MORE TALK ABOUT THE BUDGET

August 29th, 1965

Last week I spoke about the Budget in fairly broad terms. Today I will make some attempt to analyse some aspects of the Budget in more detail.

SOCIAL SERVICES

One of the remarkable features about the Budget is the way in which certain expenses rise even if the Commonwealth does nothing new and even if no new benefits are paid to individuals or to States. For example, payments from the National Welfare fund for social services of all kinds would have reached the mammoth figure of £456m. without any additional benefits being granted. This was an increase of more than £20m. on the previous year, and this has come about because of the larger number of people getting some benefit from various pensions of one kind or another.

In a year in which our resources are very tightly stretched, and in which additional taxation has had to be imposed, largely for defence reasons, the Commonwealth felt unable to make a blanket increase in all social services. It has, however, tried to pick out those areas where hardship is greatest and make some effort to relieve that hardship. The special supplementary assistance paid to single pensioners who have been solely dependent upon their pension and who have been paying rent will be increased by 10/- to £1 per week. The eligibility tests for this supplementary assistance will also be relaxed so that a married couple will be able to take advantage of it under certain circumstances, and a single pensioner will be able to earn some income and still qualify for a part of this special allowance. The payments to pensioners for children who are undergoing full time education at the present time ceases when the child reaches 18 years of age, these payments will be continued until the child reaches the age of 21. Widows with student children will remain eligible for the Class "A" widow's pension until the youngest child reaches 21.

The most important benefit in social services is the removal of the Means Test covering eligibility for enrolment in the pensioner medical services. All persons who are in receipt of an age, invalid, widow or service pension or T.B. allowance will now become eligible. 120,000 pensioners and their dependants will benefit from the extension in the pensioner medical service which will begin in January next year. I regard this as a most significant improvement in social service benefits. There have also been some small improvements in other social services benefits of one kind or another.

As a result of these increases, payments for social services and repatriation benefits will be increasing not by the £20m. that I mentioned but by a total of £30m. On examination, I believe everyone will agree that the increased benefits are necessary and warranted. It is worth noting that the total payments from the National Welfare fund and for repatriation benefits absorb about two-thirds of all income tax collected throughout the Commonwealth.
LIMITED ROOM TO MANOEUVRE:

Many Commonwealth expenditures have risen in this year. Payments to the States have increased by £69M, very largely because this was the year in which a new formula was negotiated which has made more generous payments available to the States. The Post Office will be spending an additional £8M, bringing that Department's total expenditure to £135M. Those people who are waiting for better services; for more automatic exchanges or, perhaps, for a telephone where now they have none, would probably be the first to agree that this expenditure is necessary, and as we know Defence spending is increasing by a record £83M. in one year, with the prospects of even further increases during the year or in a year's time. In a sense, these increasing Commonwealth expenditures are natural; Australia is a growing and expanding country absorbing large numbers of New Australians in each year. This means that Government payments and Government services must expand to keep pace with a growing and vigorous population. These demands for additional services and for additional expenditure are very hard to resist, and it tends to illustrate that there is limited room for manoeuvre in the formation of a Budget. This is especially so when there are other matters which affect our national accounts, over which we have no control. Matters that come into this category would include the prices we get for our exports; the drought inside Australia; the increasing Defence expenditure made necessary by the operations of war to our north. These all have an effect in what the Treasurer finds he can and cannot do. They all limit the options available to him.
A BALANCED BUDGET:

Because the Australian economy is stretched very tightly at the present point of time with a shortage of labour, especially in many secondary industries, people may have been inclined to argue that a Budget as nearly balanced as this one would cause inflation, inflation that would put up our cost structure and would also further run down our overseas reserves. This needs to be looked at in context. There are factors in this particular Budget which should help to keep us on an even keel. Of an increase of £33M. in the Defence vote, £23M. will be sent overseas, so this is £23M. that will not add to demand inside Australia, and of course much of the standing Defence Vote is also spent overseas on new equipment.

The drought, which has been quite severe in many parts of Australia will affect spending by many individuals and this again will have a dampening effect. The general liquidity situation is quite tight, and in common terms this means that the Banks are not all that flush with funds to lend out to people, and that many companies may have to provide their own finance for any expansion programs they might have. I don't want to go into the technical reasons for it, but whenever our overseas balances run down, as they have in the last year, the consequent effect of that is to make money tighter and harder to borrow inside Australia.

There has been a suggestion that much of the increase in imports last year was due to the expansion of industry and to the importation of capital equipment and materials that are necessary for industry and, if this is so, it is not necessarily a demand that will continue at the same rate. Furthermore, there is not the slightest doubt that the Government's budgetary problems were made easier by the Arbitration Court's decision. If a decision had been given that would have added £150M. or £200M. additional funds to the annual wages cheque, the Government might have had to act much more severely than it has in an effort to curb inflation and to protect overseas funds.

While the shortage of labour in many industries, increased Government spending for defence and other essential purposes may tend to put more pressure on the economy, these other matters I have mentioned will work in the opposite direction and help maintain reasonable stability. On balance, the Budget has been well received and Harold Holt, as Treasurer, should receive proper measure of credit for it.