

RESPONSIBLE ECONOMIC MANAGEMENT

The Government has pursued steady and responsible economic policies through one of the most challenging periods in recent history.

When the global financial crisis threatened the Australian economy, the Government did what was necessary to strengthen our financial system, support growth and protect jobs and small businesses.

Fiscal stimulus meant the Australian economy avoided recession during the global financial crisis. This prevented large scale job losses and business failures, avoiding long-term loss of productive capacity. This has helped position Australia for future growth.

Through continued responsible economic management and reforms that further strengthen and secure future growth, the Government is positioning Australia to take maximum advantage of growth in our region, and ensuring that all Australians share in the benefits of a strong economy.

DEFICIT EXIT STRATEGY

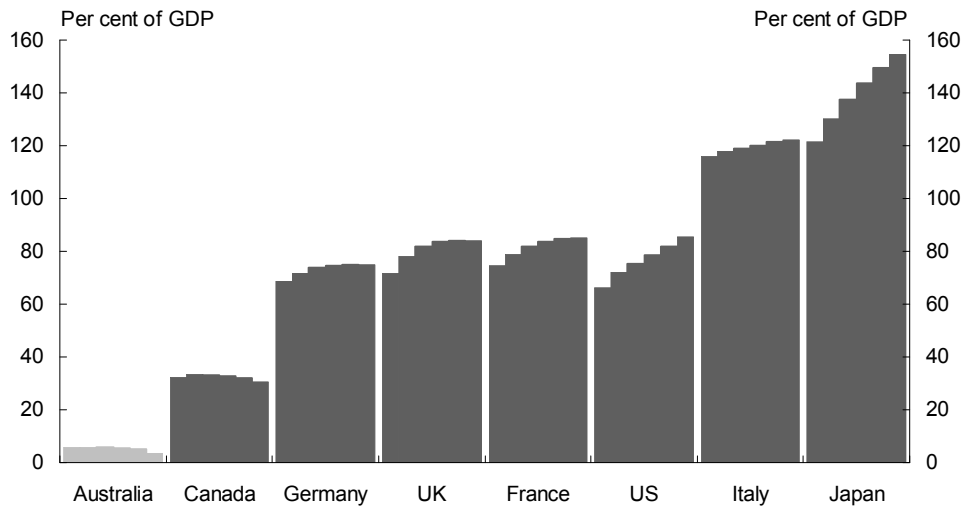
During the global financial crisis, the Government supported the economy by allowing the budget automatic stabilisers to operate and implemented timely, targeted and temporary fiscal stimulus. These measures supported growth and minimised job losses.

With the economic recovery taking hold, stimulus measures are being withdrawn and the Government is consolidating its fiscal position while continuing to deliver key reforms that support growth.

The Government remains committed to delivering on its deficit exit strategy, and returning the Budget to surplus in 2012-13, well before any of the major advanced economies. This would represent the fastest fiscal consolidation in Australia since at least the 1960s and puts Australia at the forefront of global fiscal consolidation efforts.

Australian Government net debt, which is expected to peak at 6.0 per cent of GDP in 2011-12, is lower than any of the major advanced economies, whose collective net debt is expected to reach 94.2 per cent of GDP in 2015 (Chart 5).

Chart 5: Government net debt for Australia and the G7 (2010-2015)



Source: IMF World Economic Outlook April 2010, IMF Fiscal Monitor May 2010 and Treasury.

The Government will continue to focus on its deficit exit strategy by:

- holding real growth in spending to 2 per cent a year until the budget returns to surplus; and
- allowing the level of tax receipts to recover naturally as the economy improves, while maintaining the commitment to keep taxation as a share of GDP below the 2007-08 level on average.

The focus of the fiscal strategy in future years will remain on returning the budget to surplus, including by continuing to reprioritise existing expenditure, consistent with 2 per cent real expenditure growth.

Once the budget returns to surplus, and while the economy is growing at or above trend, the Government will maintain the 2 per cent annual cap on real spending growth, on average, until surpluses are at least 1 per cent of GDP.

Delivering on the Government's fiscal strategy will ensure that Australia's fiscal position remains one of the strongest in the developed world.

And it forms an important element of the Government's medium-term fiscal strategy, to deliver budget surpluses, on average, over the medium term.

STRENGTHENING AND SECURING THE ECONOMY

The Government is implementing economic reforms to strengthen and secure the economy. This will ensure Australia is well positioned to take full advantage of the opportunities created by strong growth in our region, while preparing to meet future challenges.

Challenges ahead include managing the stresses that accompany a higher terms of trade, building additional capacity in the workforce and infrastructure to allow the economy to grow sustainably, meeting the needs of an ageing population and responding effectively to climate change.

The Government's focus is on putting in place reforms that allow the economy to grow sustainably over time and ensure all Australians benefit from a stronger economy.

As part of this agenda the Government is implementing an ambitious tax reform program to make the tax system fairer, simpler and more competitive. This includes ensuring Australia's resource wealth contributes to the nation's long-term prosperity.

On 2 July 2010, the Government announced improved resource tax arrangements which will apply from 1 July 2012 to Australia's most highly profitable non-renewable resources. The new resource tax arrangements will provide funding for an historic boost to superannuation, further investment in new and better infrastructure, business tax cuts including an up-front tax break and less red tape for small businesses and personal tax simplification.

The company tax rate is being reduced to 29 per cent from 2013-14, with a head start for small businesses from 2012-13, and small businesses will also enjoy an instant write-off for assets costing less than \$5,000. This will boost competitiveness, expand investment, increase real wages and create new job opportunities.

Demand for our exports and ageing infrastructure are putting pressure on existing capacity. That is why the Government is investing in Australia's road, rail and port infrastructure to lift the productive capacity of the economy. In real terms, the Government is more than doubling expenditure on major transport infrastructure in the six years to 2013-14.

The new Regional Infrastructure Fund will invest \$6 billion over the next decade, providing the infrastructure that Australia needs to continue to expand, and limit the re-emergence of bottlenecks that have impeded growth in the past.

The Government is investing up to \$43 billion to build the National Broadband Network, to enhance Australia's productivity and ensure Australia's businesses have the communication infrastructure necessary to compete in the global economy.

The Government has made substantial investments to boost the skills of Australian workers and ensure that the education and training system meets the economy's changing needs.

Across the school, training and higher education systems, the Government is injecting more funding and improving the quality and performance of the education system to achieve better outcomes.

The Government's higher education reforms will uncap university places, allowing universities to offer a place to all eligible students and will also inject substantial new funding, including performance funding, to boost quality.

The Government's early childhood education agenda, development of a national curriculum and significant increase in investment in schools are improving the quality of education available to our children.

These reforms will ensure that more Australians benefit from high-quality education and will expand the opportunity to contribute to and share in the income and job benefits of economic growth.

To promote workforce participation, help give more children the best start in life and support working families, the Government is introducing the nation's first comprehensive Paid Parental Leave scheme. From 1 January 2011, the scheme will provide 148,000 eligible new parents each year with up to 18 weeks of payment at the national minimum wage — currently \$570 per week — to care for their baby full-time during the vital early months of development.

To address the challenges of an ageing population, the Government has introduced major reforms to the retirement income system, including raising the superannuation guarantee to 12 per cent, extending the guarantee to workers aged 70 to 74, providing a Government contribution of up to \$500 annually to low-income earners and expanding the contributions cap for older Australians making catch-up contributions.

These reforms will boost the financial security of retirees, improve the long-term sustainability of the pension system and increase the pool of superannuation savings by an estimated \$500 billion by 2035.

An ageing population and rising healthcare costs will place considerable strains on Australia's health system in the coming decades, with total healthcare expenditure projected to more than double as a share of the economy over the next four decades. That's why the Government is undertaking fundamental reform of our health and hospitals system.

The Government's National Health and Hospitals Network will prepare our health system for the decades ahead and ensure Australians receive the healthcare they deserve into the future. For the first time, the Commonwealth will be the majority

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funder of public hospitals, and will take full responsibility for GP, primary health care and aged care — providing clear roles and responsibilities and more sustainable funding.

Along with increased responsibility, the Commonwealth's \$7.4 billion of additional investment in our health and hospitals system will mean more hospital services with reduced waiting times, improved primary health care and better after-hours access, more doctors, more nurses and more allied health professionals and improved access to aged care.

Climate change is a core challenge for the future, and the Government is committed to the target of reducing greenhouse gas emissions by between 5 and 25 per cent below 2000 levels by 2020. The Government recognises that putting a price on carbon is necessary to address climate change, and will work to build the deep community consensus we need to support the transition to a low pollution economy.

The Government is also tackling climate change by investing in clean energy, including the \$5.1 billion Clean Energy Initiative to support ground-breaking technologies like solar, wind, geothermal and clean coal in Australia. An expanded Renewable Energy Target will ensure 20 per cent of Australia's electricity will come from renewable energy sources by 2020. The Government is also helping households move to renewable energy by providing financial assistance for solar panels to more than 100,000 households and community organisations, which not only tackles climate change but importantly helps families save on energy costs.

These are all important steps towards building a stronger and more secure future.

ENSURING AUSTRALIANS BENEFIT FROM A STRONGER ECONOMY

By safeguarding the economy and jobs through the global downturn, the Government delivered greater financial security for families, pensioners and carers. But the Government recognises the difficulties that many Australians still face, and is committed to ensuring all Australians benefit from a stronger economy.

That is why the Government is delivering measures to ease the cost of living.

The Government has delivered significant tax cuts in each of its three budgets to provide assistance to working families, particularly directed towards lower and middle income earners. The low income tax offset has been increased from \$750 in 2007 to \$1,500 in 2010, meaning that those eligible for the full low income tax offset now have an effective tax free threshold of \$16,000.

Overall, the Government has delivered tax cuts totalling \$47 billion over four years to Australian working families. These tax cuts mean an individual earning \$50,000 has an extra \$1,750 in their pocket each year.

The Government is also committed to making tax time easier for all Australians. As part of tax reform, the Government will provide individual taxpayers the option to claim a standard deduction of \$500 for work-related expenses and the costs of managing tax affairs from 1 July 2012, increasing to \$1,000 from 1 July 2013. When fully implemented, it is expected that 6.4 million Australians will be better off choosing the standard deduction instead of adding up their individual expenses.

The Government remains focussed on helping working families meet the costs of child care and education.

The Government has increased the Child Care Rebate from 30 to 50 per cent of out-of-pocket costs, up to \$7,500 per child. Families will now have the choice of receiving these payments fortnightly. This will ensure that families receive financial assistance at the time they pay their child care fees, to reduce pressure on the family budget.

The Education Tax Refund is assisting parents with the costs of educating their children, providing a rebate for certain educational expenses such as home computers, internet connection, school textbooks and stationery.

The Education Tax Refund has already assisted more than one and a half million children. The Government is now expanding the range of expenses that are eligible for the Education Tax Refund to include school uniforms for both primary and secondary school students, commencing from 1 July 2011.

And the Government has reformed the aged pension, providing more assistance to pensioners, and at the same time making the retirement income system more sustainable. In the last year, for pensioners on the maximum rate, the pension plus supplement has increased by more than \$100 per fortnight for singles and around \$76 per fortnight for couples combined.

These measures will help ensure all Australians share in the benefits of a stronger economy.