

ON THE DRY SIDE 193 THE FEDERAL BUDGET John Hyde

If Tuesday night's budget were to promise a deficit of \$3000 million that would be a politically difficult undertaking but not a 'tough' budget. Failure to accept much greater restraint than is implied by a \$3000 million deficit will do more to make the lives of most Australians 'tough' than would any conceivable budget cut.

Should Governments adopt less rigorous prudential standards than businesses? Its credit-worthiness shot to pieces, how could an Australian government finance dealing with catastrophe such as depression or war?

A household or business faced with financial problems would regard a ten percent reduction in outlays as fine tuning yet no Australian Government since the Scullin and Lyons governments in the early thirties has seriously contemplated restraint of that order.

It ought to be easy to cut away the more obscene public sector fat but even strong governments fail. Cabinets and caucuses don't want to drop programs which benefit well-to-do voters and programs are not trimmed because the Minister for Finance does not control the public servants. Senator Walsh may be angered by the building of an expensive little-used path in WA's Kings Park but it is out of his reach. He knows that if he cuts States' grants he will precipitate a row, not about paths, but about hospital beds, and if he cuts make-work schemes, the welfare industry, with scant regard for truth, will blame him and not the unions for unemployment.

Perhaps the politic way to cut expenditure is to tie it to a tax cut so large that voters defend the necessary expenditure cuts. It may be politically easier to slash than to prune. A Government might sell its program with the slogan: "No tax cuts without spending cuts."

Before the last two Federal budgets, and again this year, Brian Buckley, writing for AIPP (Mount St Perth), pointed to expenditures which ought to go. This year he identifies \$7000 million - that is 8% to 9% of outlays and more than enough to balance the books without raising taxes.

Buckley says, "Some of the reductions in outlays will be hard in the making, but there is no alternative to implementing reductions of this kind. The fundamentals of the economy are out of order." The government which cuts outlays will raise a storm of lies and half-truths from those who had administered or otherwise benefited from the payments but his recommendations would make Australia wealthier and no less egalitarian.

Social Security and Welfare, where Brian Buckley would save \$1.6 billion from total outlays of \$21 billion (about 7.5%), shows what could be done if the political hysteria concerning its

impossibility were excoriated.

Most welfare transfers are from the middle class to middle class. If the welfare budget were instead to be paid to the least wealthy million households, each would get \$20,000 per year on top of whatever else it earned. Ten years ago, at the end of the Whitlam era, social security and welfare accounted for 23% of total outlays. By this year it will have risen to 28% but government party faction leaders tell us the incidence of poverty has increased. Either welfare payments cause poverty, as the author of 'Losing Ground', Charles Murray, argues, or they have been paid to the non-poor, as clearly much of them have. Either way, cuts need not increase poverty and may reduce it.

Indexation of pensions and benefits is out of line with present and likely discounting of wages. If the index used were to take account of lost competitiveness (the banana republic factor) the budget would be saved at least \$450 million.

Under present rules it pays some people not to work. The unemployed do not bear the costs of travel to work, work clothes or union dues. They have time to make clothing and meals which workers purchase. Without a recorded increase in morbidity the number of people on sickness benefit has risen 50% since 1980. Incentives may be changed and \$200 million to \$300 million saved by making dole recipients liable for community service and limiting unemployment and sickness benefits to 80% of the minimum wage plus any family income supplement that is payable.

If the Family Allowance were taxed and paid for only second and subsequent children, the deficit would be reduced by \$600 million.

If single parents applying for benefits were obliged to assist in locating the other parent; if the Government were empowered to enforce maintenance; if the benefit were to cease when the child reached secondary school age when the parent could reasonably have a full-time job; and if a residential qualification were instituted for New Zealanders, then about \$200 million would be saved.

Health, education, housing, industry assistance, make-work schemes, the States, local government, culture and recreation, and foreign affairs and aid will similarly yield big savings to a government determined to go for them. Cuts of the order recommended in the AIPP paper will not be made this year but the longer they are delayed the greater the risk that 'tough' will acquire real meaning. The belief that they cannot be made is carefully fostered. It is self-fulfilling.