THE 1996-97 BUDGET AND BUSINESS - LABOR'S PERSPECTIVE

Notes for address by the Hon Gareth Evans QC MP, Deputy Leader of the Opposition and Shadow Treasurer to a Small Business Breakfast, Adelaide, 2 September 1996

- Have been travelling around the country a fair bit since Budget.
- Have been absorbing as many reactions as possible to gauge what Australians from all walks of life are really saying and thinking about the Budget - as against what the analysts and commentators suggest people are saying and thinking.

  - Reactions to the Budget are increasingly at odds with the sugar-coated view about the Budget still found in most media commentaries and, of course, in the Government's spin.

- Have heard about the Budget's mindlessness, from a great many businesspeople - particularly those who run the smart, quick-footed, small and medium sized enterprises, on whom so much of our export future depends. They tell me how disgruntled they feel about the slashing of business assistance services, the winding back of the Export Market Development Grants Scheme and the collapse in government support for research and development.
- Have heard questions about what this Budget will do for our economy. In particular, I've heard the same recurring theme : if there has to be all this pain and all this promise-breaking, surely it must have a point? If so, what is it? If it’s all so economically necessary, why is it necessary? When and how, if at all, will it bear fruit in a better, stronger economy? How long do the unemployed have to wait before things get any better? Where is the **growth** coming from? These must be questions on the minds of every one in this room.
- Labor's starting point in responding to this Budget is that Australia's is not an economy in crisis. We didn't need to have the dose of castor oil we got. The Coalition inherited from us an economy that had been growing for four years at an average of 4 per cent, with inflation averaging 2 1/2 per cent, and unemployment coming down - in our last three years from 11 per cent to 8 1/2 per cent, with 700,000 new jobs being created, putting us well on the way to achieving 5 per cent unemployment by the year 2000.
- Whatever the Coalition may say about debts and deficits, we were unquestionably doing well by international standards. According to the OECD, we have had the third lowest government expenditure in the industrialised world, the fourth lowest government debt and third lowest overall Budget deficit.
- Australian economy does have several problems. The most urgent of them is unemployment. And we do have a problem with our saving ratio, low by international standards and requiring a significant improvement in both public and private sector performance. But there are *choices* in the way these problems are addressed.
- The Labor Government addressed the employment problem by concentrating on achieving sustainable 4 per cent growth (which saw unemployment steadily fall once the recession ended), and the saving problem by introducing, on the private

side of the equation, the national superannuation scheme. Of course we were also conscious that on-going government budget deficits make a significant contribution to ongoing saving problems. This is why we were the only Government in the post-war years to actually achieve, as we did in the late 1980s, a string of budgetary surpluses.

- But in the present environment - with unemployment still so high and economic conditions so flat - we regard the restoration of budgetary balance as a medium term problem rather than our most urgent, highest priority one.

- The incoming Coalition Government has made a very different set of policy choices. It has made a decision to place its whole priority focus on deficit reduction, and let growth and employment take care of itself some time in the never never. An awful lot of babies have gone out with the bathwater as a result, including a huge slab of important economy-building programs.

- Programs like : support for manufacturing programs in the areas of computing, automotive industries, engineering, ship-building, textiles, clothing and footwear (cut by $336 million or 60% over the next four years); support for export programs such as Export Market Development Grants Scheme (cut in total by over $500 million over the next four years).

- In going down this path, the Coalition has already squandered the Labor inheritance. Growth is down. And with all the Treasurer's baseless rhetoric of the last few months, consumer and business confidence is badly down as well. Interest rate reductions were delayed longer than they could and should have been, when the Accord was torn up and uncertainty introduced about future wage movements.

- And now, with nearly $8 billion to be taken out of the economy over the next two years, growth is projected to remain at no more than 3 1/2 per cent right out to the year 2000, falling short of the 4 per cent necessary to significantly claw back unemployment. This will, unfortunately, be reflected in your business earnings and your workers' pay packets.

- Unemployment itself is actually predicted to remain at its present order of magnitude for at least another year, with unemployment beneficiaries estimated to be 829,000 for the next two years. The only hope offered is the constant, almost religious, reference to "structural improvements" in the economy paving the way for more jobs. This is a barely disguised pitch for the American way : achieving lower unemployment by clearing the labour market at deregulated poverty wage levels.

- Actually, the Government hasn’t quite the confidence in its own economic prospects that it politically projects. It would perhaps come as something of a surprise to a number of people to be told that, for example, the Budget papers reveal that :

    - the Treasury expects any possible confidence-boosting effects from the Budget to be overtaken by dampening pressures created by the Budget;

    - that the Government expects government debt to decline anyway as a percentage of GDP without any harsh dampening measures being imposed at all; and

- that the effect of the improved Budget deficit situation on the current account deficit will be, on the Treasury's estimate, for the foreseeable future, negligible.

- It's not exactly a secret that money markets *like* tough budgets which do nothing very much to generate growth and expansion of employment. But the interests of businesses - smaller ones in particular - and workers are just not the same as those of the financial markets. The Government will learn this to its cost.

- There *is* an economically responsible, alternative approach to this Budget. It involves a Budget of moderate and balanced measures that works for, and not against, growth and employment.

- If you aim for and achieve higher growth, each year's deficit starting point is lower, so you can get to eventual balance with a fraction of the cuts that would otherwise be necessary. Moreover, with the higher employment associated with higher growth, the economy generates more savings (through more private income, more government revenue, and less government outlays). So, if you put employment first, you have a good chance of solving *both* our continuing economic problems. But if you put restoration of the budget deficit first, you don't necessarily make much headway on the overall saving equation, and you certainly do nothing for unemployment in the short term, except make it worse.

- It is our calculation that, on entirely reasonable assumptions about the growth that would be achievable under a less manic budgetary policy (viz. no more than 1/2 per cent extra over the next two years, and 1/4 per cent in the third), the no-policy-change underlying deficit would be reduced to around $3 billion in 1998-99. And that, of course, would be a very much more achievable target to eradicate than that which this Government is now embarked upon.

- This Budget is also one of deceit and promise-breaking on a unprecedented scale. We calculate that promises have been *broken* totalling *$17 billion* over the next four years while only $7 1/2 billion worth have been kept: not a happy record for a Prime Minister making a theatrical art form of his integrity.

- Many of the broken promises directly hit prospects for growth and employment generation : reductions in research and development tax concessions (broken to the tune of $2.3 billion over the four years to 30 June 2000), labour market programs ($1.8 billion), trade programs, especially EMDG ($550 million).

- As against this performance, I should take this opportunity to let you know that Federal Labor has announced it will conduct a complete review of its Small Business Policy in Opposition. Over the last several months the Opposition has conducted extensive consultations with small business.

- We recognise that small business is a key sector in the Australian economy. We are beginning our program to overhaul our small business commitments. The review will encompass : access to finance ; industrial relations ; compliance costs; taxation ; government purchasing ; unfair competition ; franchising and franchise dispute resolution ; competitive enhancement programs.

- <u>Conclusion</u> : This is *not* the Budget we had to have, and these have *not* been the cuts we had to have. The *right* Budget to have had is one that addresses our biggest economic problem first, that gives priority attention to growth and the expansion of employment and addresses deficit reduction as a medium term issue.

- I said last week that people who have brought a new car always take a long time to accept that their purchase may be a lemon. We tend to insist, so long as there is any room for manoeuvre, that we weren't really taken in by the salesman's patter. But after less than six months in office, but it is getting harder and harder to resist the conclusion - and this Budget is the best evidence to date - that, whatever its present cockiness, the Howard-Costello Government is shaping up to be a very big lemon indeed, and before very long will be judged as such by a clear majority of Australians.

Labor's Achievements for Small Business (Taken from Peter Cook's Paper)

1. CREATING A BETTER BUSINESS ENVIRONMENT

    1. Introduced the Better Business Conduct Bill to protect small businesses from *"harsh and unconscionable conduct"*.

    2. Established under the Bill a Small Business unit within the Australian Competition and Consumer Commission.

2. COMPLIANCE AND REGULATION

    1. Corporations Law Simplification Task Force established in November 1993 to examine corporate law so as to improve its efficiency and effectiveness. Corporate Law Simplification Bill passed in December 1995 which contained a number of initiatives designed to make incorporation more attractive to a wide range of small businesses.

    2. Further bills were planned which would deal with company registration and structure, share capital, accounts and audits, annual returns, defunct companies, fundraising, and other matters that arise from further review of the Corporate Law Simplification process.

    3. Under *Working Nation*, a Council of Business Regulation comprising representatives of business and community was established to review regulation that affects business costs and to advise on reforms.

    4. All Commonwealth agencies were subject to a process of regulation review.

    5. Amendment of the Unfair Dismissal legislation incorporating the concerns of small business effective from 15th January 1996.

3. TAXATION

1. Establishment of the Australian Taxation Office Small Business Consultative Group.

2. Reduction of the Company Tax rate from 49% to 36%.

3. Reintroduction of quarterly payments of Company Tax to assist small companies to manage their cash flows.

4. Increased the Capital Gains Tax goodwill exemption for Small Business from 20% to 50% and doubled the eligibility ceiling to $2 million, thus enabling small business people to "change businesses" more easily and to provide for their retirements by reinvesting in their own businesses.

5. Exemption from Fringe Benefits Tax of a number of business items including protective clothing, portable computers, etc.

6. Reduction in record keeping requirements for FBT compliance.

7. Introduction of provisions for firms with annual Wholesale Sales Tax liabilities of less than $10,000 to opt completely out of WST.

8. Introduction of quarterly payments for WST for firms with an annual liability of less than $50,000.

4. <u>ACCESS TO FINANCE</u>

1. Introduction of Pooled Development Funds to improve Small Business access to development capital from the start-up stage right through to commercialisation and expansion. PDFs receive concessional tax treatment on profits at a rate of 15%.

2. A range of initiatives through the *Innovate Australia, Investing in the Nation* and *Working Nation* statements to

    1. provide significant new opportunities for equity finance.

    2. extend the Business Equity Information Service to bring small businesses and equity providers together.

    3. establish a pilot project for a stock exchange catering for start-up and small, innovative companies.

    4. programs to help small firms become "finance ready", developing a greater awareness of their financial options, improving their understanding of business management and the corporate governance requirements of lenders and investors.

    5. increased funding for the education of superannuation fund trustees in investing in venture and development capital.

3. Provision of a $20 million subsidy to the Commonwealth Development Bank to expand its role and improve the flow of finance to small businesses based on cash-flow rather than collateral. CDB focuses on growing businesses and particularly those with export potential.

5. GOVERNMENT PURCHASING

    1. Establishment of the Supplier Development Program in the *Working Nation* statement to assist small businesses to do business with government.

6. ASSISTANCE for Small Business

    1. AusIndustry - a one stop shop for the delivery of Commonwealth and State programs and those from industry organisations.

    2. National Industry Extension Scheme assistance through the subsidised access to consultants to develop planning, management, marketing and other necessary skills.

    3. Business Networks Program - encourages firms to form networks and co-operate in areas of strategic business activity.

    4. Enhanced services for exporters in the Small Business sector through:

        1. Refocussing Austrade's client service policy to take account of specific Small Business concerns

        2. The *Export Access* program to encourage Small Business to expand into overseas markets.

        3. The *Export Barriers Reporting Scheme* to identify barriers to exporters with a view to resolving these difficulty.

        4. Enhanced export finance through the Export Finance and Insurance Corporation.

        5. *Winning Exports - A Planning Guide* - designed to assist small businesses through the many difficulties involved with exporting.

    5. Assistance for high technology firms through:

        1. 150% tax concessions for research & development.

        2. Access to IR&D Board grants.

        3. Concessional loans for innovation.

        4. The Technology Access Program.

    6. Business Incubators - established throughout Australia to assist small business in the start-up and early development phases by providing premises, services and business, marketing and financial advice, etc.

    7. Self Employment Development - through *Working Nation,* a number of schemes were developed to assist unemployed people into self employment either as individuals or groups.

7. CONSULTATION WITH SMALL BUSINESS

1. Australian Small Business Council - Directly advises the Minister for Small Business. Also brings together private sector members of a range of Government committees and boards that have activities particularly relevant to Small Business.

2. Small Business Forum - Held 2 or 3 time a year and is the primary advisory body to the Government on Small Business, comprising over 30 key organisations involved in Small Business.

3. Reserve Bank Small Business Advisory Panel - Provides assessments of banking conditions and advice on problems of raising finance from the perspective of Small Business.

4. Australian Tax Office Small Business Consultative Group - Consists of 10 associations nominated by the Small Business Coalition and provides the ATO with an opportunity to help Small Business address their concerns in meeting their tax obligations with a particular emphasis on compliance costs.