

H. Brown 7/2/71

STATEMENT BY THE PRIME MINISTER THE
RT. HON. J. G. GORTON, M. P., IN THE
HOUSE OF REPRESENTATIVES

16 FEBRUARY 1971

ECONOMY : REDUCTIONS IN GOVERNMENT EXPENDITURE

I recently spoke to the nation on the state of the economy and on the likely inflationary effects of the Arbitration Commission's award of a 6% increase in wages and salaries.

I said in order to decide what action should be taken now Cabinet had sought to discover the areas in which demand seemed to be growing most strongly. One of those areas is the public sector, spending by governments, and we believe one of the first lines of attack on rising costs and prices should be to restrict what is being spent in that area.

When our Budget was introduced last August it was estimated that total "Commonwealth" expenditure would be \$7,883 million. I should say here, I think, that although called Commonwealth expenditure this amount included \$2,708 million for reimbursement grants and other payments to the States. Indeed such payments made up more than one third of the Commonwealth Budget.

The total was 11.2 per cent more than the year before. Since that Budget was formulated the Government has been faced with significant additional expenditure. The National Wage Case decision, and other wage determinations is estimated to add directly, in the rest of this financial year, \$88 million to the Commonwealth's own Wage and Salary Bill in 1970-71.

In addition those wage determinations, because they have led to an increase in average wages, ^{greater than expected} will require the Commonwealth to pay an additional \$20 million to the States under the formula. In addition we will need to pay some \$58 million to the States in this financial year to recompense them for the loss of the receipts duty tax on which they had budgeted.

Mainly as a result of these two outlays payments to the States are now expected to exceed the Budget estimates by some \$83 million. Emergency payments associated with recent floods will doubtless increase the outlays required. Other additional demands on our resources since the Budget was brought down include the provision of \$12 million as a capital advance to the Australian Wool Commission, and we believe some \$6 million will be required this financial year for rural debt reconstruction and farm adjustment.

We must also expect increases in costs of the material used by the Government. All in all it is estimated by the Treasury that the nett increase in expenditure, since the Budget was prepared, will amount to approximately \$242 million, if Departments were provided with the sums they have asked for. This is the background against which we have decided that we should make reductions in what would otherwise have been spent.

Having made a complete and detailed survey of Commonwealth expenditures we propose to reduce this by ~~some~~ \$75 million in the remaining months of this financial year. These reductions are made across the whole range of Commonwealth Departments - but they do not involve any reductions in our payments to the States.

Our object has been to effect reductions in the Commonwealth expenditures for its own purposes. We have not sought to achieve this at the expense of the States. A dissection of the reduction of \$75 million as between the main categories of Commonwealth expenditure is provided in the attached table.

I ask leave to have the table incorporated in Hansard. Further details of the various reductions will be provided as necessary by individual Ministers. These reductions are spread right across the board but it will be observed that the areas where the more substantial savings have been made are defence, capital works and capital advances, and departmental running expenses. We were particularly anxious to effect economies in administrative expenditures, including the overtime and salary expenditures of Commonwealth Departments. At the same time we have endeavoured to avoid reducing expenditures on essential development activities. In more general terms, we have sought to reduce the contribution of Commonwealth expenditures to total demand and to curb the Commonwealth's demands on the labour market.

Thus the reductions in departmental expenditures will involve restraint on Public Service employment. The Public Service Board reported to me that a routine statistical projection made prior to my instructions indicated an increase in 1970-71, in full-time employment under the Public Service Act of 4.6% on the numbers employed at 30 June, 1970. In 1969-70 the comparable increase was 4.8% whilst the increase in total civilian and defence forces employment in the community was 4%.

The Board advised me that my instructions for restraint on establishment increases could benefit the health and soundness of administration in the Commonwealth Service and it suggested that a limitation should be placed on the increase in Service employment.

The Public Service Board has now reported to me that in its discussions with Departments it has stressed the Government's policy of restraint but has not endeavoured to impose arbitrary cuts in employment. The Board's recommendation, which has been accepted, was that Departmental increases in employment, which will be kept to the minimum, should not exceed at 30th June, 1971 an overall increase in the Service of 3.4% as compared with numbers employed under the Public Service Act on 30th June 1970. This is a reduction of about 25% on the projected increase in employment disclosed in the Board's earlier survey. Put another way, the Board's original projection was that the Service would grow by 10,534 in 1970-71. This growth has been cut by 2,735.

The Commonwealth has, I believe, moved quickly and firmly in the area available to it. It is necessary to do so. For, as we see it, the best interests of the community require that inflation shall be overcome and one of the first steps to this end must be action to restrain our own expenditures.

REDUCTIONS IN ESTIMATED COMMONWEALTH EXPENDITURES

	<u>Budget Estimate</u>	<u>Revised Estimate</u>	<u>Reduction on Revised Estimate</u>	<u>Latest Estimate</u>
	\$ mill.	\$ mill.	\$ mill.	\$ mill.
Defence Services	1, 137. 0	1, 170. 6	21. 5	1, 149. 1
Payments to or for the States and Works and Housing Programmes	2, 708. 1	2, 791. 6	-	2, 791. 6
National Welfare Fund	1, 472. 9	1, 475. 8	. 7	1, 475. 1
Repatriation Services	313. 5	317. 6	1. 8	315. 8
Debt Charges	103. 9	99. 0	-	99. 0
Departmental Running Expenses	510. 3	551. 0	8. 8	542. 2
Territories (excl. Papua and New Guinea)	96. 3	103. 1	2. 5	100. 6
External Economic Aid (inc. Papua and New Guinea)	166. 2	168. 4	3. 8	164. 6
Commonwealth Payments to Industry	271. 5	285. 4	8. 5	276. 9
Other Expenditures	412. 6	426. 2	5. 9	420. 3
Advances for Capital Purposes				
- Post Office	240. 0	262. 0	10. 0	252. 0
- Other	203. 1	221. 8	3. 7	218. 1
Other Capital Works and Services	<u>247. 3</u>	<u>252. 2</u>	<u>8. 3</u>	<u>243. 9</u>
Total Expenditures	<u><u>7, 882. 7</u></u>	<u><u>8, 124. 7</u></u>	<u><u>75 . 5</u></u>	<u><u>8, 049. 2</u></u>