

A pianissimo budget

This is the Budget report produced by the senior staff of the ALIA national office. The text of this report can be found on ALIANet at <http://www.alia.org.au/publications/budget99.html>

In a nutshell

For the most part the treasurer maintained the severe face of fiscal rectitude. Just occasionally, however, the trademark smirk leaked from his set features. The stranglehold of the dark, double-breasted suit was finally broken. And Mr Costello's mid-grey three-button single-breasted heightened the youthful look of a man secretly rejoicing in his good fortune.

The 1999 Federal Budget has been the least anticipated in living memory. With its presentation it also becomes the least controversial. Treasurer Costello's speech was delivered as a muted *Ode To Joy*. A booming surplus on the back of surging revenue, inflation remaining low and economic growth still strong next year after a world-leading performance in the current year. Election commitments met with modest spending proposals.

But the Budget is clearly a prelude, the overture to an unfinished GST symphony. For most Australians, what happens to their business or personal taxation and the cost of their goods and services is far more important than anything spelled out last night. GST sound and fury threatens to quickly drown out a pianissimo Budget. Everything depends on Senate passage of the Government's tax package and the further sale of Telstra. The treasurer used the Budget speech to again call for the Senate to pass these measures by holding out the prospect of elimination of all Commonwealth debt. Given the initially favourable reception of the budget by the media, the Government will feel confident enough to go to the people, if the Senate blocks either the GST legislation or the sale of

Telstra or both. This is why Senator Harradine showed his displeasure on Budget night.

Strong, though moderating, domestic demand is tipped to generate continuing economic growth of three per cent after 4.5 per cent this year. Inflation is forecast to rise slightly to two per cent but is still within the Reserve Bank's target range. But projected employment growth is lower and there is little hope for the unemployed with the jobless rate stuck at 7.5 per cent. And the projected current account deficit remains troublesome at 5.25 per cent of GDP, though down from its current rate of more than six per cent. Wages growth will moderate slightly to 3.75 per cent. Real incomes will remain ahead of inflation. Private consumption will fall by a half of one per cent. But negative business investment is anticipated.

On the expenditure side, there are modest spending initiatives but most of the healthy surplus is retained. Additional funds are directed to health insurance, an enlarged 'Work for the Dole' scheme, regional development and literacy programs in schools. There is more money for private schools and a significant boost to medical and scientific research. A new indigenous employment package highlights an overall \$2 billion package for Aboriginal Australians. A major expenditure item for the arts is directed to control of the internet, but the Australia Council also receives the \$10.5 million it was promised in the election campaign. Particular emphasis has been placed on special funding for Tasmania in an obvious attempt to secure the vote of Senator Harradine for the tax and Telstra bills. Early responses indicate that these efforts have failed.

Employment — nothing doing, hope for the best

The treasurer made much of his desire to set up a new Australia for a new century of prosperity. But there is little change for those without work. Projected employment growth is lower and no improvement in unemployment is anticipated. A forecast collapse in business investment will create additional pressure for the jobs market. The forecast jobless rate remains at 7.5 per cent. Yet there are no funds directed to job creation programs beyond changes to the 'Work for the Dole' scheme. \$228 million is targeted to doubling places in that scheme over the next four years. For the first time it will now incorporate Year-12 school-leavers and those aged between 25 and 34. Funds have been allocated to increase apprenticeship opportunities. As an employer in its own right, the

Government seems finally to be reaching the end of its savage downsizing cycle. Less than 5000 public service jobs will go this year.

All calm on the wages front

Wages will grow by 3.75 per cent this year — down from an estimated 4.25 per cent in the current year. With inflation forecast at two per cent, real incomes will rise by more than one per cent. Outcomes are likely to vary considerably, however, between different forms of bargaining.

No change to superannuation but storms on the savings horizon

No changes have been made to the nation's superannuation rules and tax laws. This will allow some consolida-

tion after the shocks of recent years which have severely undermined confidence in the system. Together with the Government's acceptance of salary sacrificing arrangements for its own staff, this may have some modest positive effects on the level of funds directed to superannuation and on household saving. However this would do little to address what could soon become a significant issue for the Australian economy. The Reserve Bank last week issued a disturbing assessment of our national savings performance. Despite strong economic growth, continuing low inflation and some improvement to unemployment levels, Australian households savings is declining. Household savings are tipped to fall from the already unsatisfactory three per cent of disposable income to 1.25 per cent this year and an alarming one per cent next year. Meantime, household debt is increasing. While low rates at present mean interest payments as a proportion of

disposable income are not yet at crisis levels, any inflation-induced rise in interest rates could see household debt become a major concern. The scarcity of local capital means firms will increasingly go off-shore to fund investment, with potentially disastrous effects for our already-serious current account. Previous decisions by the Howard Government to cut back employer contributions and remove tax breaks on superannuation can only lower household savings in the mid-term. The absence of further changes this year is welcome, but more effort will be needed on the savings front.

Industrial relations — calm ashore, but white water on the in-tide

Last year in noting the absence of any specific industrial relations budget initiatives, we forecasted that re-election of the Howard Government would see further moves to deregulate industrial relations. This year's Budget similarly has little to say on the subject. But statements by both the prime minister and his workplace relations minister in recent weeks confirm that, while the budget itself is benign, a turbulent period may be ahead as the Government's second-wave of industrial reforms hits.

Bringing rural communities online

A continuation of the Regional Telecommunications Infrastructure Fund (RTIF), more commonly known as *Networking the Nation*, will ensure that internet availability and training will be further extended to rural areas. Combined with the Rural Plan and Rural Communities Programme (aimed at projects to develop information access and provision, and information technology, amongst other things), and the Family and Community Network Initiative (to develop and build family and community services websites), one could be led to believe that the government is serious about bringing the information revolution to all regions of Australia.

The promise of untimed local calls for very remote phone users, the removal of up to 250 television reception black-spots, internet access at local call rates to 100 per cent of the population (no mention of the speed of access — but that is another matter entirely), and even bringing taxation offices online (read carefully: no online access to tax forms yet), all suggests that the relentless push of technology is being ably assisted by the current government.

And it may be so, but only with the sale of Telstra (the 'social bonus', as it is constantly referred to). Perhaps a high price to pay. We certainly will not know until the Senate decides our fate later this year.

A small fillip for the printing industry

Thrown in amongst all of this is the offer of assistance to the printing industry in the form of \$20.6 million over four years to counteract the effect of the introduction of the GST (and to mitigate the disparity between duty on imported books versus paper). The people of Maryborough in Victoria should breathe a collective sigh of relief.

Biotechnology the latest R&D fad — perhaps

Many have claimed that the amount of money thrown at research and development in Australia is well below a truly sustainable level required to advance innovation and invention. The push to develop biotechnology research is to be applauded, but at the cost of information technology devel-

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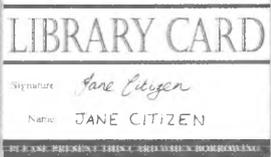

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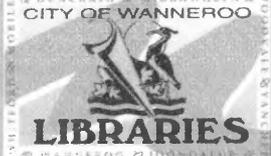
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opment (of which the budget mentions nothing). It appears that information technology research is now passé, to the extent that it does not rate a mention in federal budgets anymore. The burden of research and development now falls on the shoulders of industry — and it has been shown that Australian industry is not committed to research and development in the way that other OECD countries are.

Making the internet safe — attempts at the regulation of online services

The government is 'committed to making the internet safe and secure, maximising business and consumer confidence in the internet, online services and electronic commerce' (and we thought it was just to appease Senator Harradine). To this end, the government is about to pass legislation that will demand extra funding for the Australian Broadcasting Authority to act as an internet watchdog. The ABA will be the recipient of complaints about internet content, and will have the powers to take action against internet service providers (interestingly, not internet content hosts) that refuse to remove offensive material published on the internet within Australia. There will be a provision to ensure that ISPs block offensive and illegal material, though the mechanism for achieving this has yet to be pinpointed (and the Labor Party wishes to introduce amendments to the Bill to alter the timeframe and penalties to more realistic levels). The ABA will register and monitor codes of practice, and ensure that 'adequate safeguards' are available to users, parents and guardians for the protection of minors. The internet is about to become a very safe place. Or so we are led to believe.

But how does the government manage its own 'net resources?

Hot on the heels of the legislation controlling what Australia can and cannot access, media releases from the office of Family and Community Services Minister Jocelyn Newman 'accidentally' appeared on a departmental website almost five hours before the Budget was officially released — and due to be made public. An urgent enquiry is taking place to determine whose head(s) should roll. Perhaps they will get one of those five new jobs

going at the ABA as an internet censor...

Appropriations for the NLA, and others

Given the budget surplus and past cuts to appropriations, the allocation for the National Library and for universities is not generous. Some libraries may gain from the increase to scientific research. The message for all libraries affected by the Federal budget is to measure their institutional allocations and needs over the past five years and to add in the impact of the GST.

Education winners and losers

So this is a budget right for the times, to position us for the new century?

The winner is the Catholic school system which has felt much aggrieved over the years about their level of government funding. The Federal funding for non-government schools in 1999–2000 has increased by 9.4 per cent to \$2.98 billion compared with \$1.9 billion for public schools. Catholic schools make up sixty-two per cent of non-government schools.

In keeping with the trend for conditions applying to government funding (remember the recent compulsory student-union fees issue) the government will require non-government schools to meet national targets for literacy, numeracy and science. The Education Resources Index funding system has been abandoned and replaced by the Socio-Economic Status funding model which will be phased in by 2004 and aims to distribute more funds to those schools most in need. This model will assess the needs basis of schools by linking the addresses of non-government school students to census data to determine the relative socio-economic needs of students.

We thought schools were already doing this...

Funding for literacy and numeracy programs continues, as it does for teacher professional development and teaching of Asian languages.

Universities are still dealing with the cuts to operating budgets (the final one per cent this year). Election promises fulfilled include funding for strategic partnerships with industry research

and training (\$59.8 million), \$25 million for science lectureships, and increased funding for James Cook University. The Higher Education Equity Merit Scholarship Scheme will be dismantled by 2003, with no new scholarships offered.

Medical and biotechnology research are identified as growth areas — genome research it is said will place Australian researchers at the cutting-edge of gene research.

The financial perspective

The treasurer has framed a Budget which will maintain a surplus, with the Government spending well within its means. In his budget speech, the treasurer said the budget set Australia up to enter the next century as a world leader in living standards, prosperous and with the potential of a dynamic young nation. He has a vision of the nation being debt-free early in the new century — but only if the Senate passes the GST legislation.

The budget puts extra resources into education and research and development without increasing taxes. Income, company and wholesale sales tax rates and the petrol excise remain the same. The Australian book printing industry is one of the main beneficiaries of the Budget measures. The Government will allow book printers to claim four per cent of the purchase price of all paper inputs used in the production of eligible books completed on or after 1 January 1999, but before 1 July 2003. This measure meets the Government's 1998 election commitment to the printing industry to address the imbalance where average duty of four per cent is payable by Australian printers on paper products, while the import of competing books is tariff-free.

Industry and professional organisations such as ALIA will also be affected by changes to the fringe benefits tax (FBT) system. The Budget aims to stop overuse of the concessional FBT treatment of public benevolent institutions and certain other not-for-profit organisations. It will do this by limiting — for each employee — the value of fringe benefits eligible for concessional treatment to \$17 000 of grossed-up taxable value per employee of such organisations. Any amount above this will be subject to the normal FBT treatment. This will take effect from the 2000–2001 financial year. While it will not immediately affect ALIA it will have to be considered whenever new salary packages are being negotiated. ■