

THE BUDGET*Published
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If pigs had wings next Tuesday's budget might be built upon clear headed understanding of three principles. The first of these is that there is no way that quarts can be poured from pint pots. Logical necessity cannot be changed by verbal or arithmetic dexterity; a good budget speech will be one that discloses the truth about the sizes of the various pots at first reading.

The second principle is like the Liberals affection for free enterprise in that it is honoured in rhetoric but disregarded in policy. It is the socialist egalitarian principle -- "from each according to his means and to each according to his needs". Taken to its fullest extent the principle obviously destroys incentive and, except where people are forced by policemen to work, it is impracticable; but the principle, in the hands of a Party that professes egalitarian values, should at least stop budget transfers from poor to rich.

The third principle relevant to Tuesday night is honoured by the Labor Party in another context - the environment. It is that, as we are trustees for the future we are obliged to handle the present so as to protect it. It would be a brave politician who specifically denied it.

The Fraser government, and for all I know every government since Adam was a boy, was incapable of making a series of policy decisions, taken over time, that were consistent with overall fiscal strategy. I often wondered how the cabinet managed their own affairs, though in private life none was conspicuously improvident. I don't think that they cynically set out to cover expenditure by borrowing against the future but with other people's money they were compulsive spenders. Ashamed of what they had spent, they were not game to go to the public explaining frankly that more taxes were needed.

Although next Tuesday may prove me wrong, the Hawke government is showing every sign of living beyond its means. The £8,500 million deficit promised by Mr Hawke shows an irresponsible disregard for the future. Mr Hawke seems to be relying on two arguments to justify this profligacy - Fraser's legacy and the desirability of a fiscal stimulus. Neither bears scrutiny.

The full year effect of the Fraser government's fiscal policies with realistic economic growth fitted, indicates a budget deficit of not \$9.6 billion but about \$7.5 billion - still disgraceful, but a whole \$1,000 million less than is being represented as responsible now. If the sins of the old government are to be the standards of the new, Heaven help us. As public debt grows, deficits are an accumulating problem for future tax payers; last year's big deficit is a reason for tighter fiscal policy this year. 1983/4 will not be a good year for the Australian economy but because of a better second half and lots of rain it will be better than 1982/3. Much of the improved economic performance will not feed through into the tax base until 1984/5. Just in time for a November or December election? This year's deficit should be no bigger than will let the government budget for a surplus without increases in tax or substantial expenditure changes next year when the government plans to bring the Senate and House of Reps elections back together. My wild guess is about \$4,000 million, but the government should be able to get a reasonable indicative calculation.

A fiscal stimulus only happens when additional public expenditure or reduced taxes are reflected in activity rather than prices. If the principal factor of production (labour), increases its price (wages), as it is likely to do under full indexation plus a few industry settlements, it will absorb the entire stimulus and unemployment will not get less. Fiscal stimulus can only work if prices, including wages, absorb less than the whole stimulus. It won't work in Australia unless accompanied by a freeing up of the factor markets; most importantly, reduced union monopoly. The Hawke government implicitly recognised the critical role of wages by seeking incomes accord with the unions, but settled for too much wage rise to be of much help to the unemployed. Around the world, fiscal stimulus has led to inflation and balance of payments difficulties. France's Mitterand experience should give Mr Hawke food for thought. Often "Fiscal stimulus" is only a profligate government's way of rationalising failure to face up to the fiscal responsibility of raising today's expenditure from today's taxpayer.

It remains for me to suggest ways that are not regressive that Labor could reduce its budget. Medicare is an expensive programme that will almost certainly increase the already considerable waste of overservicing. In the end the biggest cash transfers will probably go to administrators and doctors, and most services to

hypochondriacs. Perhaps my expectations are those of an over cynical view of human nature though Canadian experience lends my cynicism support.

The Family Allowance should be means tested.

Public Service superannuation need not be more generous than the private sector.

There is no reason why impecunious families should be taxed to give free tertiary education to people who will enjoy high incomes when they graduate. Student loans will overcome the problem of the bright kid who does not have money.

Subsidies to TAA and QANTAS end up in the pockets of the fattest of fat cats. The airlines are overmanned at high pay scales. Both could be sold. So could the ships of the Australian National Line and the Labor Party once promised to sell the V.I.P. aircraft fleet.

A communications satellite will primarily benefit fat cats. If in fact it is justified, private enterprise is well equipped to fly it on a user pays basis.

Over-generous States Grants subsidise more fat cats. It is too late to change this year but it might be made quite clear that the stock of "Whiskers" will give way to plainer fare next year. Labor has plenty of opportunity to test its egalitarian principles. If only pigs had wings!