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Federal Labor Shadow Treasurer

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## **AN OPPORTUNITY IRRESPONSIBLY SQUANDERED**

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## **MISSED OPPORTUNITY FOR ECONOMIC REFORM**

The 2005-06 Budget reflects the Government's sense of complacency and its laziness about reform.

The reforms we need in skills and infrastructure are not in the Budget.

The Government is ignoring the history of frequent, abrupt and unforeseen changes in the international environment that shape Australia's economic fortunes.

Instead of addressing crucial reform priorities, it is relying on a once-in-a-lifetime surge in world economic growth and terms of trade to underpin future growth.

The Government has squandered the opportunity to address the warning signs that have been flashing across the Australian economy.

Economic growth is slowing.

While John Howard in 1997 promised average annual growth rates of 4 per cent throughout the decade from 2000 to 2010, growth has averaged only 2.9 per cent in the decade's first half.

Reserve Bank Governor Ian Macfarlane has recently rung the alarm bell, saying we need to reduce our expectations, with future growth rates starting with 2s and 3s and not 3s and 4s.

The Budget is forecasting growth rates of just 2 per cent and 3 per cent for 2004-05 and 2005-06 respectively, and it is predicting a permanent downgrade in expected future growth rates from 2008-09.

Australia is not paying its way in the global economy.

Despite the extraordinary surge in Australia's terms of trade to their best level in fifty years, Australia has experienced the longest run of trade deficits in our history.

At 6.5 per cent of GDP in 2004-05, Australia's current account deficit is now higher than at any point in fifty years.

Since 1996, the rate of export growth has halved from 10 per cent to 5 per cent per year, and it's been even lower since 2001.

Despite the best prices for exports in 50 years, Australia is recording export growth of just 2 per cent in 2004-05.

Our long run of strong productivity growth during the 1990s appears to be over.

Australia's economy is on an unsustainable path – as demand exceeds supply, imports exceeds exports, and foreign debt continues to spiral upwards.

The Budget delivers a short term boost to consumption, instead of giving priority to investing in the machinery of wealth creation and building the economy's supply capacity.

The Budget provides no significant reforms to address the nation's critical skill shortages.

We have severe skill shortages in many occupations that are constraining our economic growth right now, yet we have 2.5 million people who aren't participating in the workforce as they want to.

Meanwhile, business surveys continue to show that the shortage of skilled workers is now the most significant factor holding back investment.

Years of underinvestment and a vacuum of national leadership have left Australia with creaking infrastructure that can't keep pace with our needs.

In this Budget, the Government has ignored the repeated calls from the OECD, the Reserve Bank, the Business Council of Australia and other groups to address the infrastructure crisis.

Nothing in the Budget addresses the structural deterioration in Australia's export performance in recent years, in particular in exports of manufactures and services.

While Australia diversified its exports and expanded its share of world trade in the decade to the mid-1990s, export diversification has been reversing under the Howard Government, and Australia's share of world exports has shrunk.

## TAX CUTS NOT TAX REFORM

The Government has missed a great opportunity to engage in long-term reform of the taxation system.

It has managed to spend \$22bn on personal cuts without delivering any real reform.

The tax measures in this Budget won't do enough to boost participation and productivity.

Labor supports tax reform but this package of tax cuts is unbalanced and unfair.

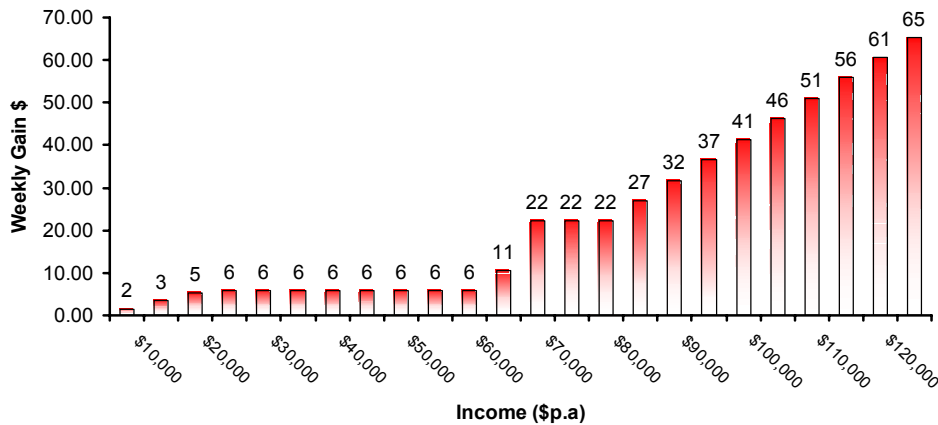
For the new tax cuts announced tonight eight out of ten taxpayers will receive a tax cut of just \$6 per week.

While an average income earner will get a cut of \$6 a week, a person earning \$125,000 will gain an additional tax cut of \$65.

The top 10 per cent of taxpayers will pocket around 45 per cent of the tax cuts.

### New tax cuts announced in this Budget:

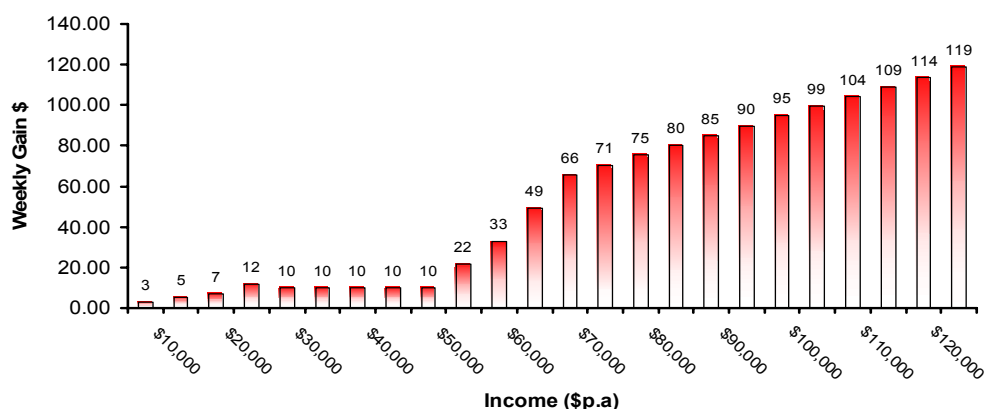
#### DISTRIBUTIONAL IMPACT



Since the GST was introduced, while average income earners have had a tax cut of just \$10 a week, taxpayers on \$125,000 will have cuts amounting of \$119 a week.

## Tax cuts since year 2000 including latest round:

### DISTRIBUTIONAL IMPACT



Those earning over \$100,000 will also gain an additional benefit from no longer having to pay the superannuation surcharge.

But notwithstanding these tax cuts this Government is still the highest taxing Government in Australia's history, with total tax now at almost \$235bn in 2005-06.

This is an increase of over 70 per cent since Howard came to office. Tax per taxpayer has risen by over \$12,200 under Treasurer Costello. And GST is weighing very heavily on Australia families: by 2008-9 the GST bill per household will be almost \$5,400; over \$100 per week.

### **Failure to systematically address disincentives:**

The Budget fails to significantly improve incentives for work. Effective marginal tax rates will remain very high:

- Single allowance recipients will still face effective marginal tax rates of up to 75 cents in the dollar;
- Single income families with dependents will still face effective marginal tax rates of over 100%;
- Sole parents placed on Newstart will face effective marginal tax rates 20% higher than they otherwise would have on the pension income test.

Clearly, the tax measures have been thrown together quickly, with no real vision, as the Treasurer and Prime Minister jostle for authority over taxation policy.

## WELFARE TO WELFARE

At the heart of the Howard Government's changes to welfare is a cut of up to \$77 per fortnight to many low income families dependent on welfare.

The 6<sup>th</sup> birthday present for a child in these families could be a cut of nearly \$40 a week to the family income.

The Howard Government has failed to deliver a plan that moves Australians from welfare to work.

Parents who move onto the lower Newstart payment will face higher effective marginal tax rates than they otherwise would have on the Pension Income Test, robbing them of the incentive to work.

Instead of helping people to work, they are punishing children and taking food off the table of some of our most vulnerable families.

Changing the Disability Support Pension work test from 30 hours to 15 hours doesn't account for sporadic mental illness and won't convince a single employer to hire a person with a disability.

And after years of complaining about the number of Disability Support Pensioners, the Howard Government has abandoned the 700,000 current recipients who are desperate for work opportunities.

The Federal Government now employs far fewer people with a disability than when John Howard became Prime Minister – they should lead by example.

Cutting the income of sole parents and people with a disability does not improve their job prospects. Jobseekers only get a job if they have the skills an employer needs. But only a fraction of job seeking parents and people with a disability will have access to vocational training.

They are spending three times as much on compliance as they are on vocational training for single parents and disability support pensioners.

64 year old unemployed people will have to jump on to the job search treadmill and face onerous job search requirements.

Where there were two payments there will now be five. Two people receiving the same payment will have different obligations and will be paid different amounts.

The Howard Government has begun a major policy shift from pensions to lower-rate allowances.

## MISSED OPPORTUNITY ON SKILLS

In this Budget the Howard Government has failed to act to urgently fix Australia's skills crisis.

The Budget merely contains a restatement of the Coalition's election commitments, which fail to deliver the skills Australian businesses need now.

Last week Federal Labor called on the Howard Government to make an immediate start on addressing the skills crisis, by introducing a \$2000 Trade Completion Bonus for traditional apprentices who complete their training.

A Trade Completion Bonus is one measure the Howard Government could have introduced right away to encourage more Australians to complete their training.

A staggering 40 per cent of people who start a New Apprenticeship do not complete their training.

Labor's proposal would mean less reliance on importing skills from overseas.

Improving completion rates now means dealing with the skills crisis today, and not waiting until 2010 when the Howard Government's Technical Colleges will produce their first tradesperson.

The Howard Government has imported 178,000 extra skilled migrants since 1997 but has turned away more than 270,000 Australians from TAFEs since 1998.

Labor's priority is clear: train Australians first and train Australians now.

Under Labor's proposal, traditional apprentices would receive a \$1,000 payment halfway through their training and a further \$1,000 payment at the completion of their apprenticeship.

The Trade Completion Bonus would be paid to traditional apprentices, including in the following areas:

- General & Off-site Construction
- Automotive Service and Repair
- Automotive Manufacturing
- Metals and Engineering
- Electrotechnology
- Baking
- Hairdressing
- Transmission and Distribution
- Commercial Cookery

Each of these trade training areas are on the National Skills Shortage List 2004.

The payment would not be taxable for income tax or other tax purposes including social security payments.

A Trade Completion Bonus should set a target to lift the completion rate by one third – from around 60 per cent to 80 per cent.

That means an extra 8,000 trained apprentices in our workplaces every year.

Achieving an 80 per cent completion target this scheme would cost in the order of \$80 million in 2006.

## **FISCAL POLICY AND THE FUTURE FUND**

Labor supports an intergenerational fund which locks away the proceeds of asset sales and excess surpluses – above and beyond the balanced Budget over the cycle objective - providing the flexibility to invest in Australia's productive capacity.

We support a future fund, but not the Future Fund Peter Costello is proposing.

Already the Government has breached its own accounting standards to hide the Fund's income stream by not including it in the Budget bottom line; this is sneaky and underhanded.

Labor believes the income stream should enhance the productive capacity of the economy now and into the future, not be set aside for fifteen years to offset the cost of bureaucrats' superannuation – this is a dwindling liability.

Unfunded public sector superannuation liabilities and associated cash flows are already declining as a share of GDP and will fall further once the PSS scheme closes on 1 July 2005.

The Government's Future Fund simply means higher taxes and/or less spending now, which means lower growth.

Labor will go for growth now; the course favoured by the Treasurer's own Secretary.

Labor will stick to our stated objective – which was also the Government's stated objective – of a balanced Budget over the economic cycle, and keeping debt low.

This means maintaining surpluses while economic conditions are sound; and setting money aside as a buffer for a rainy day.

It is by boosting productivity growth over the long term that Australia will be best able to meet the demands of an ageing population.