

CONTENTS

STATEMENT 1 — FISCAL STRATEGY

CONTENTS

PART I: BUDGET AGGREGATES	1-3
PART II: ECONOMIC FRAMEWORK.....	1-8
PART III: FISCAL STRATEGY.....	1-10
1. Implementing the Fiscal Strategy.....	1-11
2. National Saving.....	1-12
3. Net Debt.....	1-14
PART IV: BUDGET PRIORITIES	1-16

STATEMENT 1 — FISCAL STRATEGY

PART I: BUDGET AGGREGATES

The 1997-98 Budget continues the Government's fiscal strategy initiated in 1996-97. The underlying budget balance¹ will continue to narrow in 1997-98 from its 1996-97 level, and is projected to be in surplus in 1998-99. Beyond 1998-99, increasing underlying surpluses are expected in line with the projected economic outlook.

- In 1997-98, the underlying budget balance is estimated to be in deficit by \$3.9 billion or 0.7 per cent of Gross Domestic Product (GDP). This is an improvement of \$3.0 billion or 0.6 per cent of GDP on the expected outcome for 1996-97.
- The underlying budget balance in 1998-99 is projected to be in surplus by \$1.6 billion or 0.3 per cent of GDP. This is an improvement of \$5.5 billion on the projected deficit in 1997-98 and \$3.7 billion or 0.6 per cent of GDP on the projected deficit of \$2.2 billion for 1998-99 published in the *Mid-Year Economic and Fiscal Outlook 1996-97* (MYEFO).

The underlying deficit for 1996-97 is now expected to be \$6.9 billion or 1.3 per cent of GDP, an improvement of \$1.6 billion or 0.3 per cent of GDP on the estimate published in the MYEFO. This improvement reflects both stronger than expected revenue collections in recent months and lower outlays.

The budget aggregates for 1996-97 to 2000-01 are shown in Table 1 below.

Table 1: Summary of Budget Aggregates

	1996-97		1997-98	1998-99	1999-00	2000-01
	Budget	Revised	Estimate	Projection	Projection	Projection
Revenue (\$m)	130160	129625	133351	142383	150330	158911
<i>Per cent of GDP</i>	25.3	25.2	24.5	24.7	24.6	24.5
Underlying outlays (\$m)	135810	136481	137204	140786	144947	148219
<i>Per cent of GDP</i>	26.4	26.6	25.2	24.4	23.7	22.9
Underlying balance (\$m)	-5649	-6856	-3853	1597	5383	10692
<i>Per cent of GDP</i>	-1.1	-1.3	-0.7	0.3	0.9	1.6
<i>Memorandum items:</i>						
Net advances (\$m)	-6123	-7620	-10276	-5187	-394	-405
Headline balance (\$m)	474	764	6423	6784	5777	11096
<i>Per cent of GDP</i>	0.1	0.1	1.2	1.2	0.9	1.7

Measures taken in the Budget build on the already substantial fiscal consolidation implemented in the 1996-97 Budget and contribute to the improvement in the underlying balance of around ¾ per cent of GDP between 1995-96 and 2000-01. This

¹ The underlying budget balance is measured as revenue less underlying outlays (defined as outlays excluding net advances). Net advances consist of net policy lending (new policy lending less repayment of past policy lending) and net equity transactions (equity injections/purchases less equity sales). For further details on the underlying budget balance concept, see Appendix B of Statement 7.

improvement accords with the Government's commitment to achieving underlying budget balance within the term of this Parliament and is consistent with attainment of its medium-term objective of underlying budget balance, on average, over the course of the economic cycle.

The improvement in the Commonwealth's underlying budget balance, together with the forward projections of State/local government fiscal positions contained in Statement 7, can be expected to provide a substantial boost to public sector saving and thus to reducing the structural national saving-investment imbalance. Together with receipts from sizeable equity asset sales over the next few years, it should also result in a decline in Commonwealth general government net debt from around 19 per cent of GDP in 1995-96 to just under 10½ per cent by 2000-01.

The Government's fiscal consolidation efforts to date have focussed primarily on outlays restraint. Together with favourable movements in outlays resulting from revisions to the economic parameters, this restraint provides for a decline in underlying outlays from 27 per cent of GDP in 1995-96 to just under 23 per cent of GDP in 2000-01. Revenue is expected to fall marginally as a proportion of GDP over the same period.

The headline budget balance is expected to improve by more than the underlying budget balance in 1996-97 and 1997-98. In 1996-97, this is primarily due to receipts from the recapitalisation of Telstra. In 1997-98, it reflects the sale of leases of the Federal Airports Corporation (FAC) and the sale of the Australian Industry Development Corporation (AIDC), the National Rail Corporation (NR) and the partial sale of Telstra. Movements in the headline budget balance in the outyears generally reflect improvements in the underlying balance and reductions in proceeds from asset sales.

Table 2 provides a reconciliation of budget estimates between those at the time of the 1996-97 Budget, the MYEFO and the 1997-98 Budget in terms of policy decisions and parameter and other variations.

Estimates published in the MYEFO showed a deterioration in the fiscal outlook from the 1996-97 Budget, largely reflecting parameter and other variations. The MYEFO estimates incorporated downward revisions to company tax estimates for 1996-97 as well as 1997-98 and the outyears. The beneficial impact on outlays from lower estimates for inflation and lower interest rates, from 1997-98 onwards, was more than offset by lower company tax estimates together with downward revisions to revenue associated with favourable movements in prices and wages.

Table 2: Reconciliation of 1996-97 Budget, MYEFO and 1997-98 Budget Estimates^(a)

	1996-97 \$m	1997-98 \$m	1998-99 \$m	1999-00 \$m
1996-97 Budget underlying balance estimate	-5649	-1548	957	5671
(per cent of GDP)	-1.1	-0.3	0.2	0.9
Changes between 1996-97 Budget and MYEFO				
Effect of reclassifications	-44	-44	-45	-45
Effect of parameter and other variations				
Underlying outlays	477	-731	-707	-631
Revenue	-1345	-3459	-3517	-4300
Total	1822	2728	2810	3669
Effect of policy decisions				
Underlying outlays(b)	1020	-399	237	263
Revenue	-42	-93	-107	-116
Total	1062	-306	344	379
1996-97 MYEFO underlying balance estimate	-8490	-3926	-2152	1668
Changes between MYEFO and 1997-98 Budget				
Effect of reclassifications	11	-1	5	6
Effect of parameter and other variations				
Underlying outlays	-860	-155	-2045	-2495
Revenue	843	-209	483	189
Total	-1703	54	-2528	-2684
Effect of policy decisions				
Underlying outlays(b)(c)	57	-87	-1034	-2220
Revenue(c)	0	39	192	-1182
Total	57	-126	-1226	-1038
1997-98 Budget underlying balance estimate	-6856	-3853	1597	5383
(per cent of GDP)	-1.3	-0.7	0.3	0.9
<i>Memorandum Items:</i>				
Adjusted effect of policy decisions since the MYEFO				
Underlying outlays excluding NHT and commitment to MTAW pension benchmark(b)(d)	57	-313	-1749	-3193
Revenue	0	39	192	-1182
Total	57	-352	-1941	-2011

- (a) A negative figure for revenue indicates a deterioration in the budget balance. For all other items a negative figure indicates an improvement in the budget balance.
- (b) Includes public debt interest savings from measures affecting the headline balance. A separate breakdown of policy measures and their impact on public debt interest can be found in Table 6 in Statement 2.
- (c) Includes recostings of pre-MYEFO decisions.
- (d) Abstracts from those Government spending decisions for which an allowance was already set aside in the Contingency Reserve in the 1996-97 Budget. See the following page for explanation.

Since the MYEFO, there has been a slight deterioration in the starting point² for 1997-98 but a significant improvement in the starting point for the outyears.³ The deterioration in 1997-98 largely reflects the influence of one-off factors, notably a lower than expected Reserve Bank of Australia (RBA) dividend. The improvement in the starting point for the outyears reflects the influence of more favourable economic parameters and also revisions to estimated company tax revenues from those in the MYEFO. The latter revisions have been made in the light of further information on how company tax payments are evolving.

Policy decisions since the MYEFO (including measures in the 1997-98 Budget)⁴ provide for a small net improvement in the underlying balance in 1997-98, and an improvement of \$1.2 billion in 1998-99. However, these estimates count as 'new' spending decisions some commitments already made and budgeted in the 1996-97 Budget Contingency Reserve.

- These involve the Government's decisions to provide funding for the environment from 1997-98 (through the Natural Heritage Trust (NHT)), and to maintain the single rate of pension at 25 per cent of Male Total Average Weekly Earnings (MTAWE).

These provisions have now been extracted from the Contingency Reserve and reported as policy decisions, which has the effect of increasing outlays reported as policy decisions in 1997-98 and the outyears. The corresponding reductions made to the Contingency Reserve are reflected as 'other variations' in these years. Abstracting from decisions for which an allowance for funding was previously set aside, policy decisions since the MYEFO provide for a substantial improvement in the underlying surplus in 1998-99 of just under \$2 billion.

In total, **net outlays measures**⁴ since the MYEFO reduce the underlying deficit by \$87 million in 1997-98 and \$1 billion in 1998-99, rising to \$2.2 billion in 2000-01. The significant increase in net outlays savings measures in the outyears reflects the Government's decision to introduce a new savings rebate in place of the 'LAW' tax cuts previously allowed for as matching Government superannuation contributions. The cost of the savings rebate, to be implemented through the tax system, is accounted for as reduced revenue. Further details on the expected cost of this scheme and on the net fiscal impact of introducing this rebate are in Part II of Statement 2.

Most of the **revenue measures** in the Budget focus primarily on protecting the existing revenue base from further erosion, rather than on raising additional revenue. Consequently, revenue measures since the MYEFO make only a small contribution to improving the underlying budget balance in 1997-98 and 1998-99. The decline in revenues in 1998-99 associated with the introduction of the Government's savings rebate

² Starting point estimates include parameter variations since the 1996-97 Budget and policy decisions taken prior to the MYEFO. They exclude the effects of decisions taken by the Government since the MYEFO.

³ The extent of the deterioration in the starting point estimate for 1997-98 is masked in Table 2 by the favourable impact on 'other variations' that results from shifting provisions in the Contingency Reserve to 'policy decisions'. Similarly, the improvements in the starting point estimates for the outyears are overstated in Table 2.

⁴ Includes public debt interest savings from measures affecting the headline balance.

is more than offset by other revenue measures, so that, in total, revenue measures in the post-MYEFO period are expected to contribute \$192 million towards the improvement in the underlying budget balance in that year.

A more detailed discussion of the implications of changes in the economic parameters, policy decisions and other estimates variations affecting outlays and revenues can be found in Part II of Statement 2.

PART II: ECONOMIC FRAMEWORK

Economic policy is being framed against a backdrop of six years of economic growth and low inflation which has delivered episodes of strong employment growth but nevertheless has left unemployment at high levels. The economic outlook continues to be favourable, supported by sound economic fundamentals and a positive international environment. This provides a sound framework but leaves many challenges.

The overriding aim of the Government's economic strategy is to achieve the maximum sustainable rate of reduction in unemployment by lifting the pace at which economic growth can be maintained without running into inflationary and external pressures. Higher inflation and current account deficit pressures, and the need for corrective policy action, have previously cut short periods of economic expansion in Australia, with adverse effects on growth and unemployment. Policy therefore needs to be directed at alleviating these constraints by keeping inflation low, promoting an adequate level of saving to finance investment and improving the supply capacity and flexibility of the economy. These objectives require a full range of macroeconomic and microeconomic policies.

Australia's recent inflation performance is a welcome improvement on the record of the previous twenty years. In order to sustain the progress made to date, the Government has taken steps, through the Statement on the Conduct of Monetary Policy released by the Treasurer and the Governor of the RBA in August last year, to strengthen the policy framework. In particular, the Government has endorsed the RBA's inflation target (underlying inflation of 2-3 per cent on average over the cycle) and enhanced policy credibility by clearly recognising the RBA's independent role in setting interest rates. The inflation outlook reflected in the economic forecasts in Statement 2 points to a continuation of the current low inflation environment in the period ahead.

The maintenance of low inflation is important in avoiding spending and savings distortions and maintaining confidence in the economic outlook by reducing risk and uncertainty — including the risk of policy tightening.

A central plank of the Government's economic strategy is to put in place policies to lift national saving to a level adequate to finance national investment without having to rely excessively on foreign saving. As explained in detail in last year's Budget papers, excessive reliance on foreign saving is likely to result in higher borrowing costs and exposes Australia to sudden and disruptive shifts in market confidence.

Policy priorities in this area encompass fiscal consolidation measures to increase public saving at the Commonwealth level and measures to encourage private saving. Of particular importance is the need to correct the structural weakness in the Commonwealth's fiscal position evident in the past twenty years which has underpinned the structural deterioration in the current account deficit. Full details of the fiscal policy strategy and measures to promote private saving are set out later in this Statement and in accompanying Statements.

While sound monetary and fiscal policies are fundamental to longer-term economic prospects, there is a limit to their influence on structural unemployment. In essence, that

is the role of microeconomic policies: policies to improve the supply potential of the economy, to improve the operation of markets, and to enhance worker skill levels.

The Government's microeconomic reform priorities include labour market reform, competition policy, education and training, transport, small business deregulation and financial system reform.

Particular attention has been given to reforming the labour market. The *Workplace Relations Act 1996* will boost labour market flexibility by increasing the focus on workplace bargaining and limiting the role of the award system to a genuine safety net, providing more choice in, and streamlining the process for, making agreements and preventing excessive use of bargaining power by employers and employees. The reforms have only come into effect very recently and will take some time to be utilised, but experience in other countries (eg the United States, the United Kingdom and New Zealand) suggests that a flexible labour market and policy reform working in that direction are crucial in reducing structural unemployment.

The Government has a comprehensive economic strategy, covering both macroeconomic and microeconomic policies, which will be effective in reducing unemployment over time. As discussed in Statement 3, pursuing a wide-ranging approach to reform is consistent with the results of cross-country analysis by the Organisation for Economic Cooperation and Development (OECD), which indicate that the best outcomes have been obtained in member countries following such an approach. This reflects in part the synergies and interaction between macroeconomic and microeconomic policies.

The constraints to growth faced by Australia, and indeed by most industrial countries, are deep-seated and do not lend themselves to an easy or immediate turnaround. International experience indicates that the benefits of reform take time to become fully apparent, but that the most effective results are obtained by the persistent application of a broad and consistent policy approach. There is no experience to the contrary.

PART III: FISCAL STRATEGY

The Government's medium-term fiscal strategy is to pursue, as a guiding principle, the objective of underlying budget balance, on average, over the course of the economic cycle. This strategy, set out in detail in the 1996-97 Budget Papers, is designed to ensure that the Commonwealth budget does not, over time, make a call on private saving and thereby contribute to the national savings-investment imbalance. Adherence to the medium-term fiscal strategy will also assist in reducing net debt over the forward estimates period and in ensuring that net debt does not ratchet up over successive economic cycles.

The shorter-term fiscal objectives adopted by the Government in its 1997-98 Budget strategy were developed against — and are consistent with — its medium-term fiscal strategy. More specifically, in shaping the 1997-98 Budget, the Government has sought to:

- implement its commitment to achieve underlying budget balance within the term of this Parliament;
- build upon the substantial fiscal consolidation implemented in the 1996-97 Budget;
- maintain its commitment not to introduce new taxes or increase existing tax rates over the term of this Parliament, while working to ensure that all taxpayers pay their fair share of taxes; and
- direct appropriate resources to high priority areas, consistent with the Government's economic and social objectives.

The Government's short and medium-term fiscal objectives accord with the principles of sound fiscal management outlined in the Government's Charter of Budget Honesty Bill 1996.⁵ The Government's fiscal policy has been developed within a sustainable medium-term framework while giving due attention to the current economic climate. Fiscal policy is directed at ensuring adequate national saving, managing the financial risks of the Commonwealth, and ensuring debt is maintained at prudent levels. It also has regard to the stability and integrity of the tax base and the financial implications of present fiscal policies for future generations.

The consistency of the Government's strategy and objectives with these principles — and the way in which the Government has implemented its short and medium-term fiscal strategies — are discussed in further detail below.⁶

⁵ Although the Charter of Budget Honesty Bill has not yet been passed, the Government is following the requirements of the Charter.

⁶ In reporting against this strategy, the 1997-98 Budget and future budgets will provide outcomes and forward estimates for the budget and general government sectors. These data will be prepared on the basis of the budget classification framework and the Australian Bureau of Statistics (ABS) Government Finance Statistics framework, as set out in Appendix D of Statement 7. A comprehensive accrual budgeting and reporting framework will be introduced for the 1999-2000 Budget.

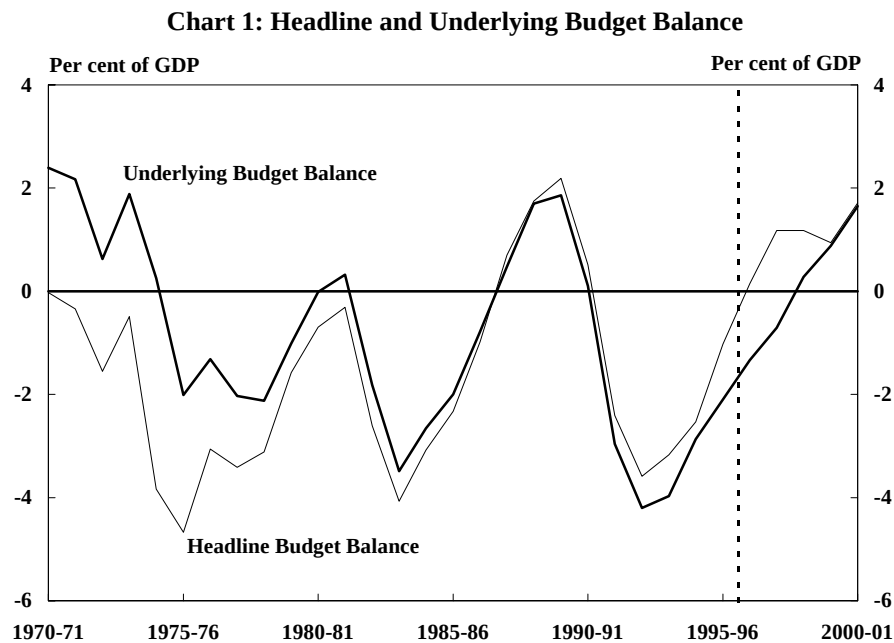
IMPLEMENTING THE FISCAL STRATEGY

As was discussed in Part II, the prospects for continued economic growth support — and provide the imperative for — action by the Government to achieve, and then maintain, underlying surpluses.

The major element of the Government's programme of fiscal consolidation was provided in the 1996-97 Budget with the announcement of measures amounting to \$3.9 billion in 1996-97 and \$7.2 billion in 1997-98. The bulk of these measures have been passed by Parliament. The 1997-98 Budget seeks to build on this consolidation. The Government has set itself the following targets to meet its medium-term fiscal objective:

- to move to underlying balance in 1998-99; and
- to maintain surplus beyond 1998-99 while solid economic growth continues.

Chart 1 shows the projected improvement in the underlying and headline budget balances, while Chart 2 shows the cumulative impact of budget measures announced by the Government since its election.⁷



The Government's programme of fiscal consolidation has focussed primarily on outlays restraint. This reflects the Government's view that expenditure control holds the key to achieving sustainable improvements in the fiscal position and that, given the sharp increase in outlays as a share of GDP in the first half of this decade, scope has existed for

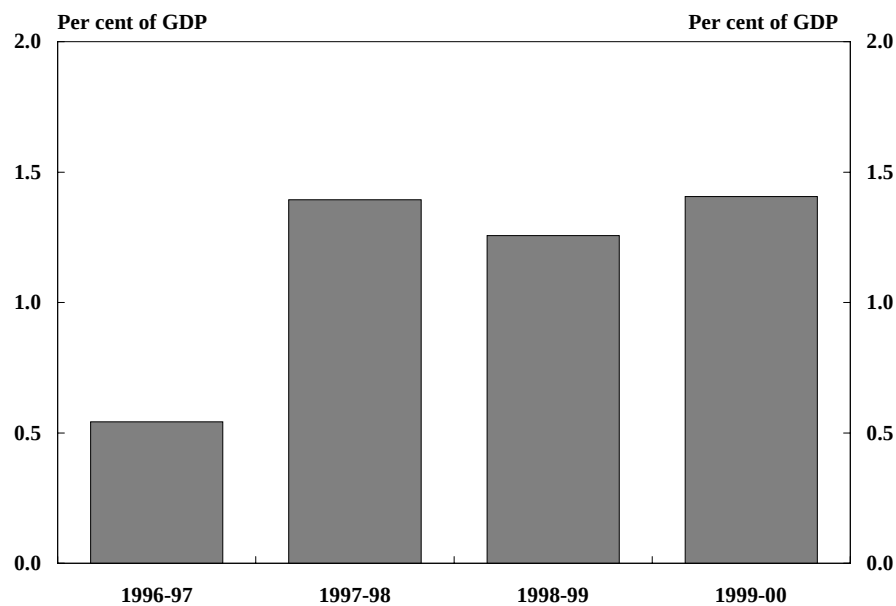
⁷ The precise impact may vary from announced measures as a result of revised costings.

rationalising programmes and for improvements in efficiency. In total, outlays savings measures announced by the Government since the election amount to 1.6 per cent of GDP in each of 1997-98 and 1998-99. These savings have enabled the Government to direct 0.6 per cent of GDP in new spending to a number of high priority areas, in these years, while still making a significant contribution to fiscal consolidation.

On the revenue side, the Government's policy emphasis in the 1997-98 Budget has been on protecting the tax base and addressing anomalies in the tax system, with the primary purpose of many of the revenue measures being to prevent risks to the revenue base and therefore the fiscal outlook, that would otherwise emerge. In total, revenue measures since the election amount to 0.3 per cent of GDP in each of 1997-98 and 1998-99.

The Government's budget priorities, including in relation to superannuation and private savings incentives, are spelled out in greater detail in Part IV of this Statement.

Chart 2: Cumulative Net Savings Decisions since the 1996 Election



NATIONAL SAVING

Raising national saving is the primary focus of the Government's medium-term fiscal strategy. Increasing national saving, relative to national investment, holds the key to reducing the current account deficit over time and thereby raising longer-term growth prospects. The risks that continued high levels of the current account deficit pose to economic growth—and the benefits of raising national saving—were set out in *Budget Paper No. 1 1996-97*.

The Government's fiscal objectives and targets are formulated with reference to the underlying balance. The emphasis on the underlying balance as a policy indicator reflects the fact that the underlying budget balance closely approximates the direct contribution

of the Commonwealth budget sector to the national saving-investment imbalance as measured by the 'net lending' concept in the national accounts. It is the part of public net lending over which the Commonwealth Government has direct control. An emphasis on the underlying budget balance is therefore consistent with a policy emphasis on raising national saving.

The fiscal consolidation in the 1997-98 Budget, on top of the significant consolidation achieved in the 1996-97 Budget, will provide a substantial boost to public saving over the next few years and will thereby assist in ensuring that, over the course of the economic cycle, the Government will not, on average, be calling on private saving to fund its own investment needs.

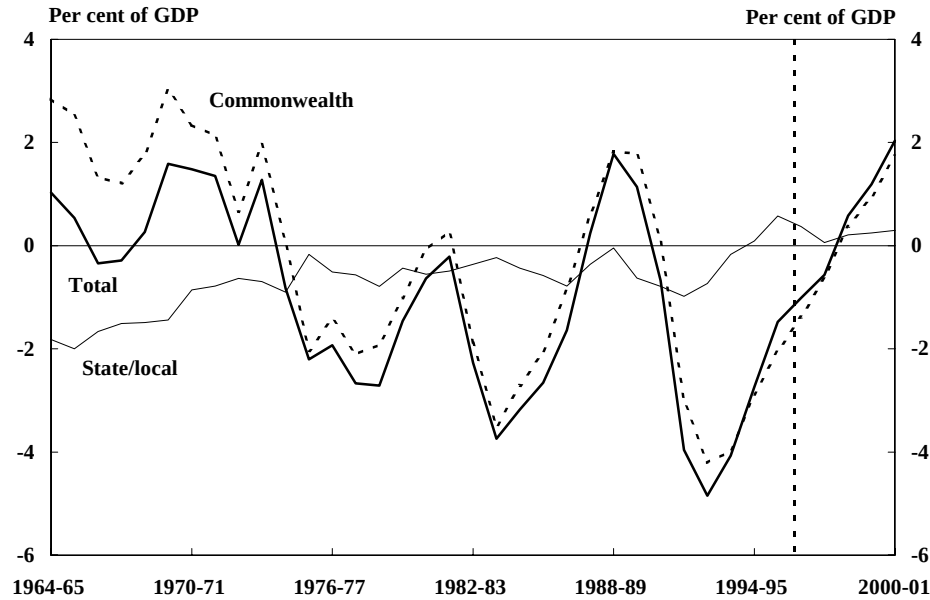
The degree to which this improvement in Commonwealth budget sector net lending translates into an improvement in national net lending will depend on the actions of other sectors of the economy, viz the State/local government sector and the private sector.

From this perspective, it is important that the State/local governments also run responsible fiscal policies. Chart 3 shows that the State/local general government sector is projected to continue its recent trend of delivering small surpluses, albeit at a lower level. These surpluses complement the improvement in the Commonwealth general government⁸ fiscal position, so that the combined Commonwealth and State/local general government sector should achieve an underlying surplus in 1998-99 somewhat larger than that in the Commonwealth sector alone.⁹ Developments for the public sector as a whole are discussed in more detail in Statement 7.

⁸ The general government sector comprises the budget sector and some non-budget sector agencies. The budget sector consists of those departments and agencies whose transactions are recorded on the Commonwealth Public Account (CPA). The activities of this sector dominate the general government sector. The non-budget sector includes government authorities such as the ABC and CSIRO which operate outside the CPA (see Statement 7 for further details).

⁹ As public trading enterprises are largely run on a commercial basis, their saving and investment decisions align more closely with those of the private sector than the public sector. Therefore, their contribution to fiscal consolidation and public saving is excluded from this discussion.

Chart 3: General Government Underlying Balance



Private sector saving and investment decisions are affected by fiscal consolidation both in response to specific revenue and outlays measures and as a result of the improved economic outlook that results from fiscal consolidation. As discussed in last year's *Budget Paper No. 1*, the weight of evidence suggests that while private sector behaviour does tend to offset changes to public sector saving, the offset is only partial. Consequently, improvements in saving by governments tend to lead to rises in national saving and thereby provide scope for higher investment or a reduced call on foreign saving.

The Government is, moreover, implementing measures which should assist in increasing private saving. A major initiative of the 1997-98 Budget is the introduction of a broadly based savings rebate. Proposed enhancements to the operation of the retirement income system should also improve Australia's national saving performance. These measures are discussed in further detail in Part IV of this Statement.

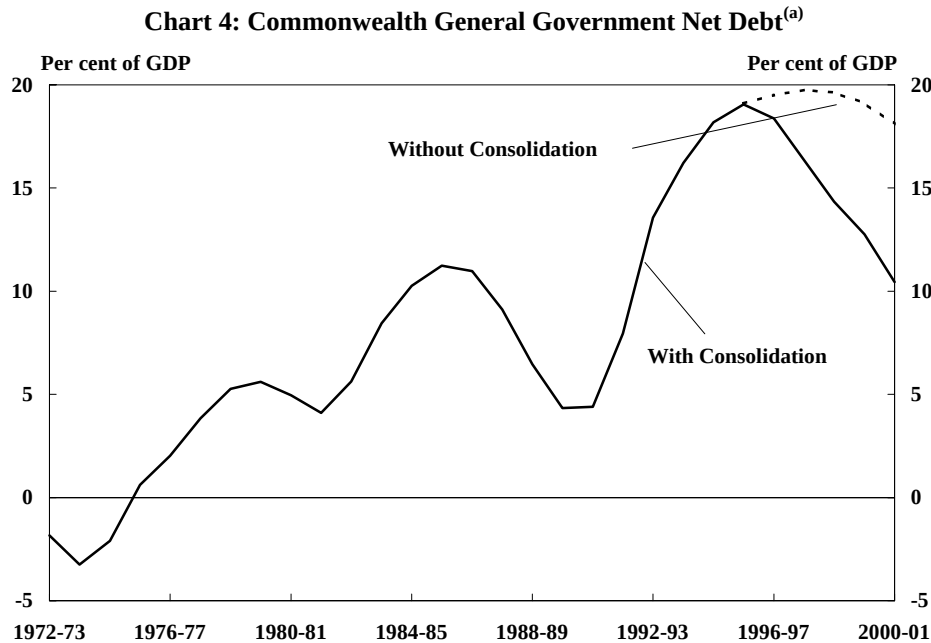
NET DEBT

Reducing public indebtedness in periods of strong economic growth is crucial if the Government is to retain the capacity to use fiscal policy to support economic growth during periods of weakness without ratcheting up public debt from one cycle to the next. Lower public debt levels also reduce the vulnerability of the economy to shocks and assist the Government to cope with longer-term fiscal pressures such as those stemming from the ageing of the population.

Over the past two decades, the deterioration in the fiscal position has resulted in a ratcheting up of Commonwealth general government net debt. Taking action now is necessary to ensure that, in the longer term, net debt levels do not continue to ratchet up,

requiring future generations to pay for the consumption of the present generation. Lower net debt levels will also lower interest payments in future years, releasing funds for spending in high priority areas.

The Government's fiscal strategy will see net debt reduced to around 10½ per cent of GDP in 2000-01, with substantial net retirement of debt in 1997-98 and the outyears. These debt levels compare favourably with the positions of many OECD countries which require substantial remedial action.



(a) Figures are for net debt stocks as at the end of each financial year. Data for 1987-88 to 1995-96 are from ABS *Public Sector Financial Assets and Liabilities* (Cat. No. 5513). Data for years prior to 1987-88 are Treasury estimates. The chart differs slightly from that published in *Budget Paper No. 1 1996-97*, reflecting revisions to the Treasury estimates for the period prior to June 1978 to take account of the non-repayable nature of loans made for the provision of postal and telecommunication services. The revised series treats these payments as grants rather than net advances.

PART IV: BUDGET PRIORITIES

The Government's budget priorities have been developed within a framework that takes account of the Government's broader economic and social objectives.

In framing its 1997-98 Budget, the Government has given priority to:

- providing an economic climate which supports enhanced employment opportunities and rising living standards, including by ensuring an adequate level of saving;
- meeting its social responsibilities, particularly in:
 - providing public goods and services which the private sector either cannot provide or under-provides, while at the same time re-assessing the Government's role in non-core activities;
 - ensuring a fair and effective social safety net which protects people in need;
 - ensuring that expenditure programmes are run efficiently and are effective in producing desired outcomes;
- not seeking savings from areas which were the subject of significant outlays savings in the 1996-97 Budget; and
- containing the tax burden on the community while working to ensure that all taxpayers are paying their fair share of taxes and that the integrity of the tax system is maintained.

In assessing its Budget outlays priorities, the Government has placed emphasis on rationalising services, reducing duplication, better targeting programmes, achieving increased efficiencies in running government and making more effective use of market mechanisms.

Improving the efficiency and quality of existing expenditures has allowed the Government to shift resources to higher priority areas without increasing the burden on the taxpayer. The Government has maintained spending in priority areas, such as families and defence, and created the scope for some limited new policy. Such spending priorities need to be carefully assessed against the broader objectives of fiscal consolidation and the burden they place on revenue.

The Government attaches considerable importance to avoiding an undue tax burden being placed on the community. That means ensuring revenues are at the lowest levels compatible with the need to fund high priority spending and provide for the necessary fiscal consolidation. It also requires a careful assessment of revenues to ensure that anomalies in the tax system are addressed, that the revenue base is protected, and that taxpayers pay their fair share. In this Budget the Government has, for example, removed or wound back some tax incentives, as well as replacing another with a more effective outlays measure.

The following provides further detail on the Government's outlays and revenue priorities consistent with the above framework.

Increasing National Saving

As discussed in Part III, the Government's medium-term fiscal strategy is aimed at ensuring that, on average, the Commonwealth does not directly contribute to the national imbalance between saving and investment. The 1996-97 and 1997-98 Budgets provide a substantial boost to public saving which should, over time, assist in increasing national saving. In addition, the Government has introduced measures aimed at assisting private saving.

While the Government's efforts to enhance the efficiency and competitiveness of the financial system will assist private saving by increasing choice and reducing costs, the Government believes more should be done to assist householders who save. To this end, a major initiative of the 1997-98 Budget is the introduction of a broadly based savings rebate. The savings rebate represents a reward to current savers and an encouragement to potential savers. The savings rebate will assist individuals to save or invest in the form that is most suited to their needs, but is designed to give most support to saving in the form of superannuation.

The need to boost national saving is inherently linked with the need for an effective retirement incomes policy. Given the ageing of our population and the demands this will place on pension outlays, there is clearly a pressing need for more Australians to make adequate provision for their own retirement by saving through their working lives. It is also essential that the retirement incomes system be as efficient and effective as possible.

The Government believes there is considerable scope to enhance the operation of the retirement income system by making it more flexible, providing more choice, and ensuring that superannuation savings are directed towards their intended purpose, namely providing for retirement income. To this end, the Budget includes measures to improve the operation of the preservation rules and tighten access to superannuation benefits prior to retirement. At the same time, the Government will provide people with greater choice as to where they can invest their superannuation benefits. In addition, the Government is implementing simpler and more equitable social security arrangements for superannuation benefits taken on retirement, with consistent modifications to the definition of 'complying' pensions and annuities for purposes of gaining access to the higher superannuation pension reasonable benefit limits. Enhancing the retirement income system along these lines should improve Australia's national saving performance.

The Government is also providing incentives to older people to defer retirement. In the 1996-97 Budget the Government announced that from 1 July 1997, people over age 65 and up to age 70 would be able to continue to contribute to a superannuation fund or retirement savings account, provided that they maintain a bona fide link with the paid workforce. In this Budget, this initiative is complemented with the introduction of a pension bonus to individuals who defer taking an Age or Service Pension for up to five years while working.

A Fair Social Safety Net

The Government is committed to providing a fair and effective social safety net. The Government has introduced legislation to maintain the single rate of pension at 25 per cent of MTAW. This is the first government to commit the Budget in this way and is evidence of the high priority the Government places on ensuring the adequacy of pension payments. Additional measures introduced in the 1997-98 Budget are designed to make the system fairer while maintaining assistance to those in need.

Assisting Families

The Government attaches considerable importance to relieving the financial pressures on low and middle income families with children. The Family Tax Initiative announced in the 1996-97 Budget provided additional assistance to families with children through tax measures or, in the case of low income families, through fortnightly cash payments. In the 1997-98 Budget, the Government will increase the rate of Domiciliary Nursing Care Benefit to align it with the Child Disability Allowance. The Carer Payment will also be extended to those caring for profoundly disabled children under the age of 16 and to people who are required to care for an adult as well as care for, or supervise the care of, a child. Additional funding is to be provided under the Commonwealth-State Disability Agreement for extra accommodation support for people with disabilities.

Employment and Training

Unemployment will only be reduced on a permanent basis by addressing its underlying causes. To this end, the Government has implemented industrial relations reforms and, in the last budget, introduced reforms to labour market assistance and training. The 1997-98 Budget includes further measures to assist people into employment, including through improvements to entry-level training incentive payments, which are designed to encourage employers to take on apprentices and trainees. The Work for the Dole initiative will also give unemployed people a chance to add to their experience and develop a work ethic through participation in projects which will be of lasting value to the community. In addition, funding has been allocated for a pilot scheme designed to better integrate juvenile offenders into the community.

Encouraging Small Business

A healthy small business sector is essential to strong growth in national output and employment.

To support the development of this sector the Government took steps in the 1996-97 Budget to honour its election commitment to amend the tax treatment of capital gains on the sale of a small business, where the proceeds of the sale are used to either expand an existing business or to acquire a new business. Since that time, the Government has enhanced this measure by dropping the 'like business test' and by announcing that rollover relief would also apply where a business is disposed of through the sale of shares.

The Government has also recently announced, as part of its Small Business Statement, the establishment of a Small Business Innovation Fund designed to support, in

partnership with the private sector, the provision of early stage capital to new technology based firms, and to promote the development of a market for such provision.

In this Budget the Government has built on its commitment to reduce compliance costs for small business by streamlining withholding tax arrangements.

Rural Australia

In the 1997-98 Budget the Government has made allowance for substantial increases in funding over the next four years to enhance Australia's quarantine service and to restructure the delivery of meat inspection services. The Government will make a Rural Policy Statement in the second half of 1997 to provide a comprehensive response to a number of reviews of rural programmes, including in the areas of rural adjustment, drought relief and farm risk management strategies.

Environmental Initiatives

The Government has finalised its funding for the Natural Heritage Trust, with provision for total expenditure of \$1.249 billion over six years from 1 July 1996. The Trust, which is the centrepiece of the Government's environment strategy, aims to stimulate investment in the conservation, repair and replenishment of Australia's environmental, agricultural and natural resources. The Trust will provide further funding for Landcare, as well as for major programmes focussing on biodiversity and the management of Australia's vegetation, rivers and coasts.

Federation Fund

The Government will establish a Federation Fund which will be used to finance major projects of national significance to mark the Centenary of Federation and contribute to the building of the infrastructure Australia needs for the coming century. These will be selected by the Commonwealth Government in consultation with State and Territory Governments on the basis that they will make a significant and ongoing contribution to Australia and the Australian economy. It has already been decided to draw on the Fund from 1998-99 onwards to finance the cost of constructing the National Museum of Australia and the associated building for the Australian Institute of Aboriginal and Torres Strait Islander Studies in Canberra.

Defending Australia

The Government is continuing its commitment to the security of the nation by quarantining Defence from the fiscal consolidation task. Defence spending is expected to remain unchanged in real terms in 1997-98 and throughout the forward estimates period.

Moreover, the Government is determined to ensure that maximum value is obtained from each dollar spent on defence. To this end it has recently announced the Defence Reform Programme (DRP) based on recommendations of the Defence Efficiency Review Committee, to streamline the operations of the Department of Defence and the Defence Forces. Efficiency savings from the DRP are to be redirected towards improving the combat effectiveness of the armed forces.

Creating an Efficient Government

In line with the Government's determination to increase the efficiency of its own operations, the Government has identified significant potential benefits from the consolidation and outsourcing of Information Technology (IT) infrastructure under a whole of Government framework. Savings in this area will be realised through economies of scale from the aggregation of services both within and across agencies, and through the strengthening of competition via an open tendering process.

Revenue Base Protection Measures

The revenue base is constantly under pressure from a range of sources, including tax minimisation and avoidance through the exploitation of provisions and 'loopholes' in legislation and through the use of new technology (such as the Internet) which can make it more difficult for transactions to be detected. (A broad discussion of such general risks to revenue is provided in Appendix A of Statement 2.) In the absence of the Government taking action, its revenue base would decline, undermining the equity and efficiency of the taxation system. Continued vigilance in minimising the scope for such unintended revenue leakage is needed.

A substantial number of the revenue measures announced in the 1997-98 Budget are aimed in part or in full at protecting the existing revenue base. Examples of such measures include changes to the system for the taxation of foreign source income; dividend streaming; franking credit trading and measures in relation to the taxation of distributions disguised as loans. Such measures will protect the tax base and address tax avoidance and minimisation.