that part of a building used wholly or principally for the purpose of manufacturing goods or for purposes directly related to manufacture. For example, a building that houses manufacturing plant, packaging plant, supervisor's offices, and a workers' lunchroom would be eligible for write-off as an industrial building.
Warehouse buildings are generally excluded other than those adjacent to the manufacturing site and used as temporary storage for raw materials and finished goods.

Office buildings and retail stores will not be included in this measure.

The measure will apply in respect of buildings, alterations or improvements where construction commences on or after 27 February 1992.

**Private Investment in Public Infrastructure: Streamlining Australian Taxation Office (ATO) Processes**

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In order to facilitate and encourage private sector investment in infrastructure, the ATO is introducing streamlined processes for early private rulings on private investment in public infrastructure projects. These rulings will clarify, in particular, uncertainty as to investment arrangements which might be adversely affected by Section 51AD and Division 16D of the *Income Tax Assessment Act*, which deal with arrangements under which private financiers seek to receive a taxation benefit without a matching risk exposure.

**Non-Assessable/Non-Deductible Bonds**

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<td>10</td>
<td>35</td>
<td>100</td>
<td>100</td>
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</table>

The taxation law will be amended to provide the facility for non-assessable/non-deductible bonds to be issued to finance certain new transport and electricity projects. The interest on eligible bonds would neither be deductible to the issuer nor assessable to the lender.

To qualify, bonds would have to be issued by an eligible company and be issued for eligible purposes. Eligible bonds would have a maximum term of 10 years.

Eligible companies would be incorporated companies subject to Commonwealth income tax.

Eligibility would be confined to borrowings wholly undertaken for the purpose of financing the acquisition, or construction, of new land transport infrastructure or public electricity generating projects in Australia. Moreover, to be eligible it would have to be the intention that the project would be owned, operated and
used by the issuing company for the purpose of producing assessable income for a period of not less than 30 years.

Eligible land transport infrastructure would encompass roads, bridges, tunnels, railways (including rolling stock used on the track where both are owned and operated by the taxpayer), and sea-port facilities excluding vessels. In all cases, the facilities are to be used for public carriage, or for carriage by the public, of freight or persons, or for the transfer of freight or persons (ie, designated mining railways, private roads, etc do not qualify).

Public electricity generating projects must be projects linked into, and supplying, the public electricity grid. Generating facilities for private development projects will not be eligible.

Companies would not be eligible if the arrangements relating to the finance or use of the property would attract the provisions of Section 51AD or Division 16D of the *Income Tax Assessment Act*.

The measure will assist companies developing land transport and electricity generating projects through providing for reduced interest costs by, in effect, allowing companies developing the projects to transfer their benefits from tax deductibility of interest to lenders. This will be most likely to occur in the initial stages of the project where the companies could not themselves have used the interest deductions.

The new arrangements will apply to eligible borrowings undertaken on or after 1 July 1992.

Detailed procedures for determining eligible companies and projects will be announced prior to that time.

### Development Allowance

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The Government has decided to introduce a development allowance for selected large scale investments. To be eligible for this allowance, projects must involve a capital cost of $50m or more, and must be completed within a tight timeframe.

To receive the allowance, the projects must demonstrate that they meet criteria designed to ensure they are world competitive in respect of proposed practices of employers, employees and governments at all levels including no substantial tariff or bounty assistance, demonstrated environment and heritage approval, and economic and efficient public utility input prices. Details of the
arrangements and the commencement date for the allowance will be announced
at a later date.

The 10 per cent development allowance, which is to apply to eligible projects,
will be based broadly on the existing, but now inoperative taxation legislation
for the investment allowance, and will operate in the following way

• only new units of eligible property, being plant or articles within the
  meaning of the depreciation provisions, will qualify. The deduction for the
  allowance will be additional to depreciation

• the allowance will be claimable in the year the unit of property is first used
  for the purpose of producing assessable income, or installed ready for use
  and held in reserve

• the property must be acquired or constructed by the taxpayer and must be
  used in Australia by the taxpayer for the purpose of producing assessable
  income

• the property must be retained by the taxpayer for at least 12 months and not
  be put to disqualifying use within that period

• as a general rule, the allowance will not be available to a taxpayer who uses
  the property to produce income by leasing, unless the lessee contracts to use
  the property under a long-term lease in an eligible project

• the expenditure on a unit of property must not be capable of immediate
  deduction in full under the depreciation provisions, but only capable of
  deduction over more than one year, if the expenditure is to qualify for the
  allowance. Hence, units of property with effective lives of less than three
  years, or costing less than $300, will not qualify for the allowance

• expenditure on certain items of property will not qualify for the allowance,
  including

  — plant used in research and development, which otherwise qualifies for
    concessions under the income tax law

  — aircraft and trading ships

  — passenger motor vehicles

  — household appliances and furniture and fittings, unless used in the
    tourist accommodation industry
— artworks and books

— non-protective wearing apparel and accessories

- technical amendments will be made to the existing legislation to ensure that taxpayers are not denied the allowance merely because they give limited rights to use the property incidentally in such income-producing businesses as the provision of traveller accommodation.

Pooled Development Funds (PDFs)

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Concessional taxation treatment will be available to investment companies which are established and registered as PDFs to provide equity capital principally to established small and medium-sized companies.

The activities of PDFs will be restricted to the acquisition of eligible equity interests in companies that are resident in Australia and which have gross assets of less than $30m.

Eligible equity interests will be restricted to new capital (for example, new shares), where there is no disposal by a previous stakeholder. Eligible equity interests will be primarily for developing new production capacity or markets for established ventures undertaken by such companies.

PDFs will be required to place a minimum percentage of investors' funds in eligible equity interests, within a specified time after the subscription of investors' funds. The minimum percentage and the specified time are yet to be determined.

PDFs generally will be allowed to invest in companies engaged in any area except the following

- retailing operations

- real estate other than property investment which is integral to broader eligible activities. (For example, PDF investee companies will be allowed to invest in construction of a building for a tourism project, where the project is operated by the investee company, or construction of an industrial building for an eligible investee company involved in a manufacturing project)
No more than 10 per cent of the funds of a PDF will be permitted to be invested in any one enterprise and not more than 5 per cent of a PDF's funds will be able to be invested in start-up ventures. A PDF investment in an eligible investment, however, will be required to be a minimum of 10 per cent of the issued shares of an investee enterprise.

It is envisaged that the PDFs will be established by private sector organisations or public sector financial institutions, but all will be required to be companies subject to the corporations legislation. Maximum shareholdings in a PDF by any one investor (and associates) will be limited to 10 per cent of the PDF, unless the shareholder is a bank or a life office. Except for short-term liquidity purposes, PDFs will be prohibited from borrowing. PDFs will also not be allowed to buy back their own shares, issue convertible or redeemable instruments, or issue more than one type of share.

PDFs will be taxed on their net taxable income, assessed in accordance with the existing income tax laws, at a rate of 30 per cent. The Funds will be entitled to imputation credits attached to any receipts of franked dividend income, and where applicable, will be subject to income tax treatment of gains on the sale of shares. PDFs will not be entitled, however, to maintain a franking account so that they will not be able to keep accumulated franking credits for future distribution in the event they cease to retain PDF status.

Distribution of dividends from the Funds (and of accumulated profits on liquidation) will be exempt from tax (including from dividend withholding tax). Gains on the disposal by taxpayers of shares in PDFs will also be exempt from income tax. Losses on disposal will not be deductible. Consequently, investors in the Funds will not be entitled to deductions for interest on borrowings undertaken to subscribe to, or purchase, shares in the Funds.

A Board will be established under the auspices of the Minister for Industry, Technology and Commerce to assess and register applicants wishing to establish a PDF. No limit will be set on the number of Funds to be registered or on the amounts those Funds can raise. Neither will registered Funds be required to seek the Board's approval for individual investments.

The Board will consider applications against a set of guidelines, yet to be established, which will include the restrictions on shareholdings, investments and borrowings outlined above and also requirements regarding management expertise, Fund structure and operation.

There will be both annual statutory and periodic licensing Board audits of PDFs to ensure compliance with the guidelines. The tax legislation will provide that the concessional tax treatment of a Fund and its investors will apply for the period that the Fund remains registered with the Board.
Capital Gains Tax (CGT) Goodwill Exemption

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The percentage of a capital gain on the disposal of the goodwill of a business that is exempt from capital gains tax will be increased from 20 per cent to 50 per cent. The exemption will apply where net business interests of the taxpayer are less than $2m (increased from $1m) and the exemption ceiling is to be indexed annually from 1 July 1993.

These changes will apply in respect of disposals of goodwill on or after 27 February 1992.

Offshore Banking Units (OBUs)

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The taxable income derived from pure offshore banking transactions by an authorised offshore banking unit in Australia will be taxed at the reduced rate of 10 per cent from 1 July 1992. The taxable income eligible for the 10 per cent tax rate will be that arising from the borrowing and lending of money (generally from and to non-residents, respectively) in the circumstances necessary to gain the Interest Withholding Tax exemption specially provided for OBUs in the existing law.

There will be provisions to make sure that the concession is confined to offshore banking activity.

Further consideration is being given to the details of the arrangements which will be announced prior to 1 July 1992.

A 10 per cent tax rate for profits from offshore banking will provide further stimulus to the development of offshore banking in Australia at a time when such activity is likely to be shifted from Hong Kong to elsewhere in the Asia-Pacific region. The Government has already provided an exemption from interest withholding tax for OBUs.
Company Tax Deferral

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(a) Revenue gain.

The due date for initial tax payments in respect of the 1991-92 income year by small companies, superannuation funds, approved deposit funds and pooled superannuation trusts (hereafter companies) is to be deferred.

Small companies which are due to make an initial payment of company tax in respect of the 1991-92 income year after 26 February 1992 will be able to defer that payment for up to 9 weeks.

Small companies are those with notional or estimated tax for the 1991-92 income year of less than $400 000.

Instead of being payable on the 28th day of the month following that in which the company balances, the initial payment will be due on the 28th day of the third month following the balancing day. For a small company balancing in June 1992, the initial 85 per cent payment will now be due on 28 September 1992, in lieu of 28 July 1992.

The changed arrangements will also apply to companies with a notional or estimated tax liability between $1 000 and $20 000 which make an initial payment rather than pay all their tax in the sixth month following balancing.

The final payment of tax for the 1991-92 income year for small companies subject to the above deferral arrangements will continue to be required by the 15th day of the ninth month following balancing month or by 15 June 1993 if that is earlier.

The arrangements for the offset of franking deficit tax payments, franking credits and franking debits will be similar to those applied to last year's deferral of the initial payment of company tax for small companies.

The deferral of the initial payment of company tax will assist small companies experiencing cash flow difficulties. A similar deferral was provided last year.
Deductions for Bad Debts

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(b) The nature of this measure is such that its cost cannot be estimated reliably.

Taxpayers who are entitled to tax deductions for bad debts written-off will be able to claim losses incurred in debt for equity swaps under debt restructuring arrangements. As well, the existing law is to be clarified to ensure that partial debt write-offs are allowable deductions.

A deduction will be allowable to taxpayers who write off debt as part of a debt for equity swap arrangement with their debtors, for the difference between the amount of the debt and either the market value of the equity or the value at which the equity is recorded in the creditor's books, whichever value is the greater.

The market value of the equity will be either the price quoted on the stock exchange or, where the equity is not listed, the net asset backing of the equity. The deduction will be limited to the amount of the debt that has been included in assessable income where the taxpayer is not in the business of lending money.

Any amounts received upon disposal or redemption of the equity in excess of the value attributed to it when the deduction was claimed will be included in the taxpayer's assessable income.

The law will be amended to make it clear that, where only part of a debt is bad and is written-off, the taxpayer creditor (for instance, the lender) will be able to claim a deduction for the amount written-off.

These measures should ensure the appropriate taxation outcome from the process of debt restructuring via debt for equity swaps and from partial write-offs, and may result in some reduction in the number of cases where businesses are liquidated.

The measures relating to debt for equity swap arrangements will apply to debts written-off on or after 27 February 1992.
The Government has decided to reduce the wholesale sales tax (WST) rate that applies to most passenger motor vehicles from the present general rate of 20 per cent to a new rate of 15 per cent.

The 15 per cent WST rate will apply to all new passenger motor vehicles (whether domestic or imported) that are priced below the luxury motor vehicle threshold (which for 1991-92 is a sale value for WST purposes of $30,505, equivalent to a retail price of $45,462).

In the March 1991 Statement, the Government reduced the WST rate applying to luxury motor vehicles from a split rate structure of up to 50 per cent to a flat rate of 30 per cent. WST arrangements for luxury vehicles will be retained.

The WST legislation introduced tonight will define passenger motor vehicles consistently with Customs Tariff definitions. The new 15 per cent rate will apply only to passenger motor vehicles. Other vehicles, such as trucks, delivery vans, utilities, motor cycles, golf cars and ski-mobiles, hearses, ambulances, police vans and amphibious vehicles, will continue to be liable to WST at 20 per cent. Off-road vehicles will also continue to be taxed at 20 per cent or, if in the luxury category, at 30 per cent. Many of these types of vehicles are imported and benefit from the substantially lower tariff rates for commercial vehicles of 15 per cent. Some (such as police vans and ambulances) are bought by purchasers who are exempt from sales tax under other provisions of the law. (Imported passenger motor vehicles presently attract customs duty of 35 per cent.)

The measure will apply to sales of qualifying passenger motor vehicles which occur on or after 27 February 1992.

Depending on marketing developments in the industry, the retail price of sub-luxury cars should be reduced by a little over 3 per cent (about $800 on a 6 cylinder sedan). The CPI would then be about 0.2 percentage points lower than otherwise.
DESCRIPTION OF REGULATORY AND OTHER MEASURES

Aviation Policy

The Government is to introduce a further program of change for the Australian aviation industry. The new policy will remove the barrier between Australia's domestic and international aviation sectors, encourage greater competition, stimulate tourism and will open the way for the development of a single aviation market with New Zealand.

Facilitation for Major Projects

As part of broad reforms to the project approval process, an integrated Commonwealth-State project assessment process will be offered to major project proponents, working to agreed deadlines, using a Commonwealth-State project team where appropriate. The Commonwealth will ensure that all relevant issues in project assessment are considered at the outset of the approval processes and that arbitrary revisiting of issues does not occur. Approvals processes will also be addressed through signature of the Intergovernmental Agreement on the Environment and by the development a parallel agreement dealing with Aboriginal Heritage issues.

Resource Security

The Government remains committed to facilitating major investment in the forest industry by providing security for industry, while at the same time ensuring that environmental standards are not compromised. The Forest Conservation and Development Bill, which reconciles these issues, will be debated in the Parliament shortly.

Reform of Entry-Level Training and Youth and Training Wages

The Government is committed to reform of entry-level training arrangements to develop a more extensive, responsive and unified system for young people who do not proceed to higher education. The Government will act immediately on the report of the Employment and Skills Formation Council, due by the end of March. The Commonwealth will be commencing negotiations with APS unions to reform entry-level training in the APS.
Industrial Relations: Certified Agreements

The *Industrial Relations Act* will be amended to encourage the making of workplace agreements.

Foreign Investment Policy

The Government has decided to make two major liberalisations to its foreign investment policy guidelines, to take effect from today. First, the thresholds, below which foreign investment proposals are not examined in sectors of the economy, set out below, are increased to $50m, from $3m for rural properties, $5m for acquisitions of a substantial interest in a business and $10m for a new business. Proposals above the previous thresholds will remain notifiable under the *Foreign Acquisitions and Takeovers Act*.

The sectors to which the previous paragraph applies are manufacturing, services, resource processing, oil and gas, mining (excluding uranium), non-bank financial intermediaries, insurance, stockbroking, tourism (hotels and resorts), rural properties, agriculture, forestry and fishing.

Second, the 50 per cent Australian equity guidelines for new mines and the guideline for the proponent to demonstrate net economic benefits to Australia in respect of takeovers of existing mines, have been abolished. Proposals in the mining sector will normally be approved unless they are contrary to the national interest.

Banking Industry Reforms

Foreign entry to the Australian banking industry has been liberalised to allow foreign banks to conduct wholesale banking in branches, to permit the issue of new licences to foreign-owned banks, and to consider foreign bids for banks other than the four major banks.

Exemptions allowing money market corporations to describe themselves as merchant banks will be withdrawn.