



Interview with Honourable Mr Peter Costello

Federal Treasurer, Deputy Leader of the Liberal Party and Member of Higgins

by Geoffrey R Widmer of the Palliser Group- December 2002

1. What are the potential solutions for funding the aged population? Does it include changes to taxation, work place practices and immigration policies?

Australia is better placed than most other OECD countries to deal with population ageing. But the Intergenerational Report demonstrates that if current policies are not adjusted the required adjustment in taxes and spending will be about 5 per cent of Gross Domestic Product (\$36 billion) over the next 40 years. Population factors will detract from GDP per capita on average over the next 40 years. We have now seen below replacement levels of fertility over the last 30 years in Australia. Migration of skilled workers can slow the impact of the effects of an ageing population but cannot reverse it. Participation factors are vital. We need to encourage greater participation in the workforce and participation above current retirement age. There are still a number of barriers that tend to hold participation rates undesirably low, such as rigid labour market and management practices that restrict flexible work. Productivity factors are also vital. Lifting productivity growth requires continuing attention to fiscal policy, low and stable inflation and low interest rates, which facilitate investment and the roll-out of new technologies. It also requires flexible, efficient goods and labour markets and strong competition.

2. How important is it that the Federal Government policy of budget surpluses be maintained in light of the volatility in global capital markets and rising Middle East Asian tensions? Is there an argument for a short-term period of Budget deficits especially in light of likely fresh demands for higher defence expenditure?

The Government is committed to maintaining budget surpluses while economic growth prospects remain sound. The guiding objective of the Government's medium-term fiscal strategy is to maintain a balanced budget, on average, over the course of the economic cycle. This provides an anchor to ensure that spending during periods of weaker economic activity is made possible by saving during periods of stronger economic activity. Sound fiscal management enhances the confidence of the financial markets and the public which contributes to lower domestic interest rates and, over time, promotes investment and higher economic growth in Australia. During the Asian financial crisis the Commonwealth's strong fiscal position assisted in enabling an orderly response to the external shock.

3. As Treasurer since the election of the Howard Government, what are your proudest achievements?

Since the Government came to office, over one million new jobs have been created in the Australian economy and a low interest rate environment has

made housing more affordable for young homeowners. The Government also introduced a New Tax System, one of the largest structural changes made to the Australian economy since World War II. It reformed income tax, indirect tax, family assistance, business tax and Commonwealth-State financial relations. The New Tax System provides the States and Territories with a strong revenue base that grows in line with the economy, and a secure base to fund essential services. Australia weathered the Asian financial crisis in the late 1990s, achieving solid results on growth, employment and inflation despite heightened international and regional financial market instability. More recently, Australia has been one of the fastest growing economies in the developed world, despite sluggish growth in the United States and Europe and persistent weakness in Japan.

4. A looming issue for economic growth is the projected rapid decline of Australia's energy self-sufficiency, particularly in oil and liquids production. As the oil and gas companies explore in higher risk Australian offshore areas requiring scale and advanced technology to be economically viable, does the Federal Government propose to change the Government take, to reflect better risk/reward returns to explorers who are key to arresting the decline in self sufficiency? What are the likely tax changes the Government would contemplate?

Dr Brian Fisher, Executive Director of the Australian Bureau of Agricultural and Resource Economics (ABARE), has stated that, 'Australia's energy sector is expected to grow significantly over the medium term'. ABARE's June 2002 listing of major minerals and energy projects listed 20 major petroleum and coal projects currently under development or committed to, together with a number of major less-advanced projects under serious consideration over the next five years. Where petroleum producers incur project exploration costs they can deduct these costs against their taxable petroleum receipts. Higher exploration costs will result in higher tax deductions for producers. It remains a decision for the petroleum companies as to whether or not it is economically viable to explore in offshore areas.

5. Why has the Government been so successful? Is it the economic and structural reforms related to the needs of families, managing their mortgages, securing jobs, reliable medical services and having access to education?

The primary reason the Government has been successful is its focus on good policy. We have focussed on providing a stable, medium-term macroeconomic framework while pursuing microeconomic reforms, particularly in the labour market. Because this has kept inflation low, reduced government debt and permitted low interest rates, investment and growth have been

steady and unemployment has gradually been reduced. The Government has worked to increase the dynamic nature of Australia's market economy which has led to a very flexible and productive economy able to withstand and weather external economic turmoil. Focussing on the economic fundamentals of Australia has enabled the Government to fund its social policies.

6. How have small businesses benefited from the market reforms over the past six years and how will the Government meet the demands for less 'red tape' and more workplace flexibility?

Sound fiscal policy has helped to create a low inflation, low interest rate, strong growth environment, which helps small businesses to profit and grow. We have lowered the company tax rate from 36 to 30 per cent and reformed the indirect tax base. On the issue of red tape the Government has cut by more than 30 per cent the paperwork required by the Australian Bureau of Statistics and improved access to Government through the Business Entry Point. The Government has streamlined the process for lodging documents with the ASIC and capped annual company fees. The Workplace Relations Act 1996 has enabled small businesses to better meet their individual circumstances, but we also want to exempt small business from the unfair dismissal laws; make it easier for

employers and employees to make individual and enterprise agreements; restrict trade union right of entry; require the AIRC to have specific regard to the circumstances of smaller employers when making decisions.

7. What are the structural reform areas the Federal Government is focussing on for the next five to ten years? Is it in the areas of infrastructure, taxation, labour market reform, privatisation and social security? Will these changes underpin long term productivity growth of the economy?

The Government will continue to progress structural reform across a broad front. While much has been achieved, reform must not cease or Australia will not continue to enjoy its very strong economic growth. In the last budget I released an analysis of budgetary trends over the next 40 years as part of an Intergenerational Report. The Report showed that, with an ageing population, there is work to do to ensure that Australia is well placed to manage potential budget pressures. One important area of reform will be aimed at reducing barriers that provide disincentives for older Australians seeking to participate in the labour market. Other reforms will be aimed at enhancing the productivity of the economy. If we can increase labour force participation and productivity, the tax burden required to fund increasing health and related expenditures will be lower.