

It is time to start thinking about the 1983 Federal Budget. In the normal course of events it will be the third budget of the three year electoral cycle - the one in which by tradition fiscal sleight of hand convinces a gullible public that the government can at the same time reduce taxes and increase expenditure. The techniques by which the illusion is achieved involve distracting the audience with a steady patter about fiscal restraint, opposition profligacy or anything else, while new expenditures and tax cuts are timed so that their major fiscal impact is upon future budgets, borrowings which are themselves a charge on future taxes substitute for immediate taxes, or inflation is allowed either to reduce old expenditures or to increase old taxes surreptitiously.

The difficulty the Government now faces is that it adopted this approach with the 1982 budget so that far from having the election year option this year, some of last year's chickens will come home to roost.

Throughout the 50's and 60's Commonwealth outlays decreased from 36.8% to 24.2% of GDP, and the Menzies, Holt and Gorton governments - even McMahon's - essentially balanced their books, raising taxes to finance their new expenditures. The two Whitlam governments increased Commonwealth outlays from 23.8% to 30.0% of GDP but by 1975 were borrowing about 16% of those outlays. In spite of the rhetoric of 1975, the Fraser government by the 1981 budget had only reduced Commonwealth outlays to 27.8% of GDP but was, in the Prime Minister's words, financing those outlays honestly by raising taxes. The 1981 budget was almost balanced although nothing had yet been done to buy back some of the debt incurred during the previous 10 years.

In 1982 six years of rather painful attrition was undone. Commonwealth outlays with budget overruns look like being 30.3% of GDP and the deficit 7.7% of those outlays. And that in the second year of the 3 year cycle!

When a mixed economy goes into recession the brunt of the adjustment is always borne by the private sector (I leave aside the question of whether that should be so) so that the public sector's share of product will increase somewhat.

If, however, the public sector outlays share of gross product does not decline in better times, and budget deficits are not compensated by budget surplusses, a ratchet effect must lead to the socialist state and crippling debt. Fiscal discipline in the years leading up to 1982 had just not been tight enough to make 1982 fiscal management appropriate. Now the 1983 budget presents a problem.

Australia cannot afford yet another election budget. The question must now be how much of the 1982/83 damage can be undone in an election year without losing office.

The options are not on the face of it appealing. The deficit will need to be reduced to half of this year's ultimate outcome in order to convince the Australian public and international investors that Australian governments are after all dinkum about sound economic management.

The tax base will probably grow a bit over this current poor year but no-one expects employment to improve much or company profits to be buoyant. A good season on the land will not improve tax collections much until 1983/84.

On the expenditure side unemployment benefit payments will remain high; other major social security payments except family allowances are indexed; defence expenditure and payments to the States are already largely spoken for as is the hospital and much of the education vote.

It is not possible for a backbencher without access to the machinery of government to jot down a national budget. Assuming, however, that ministers thought at all about 1983 at the time they wrote the 1982 budget, it is reasonable to assume that their expectations were in error to the extent of the current budget blow-out. There is no budget line which ought to be any more sacred than the bottom line. The Government should be taking action to revise expenditure downwards now to bring the current budget back nearer target and to provide a better base for 1983/84. To the extent that legislation is necessary it should have been presented to the parliament in December but even in February some good will come of it. That such action is almost unprecedented is no reason not to do it - in the public sector, many sensible actions lack precedent.

A display of fiscal responsibility now will itself do much to set a political climate which will enable the government to be electorally rewarded for a responsible 1983 budget.

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Dear Mr Hyde

I have pleasure in acknowledging receipt of your article,
ON THE DRY SIDE 20: - THE 1983 BUDGET.

Yours sincerely

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