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RESTRICTED

GRS 500

RESTRICTED [CULL]

FM CANBERRA 190630Z AUG 81

TO PRIORITY FCO

TELEGRAM NUMBER 363 OF 19 AUGUST

INFO ROUTINE WELLINGTON

INFO SAVING UKDEL OECD, UKREP BRUSSELS, WASHINGTON, TOKYO.

MIPT : AUSTRALIAN BUDGET

1. THE TREASURER HAS BROUGHT DOWN A RESTRICTIVE BUT RESPONSIBLE AND DEFLATIONARY BUDGET WHICH WILL TAKE ACROSS-THE-BOARD FROM ALL CONSUMERS AND TAXPAYERS. IT WAS THE FIRST BUDGET IN YEARS NOT TO BE COMPREHENSIVELY LEAKED BUT FAILED TO GENERATE ANY EXCITEMENT. THE INCREASE IN FEDERAL EXPENDITURE (SLIGHTLY LESS THAN 2 PER CENT IN REAL TERMS) IS STILL NO DOUBT GREATER THAN THE TREASURY WOULD HAVE WISHED BUT REPRESENTS AN IMPROVEMENT ON LAST YEAR'S 3 PER CENT REAL INCREASE IN COMMONWEALTH OUTLAYS. THE MOST CONTROVERSIAL ASPECT, WHICH WAS SLIPPED IN ALMOST CASUALLY BY THE TREASURER, IS THE SALES TAX, PARTICULARLY ITS BROADENING TO TAKE IN A WIDE RANGE OF CONSUMER GOODS PREVIOUSLY EXEMPT. THIS REPRESENTS A VICTORY FOR MR HOWARD OVER HIS CABINET COLLEAGUES WHO EARLIER THIS YEAR OPPOSED ANY MOVE TO INCREASE INDIRECT TAXES ON ANTI-INFLATIONARY GROUNDS. THE EXTRA AUSTRALIAN DOLLAR 500M RAISED THIS FINANCIAL YEAR, TOGETHER WITH THE EFFECTS OF FISCAL DRAG ON INCOME TAX REVENUES, ARE THE MAIN FACTORS BEHIND THE ESTIMATED DOMESTIC SURPLUS OF AUSTRALIAN DOLLAR 1500M, OVER A BILLION DOLLARS GREATER THAN THE FIGURE FOR 1980/81.

2. THE GOVERNMENT'S DOMESTIC SURPLUS AND THE VIRTUAL ELIMINATION OF THE OVERALL DEFICIT WILL VIRTUALLY REMOVE THE COMMONWEALTH FROM THE BORROWING MARKETS AND TOGETHER WITH THE RECENT RESTRAINT ENFORCED ON THE STATES EASE INTEREST RATE PRESSURES AT A TIME WHEN RATES, PARTICULARLY FOR HOUSING HAVE BEEN AT RECORD LEVELS. AT THE SAME TIME THE GOVERNMENT IS CANDIDLY PREPARING FOR INCOME TAX CONCESSIONS IN FUTURE BUDGETS - THE TREASURER ADMITTED AS MUCH - AND CAN THEREFORE BE SEEN AS PREPARING THE GROUND FOR THE GOVERNMENT'S RE-ELECTION IN 1983. THE INCREASE IN FAMILY ALLOWANCES FOR THIRD AND SUBSEQUENT CHILDREN BY 50 PER CENT IS THE FIRST RISE SINCE 1976 AND IS THEREFORE LESS GENEROUS THAN IT MIGHT APPEAR.

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3. THE RURAL SECTOR IS RELATIVELY UNAFFECTED BY THE BUDGET. THE GOVERNMENT'S EXISTING PROGRAMMES IN THIS AREA ARE BEING MAINTAINED. BUT THE BUSINESS SECTOR, WHILE WELCOMING THE SUPPORT FOR IRON AND STEEL PRODUCERS (PRINCIPALLY OF COURSE BHP), WILL NOT BE PLEASED BY THE CURBS ON THE DEVELOPMENT BOOM BY THE WITHDRAWAL OF DEPRECIATION CONCESSIONS IN THE RESOURCES FIELD.

4. THE ESTIMATED REDUCTION IN EMPLOYMENT GROWTH WILL EASE DEMAND FOR LABOUR AND IN THE GOVERNMENT'S EXPECTATION CAUSE UNIONS TO MODERATE THEIR WAGE DEMANDS. THE GENERAL DAMPENING EFFECT OF THE BUDGET CAN ALSO BE EXPECTED TO MODERATE EXPECTATIONS ARISING FROM THE PREVIOUSLY HIGH GROWTH RATE. THE QUESTION MARK IS WHETHER THE GOVERNMENT MAY BE INDULGING IN OVERKILL AS NON-FARM GDP GREW AT A LESS THAN 2 PER CENT RATE IN THE SECOND HALF OF THE FINANCIAL YEAR AND IN THE JUNE QUARTER ACTUALLY FELL. REDUCING GROWTH RATE WHEN THE ECONOMY IS GROWING VERY MARGINALLY COULD RISK PROVOKING A RECESSION BUT THE UNDERLYING BUOYANCY OF THE AUSTRALIAN ECONOMY SUGGESTS THAT THIS WILL NOT BE THE CASE.

FCO PASS SAVING TO UKDEL OECD, UKREP BRUSSELS, WASHINGTON AND TOKYO.

MASON

[REPEATED AS REQUESTED]

[THIS TELEGRAM WAS NOT ADVANCED]

FINANCIAL  
SPD

GRS 920

UNCLASSIFIED [CULL]  
FM CANBERRA 190620Z AUG 81

TO PRIORITY FCO

TELEGRAM NUMBER 362 OF 19 AUGUST

REPEATED ROUTINE WELLINGTON

SAVING INFO UKDEL OECD, UKREP BRUSSELS, WASHINGTON, TOKYO

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AUSTRALIAN BUDGET

1. THE FEDERAL TREASURER INTRODUCED HIS FOURTH AND THE FRASER GOVERNMENT'S SIXTH BUDGET IN PARLIAMENT LAST NIGHT.
2. IN HIS SPEECH MR HOWARD REAFFIRMED THE GOVERNMENT'S PRIORITY IN CONTAINING WAGE AND PRICE INFLATION AND ITS INTENTION IN THE BUDGET TO EASE PRESSURE ON INTEREST RATES WHILE SUPPORTING SOLID GROWTH IN PRIVATE SECTOR ACTIVITY. HE PREDICTED A RISE IN GROSS NON-FARM PRODUCT OF BETWEEN 3 AND 3.5 PER CENT THIS FINANCIAL YEAR AND WITH FARM PRODUCTION EXPECTED TO RECOVER GDP COULD RISE BY MORE THAN 3.5 PER CENT IN 1981/82, COMPARED WITH ABOUT 3 PER CENT LAST YEAR (SUBSTANTIALLY LOWER THAN THE OECD FORECAST OF A 5.75 PER CENT RISE IN 1981 AND 5.25 PER CENT IN 1982). THIS OUTLOOK IS CONSIDERED TO BE CONSISTENT WITH EMPLOYMENT GROWTH OF ABOUT 2 PER CENT IN 1981/82, SLIGHTLY BELOW THE INCREASE OF 2.5 PER CENT RECORDED IN EACH OF THE PAST TWO YEARS.
3. THE GOVERNMENT WILL SEEK TO RESTRAIN GROWTH IN M3 TO BETWEEN 10 AND 11 PER CENT IN 1981/82. THIS COMPARES WITH A BUDGET FORECAST IN 1980/81 OF 9-11 PER CENT WHICH OVERSHOT TO 12.7 PER CENT. THE GOVERNMENT'S REVISED MONETARY TARGET SHOULD BE ASSISTED BY AN ESTIMATED REDUCTION IN THE OVERALL BUDGET DEFICIT FROM AUST DOLLAR 1127M IN 1980/81 TO AUST DOLLAR 146M, A REDUCTION OF AUST DOLLAR 981M ON LAST YEAR'S OUTCOME. THE DEFICIT AS A PROPORTION OF GDP WILL BE A MERE 0.1 PER CENT IN 1981.82 COMPARED WITH A RECORD FIGURE OF 4.9 PER CENT IN 1975/76. AFTER ALLOWANCE FOR TRANSACTIONS ABROAD, THERE SHOULD BE AN ESTIMATED BUDGET DOMESTIC SURPLUS OF AUST DOLLAR 1542M, APPROXIMATELY A BILLION DOLLARS MORE THAN THE FINAL OUTCOME FOR 1980/81.
4. TOTAL OUTLAYS ARE ESTIMATED TO INCREASE BY 12.6 PER CENT IN 1981/82 TO AUST DOLLAR 40862M, AN ESTIMATED INCREASE IN REAL TERMS OF A LITTLE UNDER 2 PER CENT; WHILE REVENUE IS ESTIMATED TO INCREASE BY 15.8 PER CENT TO AUST DOLLAR 40716M. MR HOWARD PREDICTED AN INCREASE OF 10.75 PER CENT IN THE CPI FOR 1981/82 OF WHICH 1.5 PER CENT WOULD BE ATTRIBUTABLE TO THE TAX MEASURES EXPONDED IN THE BUDGET AND HEALTH INSURANCE MEASURES ANNOUNCED EARLIER THIS YEAR.
5. PERSONAL INCOME TAX RATES ARE UNCHANGED BUT RECEIPTS WILL RISE 18.9 PER CENT THIS YEAR AS A RESULT OF FISCAL DRAG. THIS INCLUDES THE BENEFIT DRAWN FROM A HALF TAX INDEXATION CONCESSION WHICH IS TO BE WITHDRAWN ON 31 DECEMBER, A MEASURE ANNOUNCED EARLIER IN THE YEAR. SALES TAX IS TO BE INCREASED BY 2-1/2 PER CENT AND ITS BASE HAS BEEN WIDENED TO TAKE IN FROM 1 JANUARY A NEW LIST OF ITEMS PREVIOUSLY UNTAXED, INCLUDING CLOTHING, FOOTWEAR, DRAPERY, BUILDING MATERIALS, SOFT FURNISHINGS, BOOKS,

/MAGAZINES

MAGAZINES AND NEWSPAPERS, PACKAGING AND HAND TOOLS, (BUT NOT MEDICINE, FOOD OR WINE). THERE IS NO INCREASE IN EXCISE ON PETROL, SPIRITS, BEER AND TOBACCO. THIS IS EXPECTED TO PRODUCE AN EXTRA AUST DOLLAR 553M IN 1981/82 OR AUST DOLLAR 892M IN A FULL YEAR. SALES TAX COLLECTIONS ARE NOW EXPECTED TO OVERTAKE THE CRUDE OIL LEVY RECEIPTS AS THE MAJOR SOURCE OF GROWTH IN INDIRECT TAXES IN 1981/82.

6. DEFENCE SPENDING REMAINS AT A CONSTANT 2.8 PER CENT OF GNP BUT NEVERTHELESS RISES BY 16.3 PER CENT IN CURRENT PRICES OR 5.3 PER CENT IN REAL TERMS TO AUST DOLLAR 4.112 BILLION IN LINE WITH THE GOVERNMENT'S HIGH PRIORITY GIVEN TO THE STRENGTHENING OF NATIONAL SECURITY.

7. OTHER MEASURES INCLUDE AN INCREASE OF OVER AUST DOLLAR 100M OR 18 PER CENT IN FOREIGN AID EXPENDITURE. THIS IS ESTIMATED TO RAISE THE RATIO OF ODA TO GDP FROM 0.43 PER CENT IN 1980/81 TO 0.45 PER CENT IN 1981/82. TOTAL EXPENDITURE ON SOCIAL SECURITY AND WELFARE IS ESTIMATED AT AUST DOLLAR 11.357 BILLION, AN INCREASE OF 14.5 PER CENT. INCREASED FAMILY ALLOWANCES FOR THIRD AND SUBSEQUENT CHILDREN WILL COST THE GOVERNMENT AUST DOLLAR 62M IN 1981/82 AND AUST DOLLAR 124M IN A FULL YEAR.

8. MR HOWARD ALSO ANNOUNCED ACCELERATED WRITE-OFF FOR INCOME TAX PURPOSES OF CAPITAL EXPENDITURE ON PLANT AND EQUIPMENT USED EXCLUSIVELY TO PRODUCE BASIC IRON AND STEEL. ELIGIBLE PLANT WILL BE DEPRECIABLE AT A SPECIAL RATE OF 20 PER CENT PER ANNUM WHERE THE CURRENT SCHEDULED LIFE FOR TAXATION PURPOSES IS 5 YEARS OR MORE, AND AT 33-1/3 PER CENT WHERE IT IS LESS THAN 5 YEARS. COAL EXPORT DUTY, AT PRESENT APPLICABLE TO COKING COAL AT RATES OF EITHER DOLLAR 3.50 PER TONNE OR DOLLAR 1 PER TONNE, DEPENDING ON THE QUALITY OF THE COAL, IS EXTENDED WITH IMMEDIATE EFFECT AT THE DOLLAR 1 PER TONNE RATE TO STEAMING COAL, NOT AT PRESENT SUBJECT TO DUTY. THE GENEROUS INCOME TAX DEDUCTIONS ALLOWED FOR CAPITAL EXPENDITURE INCURRED IN THE DEVELOPING OF A MINING PROPERTY OR AN OIL OR NATURAL GAS FIELD ARE BEING SCALED BACK. DEDUCTIONS WERE CALCULATED BY REFERENCE TO A MAXIMUM STATUTORY LIFE OF A MINE OR FIELD AND THIS HAS NOW BEEN INCREASED FROM 6 TO 10 YEARS.

9. DEPARTURE TAX RISES BY DOLLAR 10 TO DOLLAR 20 AND THE TAXABLE AGE IS LOWERED FROM 18 YEARS TO 12 YEARS. THESE CHANGES TAKE EFFECT FROM 1 OCTOBER 1981.

10. FULL SETS OF BUDGET PAPERS WILL BE SENT BY BAGE TO CRE, TREASURY AND BANK OF ENGLAND.

11. FOR COMMENT SEE MIFT.

12. FCO PLEASE PASS SAVING TO UKDEL OECD, UKREP BRUSSELS, WASHINGTON AND TOKYO.

MASON

FINANCIAL  
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[PASSED AS REQUESTED]

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THIS TELEGRAM  
WAS NOT  
ADVANCED