



01 February 2019

The Hon Josh Frydenberg MP
Treasurer
House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Treasurer

I am writing to outline the Business Council of Australia's views on the 2019-20 Budget.

Delivering strong economic growth lies at the heart of achieving our goals as a nation. Strong economic growth is not an end in itself, but the means to deliver on the policy flexibility that a strong fiscal position provides. It means we can provide for what we want as a nation – more jobs, rising incomes, quality schools, world-class healthcare and support for those who are disadvantaged. Faster growth in real incomes per person can only be sustainably delivered by producing more output per hour worked. This means deploying all our resources – natural, human and man-made – as effectively as possible.

Innovation and investment will help create a competitive Australian economy and give Australian businesses the best platform to compete with the best in the world. In practice this means relief from excessive rules, ensuring regulation is fit-for-purpose, and effective spending of taxpayer dollars. It also means Australia having a globally competitive company tax rate to ensure that investment occurs in Australia and not offshore.

The Business Council continues to advocate for a single, 25 per cent tax rate for all companies. Of course, recognising the decision the Parliament made last year, we also support an investment allowance as an alternative policy option (albeit a less preferable option than a 25 per cent tax rate for all companies). The on-going softness in business investment and the downward revision to the current financial year forecasts for business investment in the Mid-Year Economic and Fiscal Outlook (MYEFO) is a concern. Investment drives productivity growth and therefore ultimately underpins higher real wages. The Government should therefore give consideration to an investment allowance for all companies, with the size of any such allowance able to be set so as to be accommodated alongside other budget priorities.

Competitive, open markets and private enterprise are critical for growth – and business is at the centre of this. Both the 2018-19 Budget and MYEFO showed the important contribution a growing and vibrant business sector makes to the budget. This, combined with fiscal discipline, is the path back to surplus. As you are aware, ultimately governments can only spend income that has been created by businesses and individuals.

We will continue to strongly support the Government's efforts to return the budget to surplus. A strong fiscal position provides more flexibility as a nation to deal with economic shocks. This means getting the budget into surplus and keeping it there.

The Business Council welcomes the progress you have made towards fiscal consolidation, culminating in a forecast return to surplus in 2019-20. However, Commonwealth government net debt

is at its highest level as a share of GDP in over 50 years. While this is low by international standards, Australia's households are among some of the most indebted in the world, and the RBA cash rate is at a record low. With house prices falling, getting government debt as low as possible is a sensible way to help restore our national balance sheet.

The Business Council believes the 2019-20 Budget must focus on:

- **Strength:** Australia needs a stronger fiscal position. While the budget is expected to return to surplus, it needs to remain there for some time to lower government debt. A materially lower level of debt would give Australia more ability to deal with negative economic shocks.
- **Value for Money:** To ensure value for money the effectiveness of government spending must be monitored and improved. Fiscal rules (such as a tax to GDP cap and a real spending cap) can also improve the efficiency of government. Given the increasing tendency of Australian governments to pursue off-balance sheet financing there needs to be greater scrutiny and focus on these liabilities.
 - The Business Council supports the government's tax cap, which effectively hands back bracket creep and prevents government from ever-expanding. A real spending cap of 2 per cent would, given current rates of population growth, enable an increase in real spending per person.
- **Better Services:** In areas like health, a greater use of data, more transparent pricing and a patient centred model could improve outcomes. In education and skills, the Business Council outlined a comprehensive roadmap for reform in *Future proof: Australia's future post-secondary education and skills system*. A stronger fiscal position would also ensure Australia can continue to provide a comprehensive social safety net as the population ages. We note that reform of the federation is a prerequisite for improving delivery of essential government services.
- **Preparing for the Future:** The Intergenerational Report (IGR) needs to be reformed. Australia will be best served by an IGR that is independent and non-partisan. It should be produced by the Parliamentary Budget Office and ideally bring Federal and State outlooks into one national IGR. We expect to outline more detail on future directions for the IGR in anticipation of the fifth IGR being prepared for released in 2020.
- **Saving for the Future:** The taxation of savings and the retirement incomes system in Australia is complex. We advocate for a comprehensive review, as recently recommended by the Productivity Commission, to ensure that the system is less complex and easier to navigate, facilitates comfortable living standards in retirement and alleviates fiscal pressures associated with an ageing population.
- **Tackle entrenched disadvantage:** Finally, Treasurer, you will recall that I wrote to you in November last year where I reiterated the call for a Productivity Commission inquiry into entrenched disadvantage. This can be intergenerational and deep-rooted, and we ought not accept multiple generations trapped in a welfare cycle where they are permanently excluded from the labour market and denied a chance to get ahead. As I previously raised, if you are supportive of such an inquiry we would be delighted to work with you on terms of reference.

As always, the Business Council is keen to work with government and we are more than happy to discuss any of these issues in more detail.

Yours sincerely



Jennifer A. Westacott AO
Chief Executive