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THE BUDGET John Hyde

A budget speech is the macro-economic `event' of the year, when the treasurer parades the government's new fiscal clothes and we try to identify them. Next Tuesday Mr Keating himself will tell us that only fools would not see that the boots have the softest fur on the outside, the shirt is of finest hair, the cut responsible and generous, and so on, but it will not be at all a clear picture, even to those familiar with budgets.

The speech will mention many minor changes which evoke groans and `hear-hears' from the Parliament. The Treasurer will talk confidently about the government's strategy but, if there is one, it will be invisible to us, his courtiers and indeed to himself. As Mr Keating is adept at not shivering in public, because it takes time to analyse budget papers, and because not many people will admit to not understanding them, the budget will receive public acclamation on Wednesday. But as the year advances Australians will brave the treasurer's scorn to ask, `Where are his clothes?'

That is where the analogy stops. The wicked tailors of the fable knew what they were doing. I do not believe that the cabinet and civil servants who made the last five budgets (one Fraser budget and four of Mr Hawke's) did. The foreign debt and domestic investment crises they made must be more than they bargained for. Fiscal policy is not one of the Hawke Government's successes.

There has been a remarkable *volte face* among left-wing politicians and Keynesian economists. Nearly everybody now admits that high public sector borrowing is associated with high current account deficits. I can't help suspecting that the left was converted to responsible budgeting at last only because fiscal irresponsibility was such a good stick with which to beat the right----Fraser, Joh and President Reagan. But let us not look the gift horse in the mouth!

Mr Des Moore of the IPA produced the following figures which compare current account deficits with public sector borrowing requirements by expressing them as percentages of GDP. The correlations are obvious.

Percent of GDP

4 Years Ending June	Private Spend-ing	Govt. Consump-tion	Business Fixed Invest.	Current Account Deficit	Public Sector Borrowing
1974	65.9	12.3	11.1	1.6	1.3
1978	66.0	15.2	9.4	2.5	4.8
1982	66.9	15.7	11.2	3.8	3.8
1986	66.9	16.7	10.3	4.8	5.8

Although there is not a one-to-one trade off, that a budget deficit will substantially affect the relevant foreign deficit is clear. Should the public sector try to borrow more funds these must come from overseas, unless we spend less to save more or reduce private sector investment. In the sixteen years to June last year we *increased* private spending, reduced business investment and drew more heavily on foreign funds.

Between the four years ending June 1974 and that ending June 1986 personal spending and government consumption increased by 1% and 4.4% of GDP respectively. The funds for this came from private investment, government investment and from overseas.

Because governments are gobbling up Australian's savings the annual foreign account deficit, of about $10,000 million, is unsustainably high, and private investment is so low it is barely covering depreciation. An increase in private investment of only 2% of GDP requires a reduction in government borrowing of about $5,000 million and that, with no further change in State and Local Government borrowing, requires a Commonwealth budget surplus of about $2,000 million.

Mr Keating, unless he is unusually honest, will count asset sales as revenue when he is announcing his surplus/deficit. As these sales draw on private savings (just like bond sales) they should be added to the deficit or taken from the surplus. Privatisation sales must be used to repay debt; this will reduce future interest bills.

Any increase in Reserve Bank profits attributable to the revaluation of foreign currency holdings and note-issue department profits should be similarly discounted.

Now, dear reader, you know nearly all you need to know to play `Spot the Emperor's Clothes' on Tuesday night. The groans and `hear-hears', always clearly audible on radio, offer you a rough guide to where to look. If the members `hear-hear' loudly the measure is probably unspeakably bad, and if they `catcall', the treasurer has probably announced something courageous and sensible.

It helps your game to know where budget cuts might be made. For the fourth successive year AIPP has published Brian Buckley's list of recommended cuts. They total $6,700 million in the first full year, without counting the proceeds of asset sales---probably just short of enough to turn the foreign deficit to surplus, but considerably less than half of what is needed to reduce public sector spending from the present 43% of GDP to Whitlam's 1974-75 figure of 36.8%.

Mr Hawke has reduced the departments of state from 28 to 16, claiming savings of $96 million. Mr Buckley recommends the further elimination or merger of Industrial Relations; Education, Employment and Training; Community Services and Health; Arts, Sport, Tourism and Environment; Administrative Services; and Veterans Affairs. He estimates this to save only a further $150 million but with a hundred million here and another there you are soon talking big money! Abolition of 24 Quangoes saves another $140 million.

Savings in the field of education show what can be done without asking the impossible. A more realistic tertiary fee structure with the introduction of scholarships; 5% cuts in grants to students, CAEs and TAFE Colleges; abolition of the schools commission; and a 20% cut in special-purpose funding yield an immediate $560 million. Over a longer time bigger savings are identified.

That disaster area, health care, is made to yield $690 million; social security and welfare $1,690 million; and economic services nearly $2,000 million. Substantial savings can be made without our world falling to pieces whereas it almost certainly will fall to bits if they are not.

The Government has already implemented all the 'tax cuts' it can afford. While the treasurer talks about tax he will be avoiding the real issue: expenditure. Given the state of the foreign account and investment, a budget that does not achieve a surplus of a thousand million without new taxes is a bad budget---the emperor is naked. A good budget will have a surplus of $2,000 million after deducting capital items.

Enjoy the game! ENDS