Australia:

A "Goldilocks" budget for the wealthy

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The already immense gulf between the wealthiest strata of Australian society and the vast majority of working class people will widen further following the annual Budget handed down by the Howard government on Tuesday night.

Even more than his previous three Budgets, Treasurer Peter Costello's fourth is designed to line the pockets of the elite layers now benefitting from soaring corporate pay packets, share prices and property values, and thus fuel the "bubble" economy that underpins all the calculations in the Budget itself.

Various media pundits have dubbed it the "Goldilocks" Budget. This is apparently a reference to the little girl's good fortune in finding porridge that was not too hot and not too cold. There is certainly a fairytale quality to the government's economic recipe--both in the bonanza it offers to the rich minority and its complete dependence on the uninterrupted rise of Wall Street and the local share market.

For ordinary people--workers, unemployed, students, pensioners, housewives--however, the Budget continues a relentless process of gutting social welfare, public health and education in order to transfer vast resources to private health companies, private schools and low-wage employers, large and small.

In the first place, the $5.4 billion Budget surplus announced by Costello is largely based on expanded tax revenue drained from wage earners, coming on top of four years of severe public spending cuts. The government calculates that over the next year it will rake in an extra $4.7 billion from PAYE (Pay As You Earn) taxpayers. This 6.9 percent increase--to a total of $73 billion--largely arises because inflation has pushed average wage earners into high income tax brackets.

More fundamentally, the entire Budget hinges on the continuation of unusually high rates of economic growth. Over the past year economic output rose by 4.25 percent but this rate is expected to slow to 3 percent over the coming year under the impact of the Asian meltdown, slump in Japan and stagnation in Europe. Domestic business has profited from a highly unstable combination of capital diverted from Asian markets and largely debt-driven consumer spending.

Internal consumption has soared under the influence of giddy share price rises and surging real estate markets in Sydney and Melbourne, the two main financial centres. Yet most of the spending has been financed by debt. Over the past four years, household debt has risen from 80 percent of disposable income to 100 percent. And the household savings rate has plunged from an already low 8 percent a decade ago to just 3 percent, with the Budget papers predicting a drop to 1 percent in the coming financial year.

Behind these bland statistics lies a reality of growing financial distress and personal hardship among millions of people who can no longer make ends meet without borrowing more and more on credit cards and other high-interest lending schemes. The social policies contained in the Budget will intensify this crisis.

One of the Budget's central measures is the extension of the forced work-for-the-dole program for youth and unemployed workers. All jobless workers aged 25 to 34 will now be subjected to it, as well as school leavers and those under 25. Costello's target is to double the numbers forced to work to 50,000 at any given time, with up to 300,000 unemployed affected over a 12-month period. In addition, the hours of unpaid work required will be extended from 6 per week to 15.

Junior employment minister Tony Abbott blurted out the true purpose of this program when he said its aim was to eradicate the country's "tribe of job snobs" by making working relatively more attractive than being unemployed. In short, the government intends to cudgel all the jobless into accepting work on the lowest wages and worst conditions. This desperate unemployed army will be utilised to further atomise the conditions of every worker.

The government's previous claims that "work-for-the-dole" is designed to help the unemployed find new job opportunities are no longer credible. The Budget itself predicts that the official jobless rate will remain at 7.5 percent for the foreseeable future. In other words, tens of thousands more young workers will be coerced into menial labour for charities, local councils and the like, but the level of joblessness will remain exactly the same.

In fact, the Budget papers revealed that the OECD, the organisation representing the world's major capitalist economies, has set 6.5 percent to 7.5 percent as the level of "structural unemployment" for Australia. If the rate dips below that range, it could trigger demands for higher wages, the OECD warned. If any added proof was required, the OECD's position makes it crystal clear that big business today requires permanent mass unemployment as a means of battering down the social position of the working class.

In order to further penalise and stigmatise those without jobs, the Budget contains a range of other punitive measures directed against old-age pensioners and people dependent on social security payments. The government intends to cut the social security budget by more then $80 million this year through a combination of data matching procedures to detect alleged welfare fraud, six-monthly checks on the living arrangements of families receiving Rent Assistance payments, and forced recovery of supposed overpayments. Old-age pensioners will even be deprived of benefits if they receive gifts of more than $5,000--half the present limit.

Perhaps the cruellest measure of all was the supposed relief offered to the families of the thousands of students and unemployed people aged between 18 and 21 who were stripped of Youth Allowances or partially lost their entitlement over the past year because their parents' combined annual incomes exceeded the lowly sum of $23,000. The Budget offers these families payments of just $18 a week to support their children. And that sop was delayed until next year and tied to the successful introduction of the government's planned 10 percent Goods and Services Tax (GST). Even Senator Brian Harradine, the right-wing independent, whose support the government needs to secure the passage of the GST through the Senate, dismissed the payment as "too little, too late".

Another key Budget provision introduces sharp financial penalties designed to force people to join a private health insurance fund before they turn 30 and remain members for life. Only last year the government launched a $1.4 billion annual subsidy for the private funds, hoping in vain that a reduction in their fees would reverse the collapse of their membership over the past decade. The new measure seeks to drive up the funds' coverage to 36 percent of the population. This would lead directly to a $656 million a year cut in funds allocated to the states for public hospitals under the federal-state health funding agreement.

Cuts of this magnitude would have terrible consequences for the already devastated public health system. In addition, the Budget slashes $187 million from the Pharmaceutical Benefits Scheme over four years. This is a blatant attempt to force doctors to reduce the number of pharmaceutical prescriptions they issue. Inevitably, patients will be denied the drugs they need for financial reasons.

These cuts highlight the cynicism of a much-publicised $614 million boost to biotechnology research over the next six years. This program will boost the profit prospects of Australian-based medical companies on the intensely competitive global market, while the entire public health system is deliberately starved of funds.

A parallel process can be seen in education. Having cut $2.7 billion from public education since 1996, in this Budget the government is allocating an extra $561 million to private schools over the next four years, on top of a $553 million increase previously promised to schools run by the Roman Catholic church. The Budget also scraps a scholarship program that enabled some low-income youth to attend university and maintains an ongoing 1 percent a year cut in university budgets, allocating them no funds to pay for staff pay increases.

Overall, the Budget accelerates the redistribution of social wealth from the working class to the wealthy--a shift that began under the previous Labor governments of Hawke and Keating. In the post-World War II period annual Budgets became associated with redistributing small portions of corporate profits and individual wealth to the poorer half of society via welfare programs and other social spending. Over the past 15 years the reverse process has been gathering pace. One measure of that reversal is the reduction of federal government spending as a proportion of Gross Domestic Product from around 30 percent in the early 1980s, to 25.8 percent in 1995-96, and to a target of 19.7 percent by 2002-03.

Despite the vicious direction of the Budget, the government came under fire from some business commentators for not cutting more deeply into social spending. One *Australian Financial Review* columnist complained bitterly that the Budget promises to spend roughly $10 billion more than last year's. He favoured a Budget surplus of around $15 billion.

Other spokesmen, as well as the opposition Labor Party, observed that all the government's financial calculations--including its claim to be able to clear off the public debt by the year 2002--were based on three dubious assumptions: the passage of the GST legislation, the full sale of the remainder of the partially-privatised Telstra telecommunications carrier, and the continuation of high consumer spending.

In its editorial, the *Financial Review* issued another sharp note of warning. It said the country's deteriorating trade performance and dependence on overseas capital--expressed in a yawning current account deficit that is set to hit $32 billion this year--could easily rebound on Australia as it did on its Asian neighbours. And it posed the question: what happens if there is a "big correction on Wall Street"?

Like its American big brother, the Australian economy today resembles a bubble kept afloat by over-heated share and property values that have no basis in real productive value. Indeed, the Budget itself predicts that business investment will fall by 1 percent in 1999-2000, after a similar fall this year.

When the bubble bursts, Treasurer Costello's statement that "the next decade could be a special one for Australia" will sound as ridiculous as the claim made a decade ago by one of his predecessors, Paul Keating, to be "bringing home the bacon" with one of his last Budgets. Within months of Keating's boast, Australian business was swamped by the global downturn of 1989-92, sending the official jobless rate to 11 percent. The abrupt reversal prompted Keating's now infamous declaration that it was "the recession we had to have". Both that recession and the subsequent prolonged "recovery" saw a concerted offensive against the living standards and working conditions of working people, one that will deepen in the year ahead.