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OF 202358Z AUGUST 1986

INFO PRIORITY: DTI, HM TREASURY, BANK OF ENGLAND, ECGD, WASHINGTON  
INFO PRIORITY: TOKYO, IKDEL IMF/IBRD, UKDEL DECD.  
INFO SAVING SYDNEY, MELBOURNE, BRISBANE, PERTH.

MIPT: AUSTRALIAN FEDERAL BUDGET 1986/87: REACTIONS AND COMMENT.

## SUMMARY

1. IMMEDIATE REACTIONS WERE FAVOURABLE, WITH THE BUDGET SEEN AS TOUGH AND POLITICALLY ADROIT. BUT CONSIDERABLE DOUBTS HAVE SINCE BEEN EXPRESSED, PARTICULARLY ABOUT MANY OF THE ASSUMPTIONS UNDERLYING THE FIGURES, WHETHER THE CUTS GO DEEP ENOUGH, ABOUT THE GOVERNMENT'S WAGES POLICY AND THE ABSENCE OF POSITIVE MEASURES TO STIMULATE INVESTMENT.

## DETAIL

2. THE BUDGET WAS INITIALLY WELL RECEIVED BY THE MEDIA AND MOST COMMENTATORS. IT WAS SEEN AS REALISTIC, CLEVERLY CONSTRUCTED, SOCIALLY EQUITABLE AND LIKELY TO RESTORE CONFIDENCE ABROAD IN THE GOVERNMENT'S ECONOMIC MANAGEMENT WHILE RETAINING THE SUPPORT OF THE ALP PARLIAMENTARY PARTY AND VOTERS. BUT CLOSER SCRUTINY HAS LED TO GROWING DOUBTS. THE FOLLOWING ARE SEEN AS THE MOST SIGNIFICANT DEFECTS:

- I) A NUMBER OF THE ASSUMPTIONS ON WHICH THE BUDGET WAS BASED APPEAR TO BE UNREALISTIC, MOST IMPORTANTLY THE 2.25 PER CENT REAL GROWTH IN GDP FORECAST FOR FY 1986/7. WITH OFFICIAL STATISTICS SHOWING A SMALL DEGREE OF CONTRACTION IN GDP DURING EACH OF THE LAST 3 QUARTERS, EVEN THE MODEST AMOUNT OF GROWTH WHICH IS FORECAST SEEMS MUCH TOO OPTIMISTIC.
- II) THE UNEXPECTEDLY SMALL SIZE OF THE DEFICIT IS SEEN AS HAVING BEEN ACHIEVED NOT THROUGH DEEP PUBLIC EXPENDITURE CUTS, WHICH ARE IN FACT VERY MODEST, BUT THROUGH THE IMPOSITION OF EXTRA TAXES WHICH HAVE GIVEN THE TREASURER MORE SCOPE TO MASSAGE THE FIGURES.
- III) THE BUDGET CONTAINS NO SPECIFIC MEASURES TO ENCOURAGE INVESTMENT, APART FROM THE STATED AIM (WHICH THE NEED TO FINANCE THE CURRENT ACCOUNT DEFICIT MAY WELL MAKE UNACHIEVABLE IN PRACTICE) OF LOWER INTEREST RATES. NOR ARE THERE ANY POSITIVE INCENTIVES TO ATTRACT FOREIGN INVESTMENT.
- IV) ON WAGES, THE GOVERNMENT CONTINUE TO RULE OUT ANY EFFORT TO MODIFY THE COUNTRY'S CRAZY SYSTEM OF RIGID, CENTRALISED WAGE AWARDS INDEXED TO INFLATION AND HAVE SET THEMSELVES THE RELATIVELY MODEST TARGET OF A 2 PER CENT DISCOUNT DURING THE NEXT WAGE AWARD. A WIDELY HELD VIEW AMONG BUSINESSMEN IS THAT A TOTAL FREEZE ON WAGE INCREASES WOULD BE MORE APPROPRIATE TO AUSTRALIA'S CIRCUMSTANCES AND TO THE GOVERNMENT'S CALL FOR A RADICAL TEMPORARY ADJUSTMENT IN LIVING STANDARDS, AND THAT IT WOULD NOT HAVE BEEN POLITICAL SUICIDE FOR THE GOVERNMENT TO CALL FOR THIS.

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3. THE FAILURE TO ACT MORE VIGOROUSLY ON WAGES HIGHLIGHTS WHAT IS PERHAPS THE MOST IMPORTANT CRITICISM TO BE MADE OF THE BUDGET AND THE WAY IN WHICH IT HAS BEEN PRESENTED HERE, NAMELY THE WIDE GAP BETWEEN THE GOVERNMENT'S RHETORIC LEADING UP TO IT AND THE ACTUAL REALITY. SENIOR MINISTERS HAD FOR WEEKS BEEN MAKING SPEECHES ABOUT THE GRAVITY OF AUSTRALIA'S INTERNATIONAL ECONOMIC SITUATION AND THE NEED FOR A MAJOR REDUCTION IN STANDARDS OF LIVING AND SUBSTANTIAL SACRIFICES FROM ALL SECTIONS OF THE COMMUNITY. LAST WEEKEND IN A WIDELY-REPORTED TV INTERVIEW MR HAWKE SAID THAT THE COUNTRY WAS FACING ITS GRAVEST CRISIS SINCE WORLD WAR II AND THE BUDGET WOULD REFLECT THIS. PUBLIC OPINION WAS THEREFORE KEYED UP FOR MUCH MORE SAVAGE MEASURES THAN WERE IN FACT ANNOUNCED AND THE GENERAL REACTION HAS BEEN ONE OF RELIEF THAT THE BUDGET WHILE TOUGH WAS NOT MUCH MORE SEVERE. THE GOVERNMENT'S PRESENTATIONAL TACTICS MAY HAVE BEEN POLITICALLY ASTUTE, BUT THE RESULT HAS PROBABLY BEEN TO CONFIRM THE AVERAGE AUSTRALIAN MANAGER OR WORKER IN HIS COMPLACENT VIEW THAT THE COUNTRY'S SITUATION IS STILL FUNDAMENTALLY SOUND AND NO EXTRA INDIVIDUAL EFFORT OR SACRIFICE IS REQUIRED OF HIM.

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