

Policy Launch

Statement

A Stronger Australia

20 September 1998

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The Choice to be Made

The 1998 Federal Election presents Australians with a clear and vital choice:

- it is a choice between competent economic management under the Coalition Government and a return to the days of Labor's economic incompetence – the days of high debt, high deficits and high interest rates;
- it is a choice between building further on the foundation of sound economic fundamentals under the Coalition Government, or frittering away once gain under Labor the advantages which Australia has gained from the restoration of those sound fundamentals over the past two and a half years;
- it is a choice between optimistic realism under a Coalition Government, or backward-looking inertia under Labor;
- it is a choice between the Coalition Government with a comprehensive plan to maximise Australia's potential as a nation in the twenty first century and Labor's head-in-the-sand approach which refuses to face up to the realities of Australia's circumstances and which has no strategy for taking Australia forward in an increasingly competitive world;
- it is a choice between the Coalition Government's plan to slash business costs by over \$10b, thereby boosting jobs, growth and exports, and Labor's refusal to develop any such plan which will only make it increasingly harder for our businesses to compete against the

rest of the world and to employ more Australians;

- it is a choice between a Coalition Government with the courage to confront reality and spell out its future strategy to the Australian people, and a Labor Opposition which tries to pretend that nothing needs to be done beyond spending more money but which, if elected in 1998, will repeat what it did after the 1993 Election – namely, to renege on tax cut promises and increase tax rates;
- it is a choice between a Coalition Government which balances fairness and incentive and a Labor Opposition obsessed with the self-defeating politics of envy;
- it is a choice between the Coalition Government's initiatives to strengthen the capacity of Australian enterprises to compete in export markets by removing \$4.5b of costs on Australian exports, and Labor's policies which will force Australian enterprises to compete in export markets and against imports with one hand tied behind their backs;
- it is a choice between the Coalition Government's plan to provide the States and Territories with an adequate and secure revenue base to fund health, education, law and order and other essential government services in the future, and a Labor Opposition with no such plan and no provision for such services into the future;
- it is a choice between a reduction under a Coalition Government of \$3.5b in the cost of fuel to all businesses, with particular advantages for rural and regional Australia, and Labor which would provide no such reduction;
- it is a choice between the Coalition Government's comprehensive strategy to enhance the social and economic security of Australians, and a Labor Opposition which is all talk and no substance on the issue;
- it is a choice between a future under a Coalition Government in which government does not get out of people's lives but in which it gets off their backs, and a future under Labor in which suffocating centralised controls are restored, choice is diminished and incentive is stifled;
- it is a choice between a Coalition Government which believes strongly in the principle of mutual obligation in our society and the value of programmes such as Work for the Dole, and Labor which is committed to gutting such programmes; and

- it is a choice between a Coalition Government which has boosted Australia's international influence through the strengthening of our domestic economy and through constructive and realistic engagement with the countries of our own region as well as those beyond it, and a return to Labor's arrogant hectoring system of diplomacy that fails to take proper account of Australia's real interests and our capacity to achieve results.

These dimensions of the choice which Australians will make on 3 October point to the broader choice to be made between two fundamentally different views of Australia's future.

Labor's view of Australia's future is a timid, introspective and backward-looking one.

Its guiding lights are centralised and ad hoc programmes of government and bureaucracy, a penalising of incentive and enterprise, and a fear of reform that will only entrench and worsen existing unfairness and inefficiencies, disadvantage Australia in the global economy and condemn Australians to declining living standards.

In contrast to Labor, the Coalition's view of Australia's future is one built on optimism, realism and a clear sense of purpose:

- optimism about the capacity of Australian individuals and enterprises to make the most of expanding global opportunities, and about our unique assets as a nation: our people, our natural resources and the intersection of our history, geography and diversity;
- realism about our circumstances as a nation and about the need for reform in specific areas if Australia is to maximise its potential into the twenty first century; and
- a clear sense of purpose built on an expansion of choice, incentive and opportunity and reflected in a plan for the future that delivers lower and fairer taxes, boosts growth and jobs, and ensures a secure revenue base to fund essential government services into the future.

Beliefs and Values Underpinning the Priorities of a Coalition Government

During its first term, the Coalition Government's priorities in public policy have been underpinned by a clear set of beliefs and values.

These beliefs and values will remain stronger than ever in a second term. They include:

- our aim to liberate the capacities of private enterprise within the context of a strategic but limited role for government;
- our commitment to strategic objectives such as a more productive economy, more effective markets, greater competitiveness and fiscal responsibility not as ends in themselves but as means for achieving more job growth, rising living standards throughout the community and an effective social safety net;
- our focus on practical outcomes, rather than ideology, with a presumption in favour of the individual over the State;
- our commitment to the enhancement of diversity, choice and competition;
- our recognition of the limits of markets as well as the limits of government;
- our opposition to both laissez-faire economics on the one hand, and suffocating centralism by government and bureaucracy, on the other;
- our central belief in the importance of strong families, strong workplaces and strong communities;
- our support for an important role of voluntary and community organisations, particularly in areas such as illicit drugs, suicide, youth alienation, homelessness, violence and family breakdown;
- our special sense of responsibility for safeguarding Australia's unique and fragile environment; and
- our resolve to further enhance Australia's record of achievement as one of the most democratic, tolerant and fair-minded communities in the world by continuing to ensure that all Australians have an equal right to self-dignity and self-fulfilment irrespective of their gender, colour, beliefs or country of origin.

Competence in Economic Management

The issue of competence in economic management lies at the centre of the 1998 Election. Economic competence not only influences jobs,

growth, interest rates, debt, investment, opportunities and living standards. It also affects the capacity for funding adequately the government services that Australians need.

The Mess Inherited from Labor

In March 1996, the Coalition Government inherited from Labor a legacy of deficit and debt which, without determined corrective action, would have been a continuing drain on Australia's economy and society.

Labor's record of economic mismanagement needs to be kept in clear perspective and in high profile:

- the **unemployment rate** peaked at 11.2 per cent in December 1992 and was 8.5 per cent in March 1996. Between March 1983 and March 1996, the unemployment rate averaged 8.7 per cent.
- The **underlying budget deficit** for 1995-96 was \$10.3b. From 1983-84 to 1995-96, the Commonwealth budget averaged an underlying deficit of 1.6 per cent of GDP.
- **Commonwealth general government net debt** increased from around \$16b (4 per cent of GDP) in 1989-90 to around \$96b (nearly 20 per cent of GDP) in 1995-96.
- Between March 1983 and March 1996, **headline inflation** averaged 5.2 per cent. **Underlying inflation** average 5.1 per cent over the same period.
- **Interest rates** hit record highs in the late 1980s and were still high in March 1996.
- Variable bank home loan interest rates peaked at 17 per cent in 1989 and were 10.5 per cent in March 1996. Between March 1983 and March 1996, they averaged 12.8 per cent.
- Variable bank business interest rates peaked at 20.5 per cent in 1989 and were 11.25 per cent in March 1996 for small business and 10.75 per cent for large firms. Between March 1983 and March 1996, they averaged 14.25 per cent for both small business and large firms.
- Australia's high inflation rate and debt levels over the 1980s added a substantial **risk premium** to our foreign borrowing, with a differential between domestic and US 10-year bond yields of more than 250 basis

points in March 1996 and averaging 450 basis points over the second half of the 1980s.

- **Foreign debt** rose from around 15 per cent of GDP in 1983 to over 40 per cent by March 1996.

The Restoration of Sound Economic Fundamentals

From March 1996, when the Coalition was informed of the true state of the Australian economy, we set about turning around the legacy of deficit, debt and mismanagement which we inherited. We did so because it is only on a foundation of sound economic fundamentals that sustainable long-term growth can be built.

Our record of achievement in fixing Labor's economic mess has laid the foundations for solid Australian economic growth at a time of regional crisis and global instability:

- The **underlying surplus** was \$1.25b in 1997-98, a \$11.5b turnaround from the deficit of \$10.3b in 1995-96 and achieved without any increase in income tax rates, the company tax rate, the wholesale sales tax or petrol excise.
- **Economic activity** has grown by 3.9 per cent through the year to the June quarter 1998
- **Interest rates** have fallen since March 1996
- Variable bank **home loan interest rates** have fallen by 3.8 percentage points since March 1996 and now average around 6.7 per cent – their lowest level since the early 1970s;
- **Small business indicator borrowing interest rates** from major banks are around 7.7 per cent – down from 11.25 per cent in mid-1996.
- **Commonwealth net debt** to GDP remains on track to be halved by the turn of the century compared to a ratio of around 20 per cent inherited in March 1996.
- **Productivity** rose by 3.8 per cent through the year to the June quarter 1998 (measured as (trend) non-farm market sector output per hour worked) – more than double the average of 1.7 per cent per annum between 1983 and 1995.

- **Employment** (as at August 1998) has risen by 222,400 since August 1997 and by 317,000 since March 1996.
- **Real business investment** was 13.4 per cent of GDP in the June quarter 1998 (after reaching a record 15.4 per cent in the March quarter) and has averaged 13.4 per cent since the March quarter 1996, compared with an average of 10.5 per cent between the March quarter 1983 and the March quarter 1996.
- **The underlying CPI** rose by 0.4 per cent in the June quarter 1998 and 1.6 per cent through the year - only slightly above the record low (of 1.4 per cent) in the December quarter 1997. Through-the-year underlying inflation has now been below 2.5 per cent for the past two years.
- The **interest rate premium** Australians pay over US rates, reflecting perceived risks, has fallen from over 250 basis points in March 1996 to an average of 29 basis points in August 1998.

A Stronger Australian Economy Through Competent Economic Management

On these sound macroeconomic foundations, the Coalition Government has built a stronger Australian economy and enhanced the prospects for future growth. We have done so through a wide range of policy initiatives.

- We have **modernised Australia's industrial relations system**, particularly through the 1996 *Workplace Relations Act*. In doing so, we are promoting innovation, choice and productive partnerships in individual workplaces to the common benefit of employers and employees in those enterprises.
- Building on our reform of Australia's financial system following the Wallis *Financial System Inquiry*, we are establishing a world-class framework for financial sector regulation that will enhance **Australia's credentials as a financial centre**.
- Our \$1.26b *Investing for Growth industry policy statement* in December 1997 provided specific incentives to encourage research and development, boost investment, help Australian business capture new export markets and harness the opportunities provided by the information economy.

- We are **modernising Australia's communications infrastructure** through expanding competition, broadening consumer choice and requiring specific performance benchmarks.
- **Small business deregulation** has cut red tape and reduced compliance burdens.
- Our commitment to **making Australia one of the great share-owning democracies of the world** has expanded community involvement in great Australian enterprises such as Telstra.
- **Microeconomic reforms**, particularly in the transport sector, are creating new opportunities for Australian exporters and greater potential for growth.
- Sectoral policy measures, including **policy packages in the automotive, pharmaceuticals and textile, clothing and footwear industries**, are encouraging renewed investment, greater competitiveness and continued reform.
- We have placed a special emphasis on **national literacy and numeracy** and revitalised **apprenticeships and traineeships**.
- Our \$1.25b Natural Heritage Trust (which we recently boosted to \$1.5b), the Regional Forest Agreements, the Supermarket to Asia initiative and the 'Agriculture – Advancing Australia' package have provided a much more productive framework for **sustainable development and natural resource protection**.

We have also taken specific initiatives to reduce the tax burden, strengthen compliance, reduce unfairness and encourage investment. Those measures include:

- the 1996 Family Tax Initiative;
- incentives to take out private health insurance;
- a tax rebate for low income aged persons to assist low income self-funded retirees;
- capital gains tax relief on the sale of small business assets;
- Capital Gains Tax relief on the sale of a small business for retirement; and

- a range of measures to address tax avoidance.

Comprehensive Tax Reform

Comprehensive tax reform is an essential prerequisite for competent management of the Australian economy into the twenty first century. It is the single most important item of unfinished business in building an economic infrastructure that will enable Australia to compete and prosper in an increasingly competitive world economy.

Only the Coalition has a plan for comprehensive tax reform – a plan to deliver lower and fairer taxes, boost jobs and growth, reduce business costs and increase exports.

The Coalition's Tax Reform Plan builds on, and complements, our economic achievements in other areas outlined above.

Labor's head-in-the-sand approach to tax reform will have inevitable consequences:

- it will deliver higher tax rates as the base shrinks;
- it will lead to increasing reliance on income taxes and therefore an increasingly unfair burden being borne by wage and salary earners;
- it will increase the disadvantages of Australian businesses seeking to win export markets or compete against imports;
- it will discourage savings and penalise those who live off their savings;
- its growing complexity will add to compliance costs and encourage more avoidance and evasion by those who can do so; and
- it will make the revenue base of the States and Territories even more inadequate and inefficient for funding necessary community services into the future.

Coalition Priorities For a New and Better Tax System

Three overriding priorities underpin the comprehensive Tax Reform Plan which we have presented to the Australian people.

Our first priority is to reduce the tax burden on Australians, to boost jobs and to increase growth.

That is why we are slashing personal income tax by \$13 b a year – resulting in over 80 per cent of taxpayers having a top tax rate of 30 per cent or less compared to around 30 per cent of taxpayers currently.

It is why we are reducing business costs by over \$10 b a year and, in particular, cutting the costs facing Australian exporters by \$4.5 b a year.

It is why we are reducing fuel excise by \$3.5 b a year, with the particular benefits that will flow from that reduction to rural and regional Australia.

It is why we are reducing the cost of private investment goods by \$7.5 b a year.

It is why we are abolishing the hidden wholesale sales tax and replacing it with a 10% Goods and Services Tax which is rebateable to businesses and which will generate cash flow benefits for most businesses.

It is why, working with the States and Territories, we will abolish nine other indirect taxes:

- Financial Institutions Duty;
- debits tax
- stamp duty on marketable securities;
- conveyancing duties on business property;
- stamp duties on credit arrangements, installment purchase arrangements and rental agreements;
- stamp duties on leases;
- stamp duties on mortgages, bonds, debentures and other loan securities;
- stamp duties on cheques, bills of exchange and promissory notes; and
- 'bed taxes'.

It is why we are abolishing provisional tax and the provisional tax uplift factor and replacing it by a new simpler Pay As You Go system.

It is why we are providing for more generous Capital Gains Tax rollover relief and retirement exemption to be extended to small business.

It is why we are simplifying tax administration for businesses.

And it is why we have established a mechanism for consulting with the business sector on reform of the business investment base and moving towards a 30 per cent company tax rate and a 30 per cent maximum Capital Gains Tax rate, subject to the need to maintain overall revenue neutrality.

Our second overriding priority is to make the tax system fairer, and in particular more responsive to the costs of raising families.

That is why we are boosting the Family Tax Initiative and significantly increasing family benefits in real terms at a cost of over \$2 b a year.

It is why we are providing a new 30 per cent tax rebate or benefit on private health insurance premiums

It is why we are improving work incentives for low and middle income families by significantly reducing effective marginal tax rates, by reducing the family benefits withdrawal rate and by increasing the income threshold for family payments.

It is why we are making tax cheats and tax avoiders pay their share of tax by reducing opportunities to operate in the cash economy.

It is why we are more than protecting social security recipients and lower income groups from the impact of tax reform on prices.

It is why we are providing special measures for older Australians to protect the value of their savings and retirement income.

It is why we are addressing particular anomalies in the tax treatment of trusts while also providing for the refunding of excess imputation credits and special grandfathering arrangements.

It is why we are making the Fringe Benefits Tax system fairer.

And it is why we have locked in the GST rate by stipulating that any request for a change would need to be made unanimously by all State

and Territory Governments, would need to be endorsed by the Commonwealth Government of the day, and would need to be approved by both Houses of Federal Parliament.

The third overriding priority in our new tax plan is to modernise the financial basis of the Australian federal system as it prepares to enter its second century.

That is why the Commonwealth will provide the States and Territories with a stable and growing source of revenue by giving them all of the revenue from the GST conditional on their abolition of the inefficient taxes referred to earlier.

The budgetary position of the States and Territories will be significantly enhanced over time by this historic reform.

Commonwealth arrangements will ensure that in the transitional period of implementation the States and Territories will be no worse off financially than they would be under current arrangements.

From 2003-4, the States will be better off financially, and increasingly so over time, because the GST revenue will grow at a rate significantly stronger than projected Commonwealth grants under the existing system and the State taxes being replaced.

In 2003-4, the States and Territories are projected to gain an additional \$370 million; in 2004-5 an additional \$1.25 b; in 2005-6 an additional \$2.25b rising to an additional \$7b in 2009-10.

In cumulative terms, over the first 10 years of our new tax plan the States and Territories are projected to be \$25b better off.

This is the single most important change in Commonwealth-State financial relations for over half a century. It provides the States and Territories with a stable and growing revenue base to fund its provision of community services and other responsibilities into the future.

More Fairness and Choice for Families

A Coalition Government will continue to put the needs of families, and in particular a recognition of the costs of bring up children, at the centre of national policy making. This focus is clearly evident in our

- \$2b package of enhanced family measures in our Tax Reform Plan;
- a total of over \$30b allocated for funding for public health care under

the Australian Health Care Agreements and our new 30 per cent tax rebate/benefit for private health insurance premiums to be introduced from 1 January 1999;

- our increased assistance for carers (for specific detail see *Our Families, Our Strength, Our Future* policy document, as well as accompanying documentation on the additional initiative for carers announced today);
- our enhanced funding for rural and regional health (for specific detail see our *Rural and Regional Health – The Best of Health* policy document);
- our commitment, announced today, to boost education funding to raise educational standards, benefit disadvantaged schools, improve literacy, numeracy and language skills, and help in the education of isolated children (for specific detail on these initiatives see our *Raising Standards* policy document released today);
- our expansion, also announced today, of the New Apprenticeship scheme (for specific detail see our *Skilling Australia for Jobs* policy document released today);
- our assistance to families seeking to balance work and the care of children through the greater flexibility in work arrangements flowing from our workplace reforms;
- our anti-drugs strategy (for specific detail, see our *Tough on Drugs: Strengthening the Fight* policy document);
- our commitments to boost funding to fight crime and violence in our society (for specific detail, see our *Opportunity and Choice Women's Policy* document and our *Crime – A Safer and Stronger Australia* policy document);
- our provision of additional funding for family and relationship support and for youth suicide prevention (outlined in detail in the *Our Families, Our Strength, Our Future* policy document).

Further details of our record of commitment to Australian families is provided in our *First Term Achievements* document released today.

A Fair Go for Regional and Rural Australia

Our commitment to rural and regional Australia is reflected in a wide range of initiatives. These include:

- the \$3.5b initiative in our Tax Reform Plan to slash the cost of fuel, which will be of particular benefit to primary producers. This initiative includes the new diesel fuel credit scheme to effectively reduce diesel excise for all off-road (including marine) users from 43 cents per litre to zero, and for larger transport users (including rail) from 43 cents per litre to 18 cents per litre. In addition, business users of petrol and diesel will save about 7 cents a litre relative to where they pay now through their access to a refund of the GST paid on fuel;
- our \$1.5b Natural Heritage Trust to protect and restore Australia's natural environment;
- our \$70m Rural Transactions Centres initiative announced today (see separate accompanying documentation);
- our \$250m Regional Telecommunications Infrastructure Fund which is to be boosted by a further \$70m;
- our recently announced investment of an additional \$195 million improving Australia's roads;
- a doubling of the size of the Medicare Easyclaim network;
- an additional \$80m for the Blackspots road programme.

Further details of our record of commitment to rural and regional Australia is provided in our *First Term Achievements* document released today.

Security for Older Australians

The Coalition Government is fully committed to protecting the interests of older Australians through a range of programmes aimed at retirement income security, enhanced quality of life and improved access to health and community services.

This commitment is reflected in

- the legislation we had passed for the first time to link pensions to 25 per cent of Male Total Average Weekly Earnings when Consumer Price Index increases fail to maintain that level;

- our introduction of a tax rebate for low income aged persons which has created the same effective tax free threshold for all retirees on the same income, whether pensioner or self-funded retiree;
- the abolition of provisional tax under our Tax Reform Plan;
- our extension of the Commonwealth Seniors' Health Card from 1 January 1999 to over 220,000 additional retirees through an increase in the income limits;
- our extension of the Veterans Gold Card from 1 January 1999 to an additional 50,000 World War II veterans;
- the provision in our Tax Reform Plan for a 30 per cent tax rebate or cash benefit on the cost of private health insurance premiums;
- our \$280m *Staying at Home* package in April this year which expanded assistance to carers, respite centres and Community Aged Care Packages;
- our increased spending (increased to around \$3b this year) on residential aged care;
- the provision in our Tax Reform Plan for:
 - a 4 per cent increase in age and other pensions;
 - retention of the existing pensioner rebate scheme and an increase in the maximum rebate by \$250 a year for single pensioners and \$175 a year for each of a pensioner couple;
 - an increase in the income test for pension eligibility and a reduction in the pension income test withdrawal rate by 10 cents in the dollar;
 - a special Aged Persons Savings Bonus and a Self-Funded Retirees Supplementary Bonus;
 - income tax cuts worth over \$13b;
 - an increase in the tax free threshold to \$6,000; and
 - a refund of excess imputation credits.

Further details on our record of commitment to older Australians is

provided in our *First Term Achievements* document released today and in our Tax Reform Plan document.

Mutual Obligation

The Coalition Government is committed to ensuring an effective social security safety net for those in need or especially disadvantaged.

We also believe in the principle of mutual obligation – that it is fair and reasonable to require those in receipt of support to put something back into our community.

Today we are announcing a significant expansion of the Work for the Dole programme that we established in our first term. The details of the initiative are provided in our separate accompanying *Working for the Dole* policy document.

Advancing Australia's Interests in the World

A Coalition Government will build on its first term achievements in establishing clear foreign policy priorities that contribute in a confident and responsible way to addressing the challenges facing our own region and broader global problems. These priorities are spelt out in our *Advancing Australia's Interests* foreign policy document.

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