



PRIME MINISTER

FOR MEDIA

Friday, 18 March 1983

In line with the commitment I gave last week, I today release details of Treasury projections of the Budget deficit for the 1983/84 financial year.

The projections form the Treasury estimate of a \$9.6 billion deficit for 1983/84, the essential outline of which was made available to the Treasurer, Mr Howard, during the course of the election campaign but which was kept secret by him and the then Prime Minister, Mr Fraser.

The projections were prepared on the basis of "no change" in the policies that were in effect at the beginning of the election campaign.

They demonstrate beyond doubt that it is nonsense for members of the former Government to argue that the \$9.6 billion deficit forecast represents the "first bids" of Departments and could easily have been trimmed. They particularly demonstrate the absurdity of the claim by the former Prime Minister that "competent Ministers would have knocked \$3 billion off that figure before it was ever presented to Cabinet".

In fact, the Treasury projections are made on the basis simply of a continuation of the previous Government's policies and make no allowance for any "bids" that Departments may have made in a Budgetary context.

The previous Prime Minister, in his final message to the people of Australia while in that Office, claimed that his Government had left Australia "in a condition that is equal to, or better than, any other Western country".

Nothing could be further from the truth.

The Fraser Government's legacy to the Australian people is an economic shambles.

Compare Mr Fraser's boast to the assessment given to me by the Treasury on March 6:

"The magnitude of the fiscal imbalance is unprecedented in Australia during peace time, as is the level of Government spending. The budget balance is projected to deteriorate from near zero to more than 6 per cent of GDP in a two year period. The speed and magnitude of that deterioration is almost without precedent among the major OECD countries in the post-war period".

If Mr Fraser and his colleagues are proud of that assessment, we can only be grateful they didn't leave the country in a condition about which they would be ashamed.

The figures in the attached document also serve to demolish the remnants of Mr Howard's credibility.

It has now been well established that Mr Howard was informed by the Treasury on February 28 that his \$6 billion estimate of the 1983/84 deficit was more than \$3 billion short of the truth.

Mr Howard chose to keep the real figure secret and has paid the penalty for that deception since the election. The people of Australia now know how much they can trust the Deputy Leader of the Liberal Party.

It is worth recalling, as well, the justification Mr Howard used for arriving at the \$6 billion figure. After he had been caught out, he told a press conference on March 8:

"Somebody who has been Treasurer for five years is entitled in the course of a press conference to give some order of magnitude based upon one's own understanding and one's own personal estimates".

The obvious question is: could he really have been so ignorant about what his Government's policies were doing to the Australian economy that he could be \$3 billion out in his estimate?

Mr Howard has a choice of admissions - he was a totally incompetent Treasurer; or he engaged in a massive deception.

My own view is that an admission on both counts would do a little to restore some of Mr Howard's credibility.

Canberra

DEPARTMENT OF THE TREASURY

MINUTE PAPER

Prime Minister

1983-84 BUDGET DEFICIT

You asked me to give you a concise account of the details underlying the \$9.6 billion estimate of the 1983-84 Budget deficit arising out of the policies of the previous Government. That figure was contained in the advance copy of our paper The Current Fiscal Situation and Outlook which I gave to you and Mr Keating on Sunday, 6 March last.

2. As at Friday 4 March 1983, the 1983-84 Commonwealth Government Budget deficit was estimated at \$9,562 million. Total outlays were estimated at \$54,594 million and total receipts at \$45,032 million. These figures took no account of policy proposals put forward by either the outgoing Government or the Australian Labor Party in the course of the election campaign.
3. The estimate of total outlays quoted above was provided to the Treasury by the Department of Finance late on Friday 4 March. A summary of those outlays with comparisons for 1982-83 is attached. Details of the outlays estimate - including the status of the figures underlying the aggregate and the method of data compilation by the Department of Finance - will be available in the Department of Finance's "Report on the Forward Estimates of Budget Outlays: 1983-84, 1984-85 and 1985-86" which you have indicated your intention of publishing.
4. The receipts estimate was compiled by the Treasury, with inputs from relevant revenue collection authorities, notably the Australian Taxation Office.
5. So far as the receipts side is concerned, what follows as to the basis of those figures will be self-explanatory. So far as the outlays side is concerned, you have enquired about the status of those figures and in particular whether they constitute merely "first bids" by Departments for 1983-84.
6. The first thing I should say on that matter is that the Forward Estimates processes, which culminate in the production by the Department of Finance each year at about this time of the Report on the Forward Estimates of Budget Outlays for the following three years, are quite separate from the "first-bids" processes which typically get under way in Departments at about this time and which are keyed to submitting such "first bids" to the Department of Finance usually around the end of April.
7. The Forward Estimates processes revolve around the provision by Departments, usually by around mid-January of each year, of those Departments' best estimates of the amounts considered necessary by Departments to maintain approved ongoing programmes and activities. While there is no doubt always some element of "fat" in those figures

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also, they are formally unrelated to the "first bids" processes for the immediately following year. I can only say that on this occasion as on all others, the Forward Estimates document has, so far as I am aware, been compiled by the Department of Finance on a wholly traditional basis.

8. The outlays and receipts estimates were based on economic parameters generated by the Treasury, and provided to the Department of Finance and revenue collection authorities in mid-February 1983. Two key parameters were average weekly earnings, then estimated to increase at an average annual rate of 6 1/2 per cent in 1983-84, and prices, then estimated to increase at an annual average rate of 6 per cent in the same year.

9. These parameters were revised upwards slightly (by around 1/2 a percentage point in each case) by the Treasury in early March. The receipts estimates were adjusted upwards by Treasury at the same time to reflect this parameter revision. Because, I understand, of the mechanical processes involved, no adjustment was made to the outlays estimate. In the short run (eg a single financial year), an increase in wages and prices tends to increase Budget receipts by a greater amount than Budget outlays. Therefore, the use of slightly different parameters on the two sides of the Budget in this instance meant that the estimated Budget deficit of \$9.6 billion was somewhat understated.

10. The attached table compares estimated 1983-84 Budget receipts with estimates of 1982-83 Budget receipts. Total 1983-84 Budget receipts were estimated at \$45032 million, \$612 million or 1.4 per cent higher than the then estimated 1982-83 receipts outturn.

11. The remainder of this note discusses individual Budget receipts estimates.

Customs duty

Imports

Collections of customs duty on imports were estimated to increase by \$10 million or 5.5 per cent in 1983-84. The estimate reflected a forecast increase of 6.8 per cent in the value of endogenous imports in 1983-84.

Coal exports

Receipts from duties on exports of coal were estimated at \$63 million, \$7 million or 10 per cent lower than estimated receipts in 1982-83. The estimated decline was attributable to the full year effect of abolition of the \$1 per tonne duty rate announced on 29 July 1982 and projected subdued demand for Australian coking coal.

Excise duty

Total collections of excise duty (including crude oil and LPG duties) were estimated at \$6278 million in 1983-84, a decline of 6.4 per cent on estimated 1982-83 collections.

Crude oil and LPG duties

	1982-83	1983-84	Change on 1982-83	
	Estimate	Estimate	\$m	%
	\$m	\$m		
Crude oil	3458	2870	-588	-17.0
LPG	56	55	-1	-1.8

Total receipts from crude oil and LPG duties were estimated to decline by \$589 million or 16.8 per cent. The estimate for the crude oil levy was based on maintenance of an exchange rate of \$A = \$US0.96 (broadly the exchange rate prevailing just prior to the election - now overtaken, of course, by the 8 March 1983 devaluation) and assumed a fall in the price of Saudi marker crude oil put at that time at \$US4 per barrel from 1 April 1983. The production estimates underlying the revenue figure were based on a projected 6 per cent reduction in excisable production and a shift in the distribution of production towards lower excise categories of production.

Receipts from the duty on naturally occurring LPG were estimated at about the same money level as in 1982-83. The estimated decline in production was offset by the full year effect of higher prices prevailing following the 1 January 1983 adjustment.

Other excise duties

The estimate for excise revenues, other than on crude oil and LPG, was \$3353 million, \$163 million or 5.1 per cent higher than estimated for 1982-83.

The estimate reflected the full year gain to revenue from the increased rates of duty on beer, tobacco products, motor spirit and distillate announced in the 1982-83 Budget and the expansion of the taxable base following the removal of the excise exemption for distillate used off-road. It also reflected an additional 1 cent per litre surcharge on rates of duty for motor spirit and distillate from 1 July 1983 earmarked for expenditure under the Australian Bicentennial Road Development (ABRD) Program. Further details are available if required.

Sales tax

Revenue from sales tax in 1983-84 was estimated at \$3850 million, an increase of 10.8 per cent. Private consumption expenditure was estimated to increase by around 7 1/2 per cent in 1983-84. The sales tax estimate was adjusted to reflect the broadened tax base, effective from 1 January 1983, and the full year effect of the increased rates announced in the 1982-83 Budget. Further details are available if required.

Income tax - individuals

It was estimated that collections of income tax from individuals would be virtually unchanged (increase by 0.1 per cent) in 1983-84. In addition to gross PAYE collections, this total comprised components which are based mainly on taxable incomes in 1982-83 (PAYE refunds and collections from other individuals).

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PAYE instalment deductions

Gross PAYE receipts were estimated to increase by 4.8 per cent in 1983-84. The 1983-84 estimate was, as noted earlier, based on an assumed increase of 7 per cent in average weekly earnings and a decline of 1 per cent in wage and salary earner employment. The estimate reflected significant estimated full year costs to revenue of the rate scale changes and other PAYE tax concessions provided in the 1982-83 Budget. At the time the 1982-83 Budget was brought down, it was estimated that the full year revenue costs of these measures would be around \$2850 million compared with a then estimated cost of around \$1670 million in 1982-83. Part of the concessions to eligible taxpayers were assumed to be reflected in PAYE refunds and tax paid by 'other individuals' in the following year.

PAYE refunds

Refunds in 1983-84, which are in respect of tax assessed in 1983-84 on 1982-83 incomes, were estimated to increase by 22.0 per cent. A large element in this increase derived from those personal income tax concessions announced in the 1982-83 Budget which taxpayers have chosen to take as refunds rather than as reductions to PAYE instalments in 1982-83; notably with respect to home loan interest and the increase in dependent spouse rebates.

Other individuals

Receipts from other individuals were estimated to decrease by 12.4 per cent in 1983-84, compared with an estimated increase of 11.6 per cent in 1982-83. Part of the 1982-83 increase was, however, attributable to the increased penalty rates for late payment, estimated to yield, on an essentially "one-off" basis, \$425 million in 1982-83. The provisional tax component of the estimate was based on the estimated taxable income of provisional taxpayers in 1982-83 increased by a loading of 10 per cent and applying the 1983-84 rates and dependent rebates. 1982-83 pre-Budget and Budget measures in this area were estimated to cost revenue \$202 million in 1983-84.

Income tax - companies

Company tax collections were estimated to decline by 9.0 per cent in 1983-84, reflecting a broadly comparable estimated decline in company assessable income in 1982-83 (the base for tax collections in 1983-84).

Special tax to recover evaded company and division 7 tax

Because of delays in implementing the 'bottom of the harbour' legislation relating to strips of untaxed company profits and unpaid Division 7 tax, the 1982-83 Budget estimate of \$255 million was revised downwards to \$100 million. The bulk of the proceeds of the tax were expected to be received in 1983-84.

Bank accounts debit tax

Implementation of the tax was delayed from 1 January 1983 to 1 April 1983. The tax will be fully operational in 1983-84 and was expected to yield \$200 million in that year.

Tax deductions from payments for labor and services

It was announced in the 1982-83 Budget that a tax deduction at source system would be applied from 1 July 1983 to payments for labour and services not subject to PAYE deductions in industries where evasion of tax on such payments was known to be significant, with a yield then estimated at \$500 million. The tax was not likely to be fully implemented in 1983-84 and details of its application and exemptions remained to be settled. The net gain from the tax was now estimated at \$300 million in 1983-84, representing an estimate of the excess of deductions from cash payments over the self-assessment credit that would be allowed in respect of these payments against provisional tax.

Non-tax revenues and other taxes, fees and fines (net)

Non-tax revenues (interest, rent and dividends, net receipts from Government enterprise transactions and sale of existing assets) and other taxes, fees and fines (net) were estimated by the Department of Finance at \$4092 million, 7.2 per cent higher than estimated 1982-83 collections.

12. I am of course conveying a copy of this minute simultaneously to the Treasurer for his information.



J.O. Stone
Secretary to the Treasury
18 March 1983

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COMMONWEALTH BUDGET OUTLAYS 1982-83, 1983-84

	Revised Estimate	Forward Estimate	Increase on Preceding Year
	\$m	\$m	%
<u>Function</u>	1982-83	1983-84	
Defence	4729	5158	9.1
Education	3800	4076	7.2
Health	3471	3809	9.7
Social Security and Welfare	13994	16374	17.0
Housing	730	699	-4.3
Urban and Regional Development nec and the Environment	123	102	-16.4
Culture and Recreation	524	595	13.5
Economic Services	3676	4240	15.3
General Public Services	3394	3707	9.2
Not Allocated to Function			
A Payments to or for the States, NT and Local Government Authorities nec	10904	11678	7.1
B Public Debt Interest	3420	4061	18.8
C Allowance for Wage and Salary Increases (non-defence)	-	95	
Total Not Allocated to Function	14323	15834	10.5
TOTAL OUTLAYS	48765	54594	12.0

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REVENUE BUDGET RECEIPTS ESTIMATES 1982-83, 1983-84

	1982-83	1983-84	Change on 1982-83	
	Mid-year Review	Preliminary Estimate	\$m	%
Taxation Revenue				
Customs Duty -				
Imports	2003	2113	110	5.5
Coal Exports	70	63	-7	-10.0
Excise Duty				
Crude oil and LPG	3514	2925	-589	-16.8
All Other	3190	3353	163	5.1
Sales Tax	3475	3850	375	10.8
Income Tax				
Individuals				
Gross PAYE	20700	21700	1000	4.8
Retards	2950 Dr	2500 Dr	-450	22.0
Net PAYE	18550	19200	550	2.9
Other	4250	3725	-525	-12.4
Total Income Tax -				
Individuals	22900	22925	25	0.1
Companies	5000	4550	-450	-9.0
Withholding Tax	245	255	10	4.1
Special Tax to Recover Evaded	100	325	225	225.0
Company and Division 7 Tax				
Bank Accounts Debit Tax	32	200	168	525.0
Payroll Tax	17	18	1	5.9
Departure Tax	40	44	4	10.0
Estate and Gift Duties	1	1	-	-
Stamp Duty	17	18	1	5.9
Other Taxes, Fees and Fines (net)	257	280	23	8.9
Special Tax on Labour and Services	-	300	300	n.a.
Total Taxation Revenue	40861	41220	359	0.9
Interest, Rent and Dividends	2930	3118	188	6.4
Net Receipts from Government retail use transactions	544	638	94	17.3
Subsidy Existing Assets	85	56	-29	-34.1
Total Receipts	44420	45032	612	1.4

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