Australian budget balancing act fails to appease the markets

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Australian Treasurer Peter Costello handed down an annual budget on Tuesday night that underscores the mounting crisis of the Howard government. Costello tried to balance between the demands of the financial markets for the further slashing of social spending and the hostility of wide layers of the population toward the inroads already made.

His fifth budget maintained the $8 billion in cuts to welfare, health and education inflicted by his first four budgets, while hitting working people with a punishing 10 percent Goods and Services Tax (GST) and radically reducing taxes for the wealthy and big business.

He did not, however, go nearly far enough for the global money markets. Even before he had finished his half-hour presentation to parliament, the Australian dollar plunged by half a US cent, falling below 57 US cents and taking its total decline over the past year to 12 percent.

This was motivated in part by Costello's spurious claim to have produced a $2.8 billion surplus. Of that amount, $2.6 billion came from planned sales of broadband spectrum to mobile phone companies. This is a one-off revenue boost, like the proceeds from government asset sales, which cannot be counted for budgetary purposes.

The fake budget surplus is a far cry from the government's predictions two years ago that its sweeping cuts to social programs would produce a $10.7 billion surplus by this year. That surplus has largely disappeared because of a succession of handouts to the rich.

In its GST package, the government provided $12 billion in annual tax cuts, with the lion's share going to the top 20 percent of taxpayers, those earning more than $50,000 a year. It also reduced the corporate tax rate from 39 percent to 34 percent and halved the Capital Gains Tax rate.

Last year the government provided a 30 percent rebate to those who can afford private health insurance—a subsidy now costing $2.2 billion a year. It also granted superannuation tax concessions now worth $8.7 billion a year, with the benefits skewed toward high-income earners.

In this budget the government scrapped a planned one-year income tax surcharge on those earning more than $50,000 to pay for the ongoing military engagement in East Timor. As a result, the $3.9 billion cost of the operation over five years will be borne by ordinary taxpayers.

In addition, those parents earning enough to send their children to private schools will benefit from a 40 percent boost to private school grants over the next four years, taking their total funding to $4 billion, or more than half the federal spending on all schools. By contrast, government schools will receive only a 21 percent increase over four years to bring their total funding to $2.2 billion.

While billions of dollars have been transferred into the pockets of the most privileged layers of society, the budget continues the process of stripping away welfare entitlements.

Costello declared that the government would recoup $100 million a year by another crackdown on alleged welfare overpayments; save $200 million a year by extending “work-for-the-dole” and other “mutual obligation” requirements to all unemployed workers; and launch pilot programs for the planned individualised monitoring of the unemployed, disabled and sole parents.

These measures are designed to cut or reduce benefits to thousands of welfare recipients and their families, many of whom are already living 20 percent below the official poverty line.

Other aspects of the budget highlight the growing social polarisation:

* While handing $2.2 billion a year to the private health funds, the government is reducing the Pharmaceutical Benefits Scheme by $130 million over four years, taking a range of medications off the subsidised list, including nasal sprays for hay fever sufferers.

* Despite the shocking conditions in aged-care nursing homes and hostels, partially exposed in recent months, not one cent will be spent on providing new beds or facilities—just $66 million on monitoring programs.

* After stripping $2.7 billion from public schools and universities over the past four years, total education spending is to rise just $62 million.

* Having systematically starved the public hospital system of funds, there is no increase in health funding, apart from $562 million to be spent over four years to encourage doctors to work in rural areas.

* There is no relief for public housing, legal aid, child care and community services, which have been gutted over the past decade.

* Despite acknowledging the poor health status of indigenous people (Aboriginal infant mortality, for example, is three to five times higher than the average), there are no increases in spending on health, education and housing programs. Only $214 million is allocated to indigenous health services.

* Arts spending continues to languish. The only additional cash is $43 million set aside to rescue major arts companies facing collapse—with much of it to be used for mergers and retrenchment. The government broadcasters, the ABC and SBS, will decline further, having been denied funding for digital technology.

Two areas of government, however, received notable funding increases.

The military was handed an extra $228 million for submarines and other hardware, on top of the $3.5 billion boost incorporated in the Timor operation.

And some $170 million will be spent over four years on further anti-refugee deterrence measures, such as naval and aerial patrols. Two additional detention centres will be built in Darwin and Brisbane to cope with the overflow from the overcrowded facilities at Port Hedland, Derby and Woomera.

Preoccupied with its loss of political support in rural and provincial areas—where towns and communities have been devastated by closures of banks, government agencies, railway links and other essential services—the government trumpeted one major social initiative. The Treasurer announced new spending of about $800 million over four years on various rural assistance programs, including a plan to entice doctors to country areas.

Government ministers insisted that they could do no more to redress the losses suffered by country people because the markets would not tolerate further social spending.

For all the government's efforts, the money markets and media owners responded to the budget with distinct displeasure. Many financial commentators pointed to the “smoke and mirrors” tricks that Costello used to come up with a surplus of $2.8 billion.

On top of the mobile phone license revenue, Costello included $500 million from Defence Force land sales—another one-off input. Likewise, he brought forward $700 million in Reserve Bank dividends; transformed $1.65 billion worth of GST compensation grants to the states into loans; and suddenly unveiled a $5 billion higher estimate of taxation revenue than he produced six months ago.

According to one prominent business forecaster, Access Economics, the budget has an actual structural deficit of $5.6 billion, given that the business cycle of growth experienced over the past nine years is expected to end.

Costello's higher estimate of tax revenue is based on economic growth of 3.75 percent over the next year, but that is highly questionable. The budget papers admit that inflation will soar later this year, in the wake of the GST, with prices expected to jump by 4.5 percent in the September quarter alone.

Moreover, this inflation, combined with the post-budget sell-off of the Australian dollar, will increase the pressure on the Reserve Bank to raise official interest rates to stem domestic spending and halt the currency's slide. The central bank has already raised rates four times over the past six months—by a total of 1 percentage point—in unsuccessful efforts to defend the dollar.

These interest rate hikes have added more than $100 a month to repayments on an average home mortgage, helping to depress consumer spending and send home building into a sudden downward spiral. Housing starts fell 20 percent last month, while car sales dropped to 17 percent below last year and retail spending recorded its weakest growth in 17 years during the first four months of 2000. Even so, average household debt rose by 16 percent in the year to March, including a 17 percent jump in credit card debt. The resulting repayment difficulties could choke spending further in coming months.

These trends are only the immediate expression of more fundamental economic and political problems confronting Australian capitalism. In economic terms, since 1996 the Howard government has been able to ride on the Wall Street and technology stocks roller coaster, which has substantially lifted the prices of shares on the Australian stock exchange.

Now, however, the volatility and uncertainty associated with the demise of the high-tech bubble have exposed the underlying weakness of the Australian economy. One measure of this is the falling value of the Australian dollar against the US currency. Another is the ongoing balance of payments deficit, which is estimated to exceed $33 billion this financial year, or 5.5 percent of Gross Domestic Product.

On world markets, Australian companies are increasingly viewed as too small or too mired in the “old economy” of exporting raw materials. Firms such as BHP and Telstra, giants in Australian terms, have suffered heavy falls in share prices, forcing them to carry through drastic cost-cutting and restructuring and to seek risky mergers with high-tech operators.

Under these conditions, business spokesmen have condemned the budget for failing to encourage a turn to the “new economy” and to slash social spending even further. Wednesday's *Australian Financial Review* editorial denounced the government's “Lack of vision and discipline”:

"The most disappointing long-term aspect of a Budget which ironically relies on new communications technology for its bottom line is an absence of any new vision for the economy. Mr Costello's speech made no references to the role of technology in transforming the economy and instead leaves the impression that dealing with rural discontent is the biggest challenge facing the Government...

"This does nothing to dispel the emerging view in the financial markets that Australia is an old growth economy, something the Government should have been keen to address given the way this perception has been weighing down the dollar."

Rupert Murdoch's *Australian* editorial used terms such as “disgraceful”, “unconscionable” and “fraud” to rail against the government's lack of commitment to the globalised economy and its “populist” decisions on the Timor tax and rural spending.

These comments are part of an increasing barrage against the government. In the lead-up to the budget, the *Financial Review* accused the government of “fiscal looseness and policy fatigue”. It blamed the government, and Prime Minister Howard in particular, for the precipitous decline of the currency. The government, it charged, had eased up on spending cuts, forcing the Reserve Bank to intervene by raising interests rates to tighten economic conditions. Moreover, Howard had personally sparked a three-cent plunge in the dollar last January by denying the need for interest rate rises.

The government is now in a precarious position, trying desperately to straddle between the demands of the markets and its declining base of social support. Having almost lost office at the last federal election in 1998, it faces an election next year with just a six-seat majority in parliament.

In all the media discussion on the budget, there is barely a mention of the deteriorating social conditions facing ordinary people. But the latest budget measures and the new tax system will widen the already yawning gulf between working people and the wealthy elite.

As for the opposition Labor Party, having already committed itself to retaining the new GST-based tax plan, its main concern was that the budget could provoke social unrest. Shadow treasurer Simon Crean warned that rising interest rates and inflation could spark a push for higher wages.

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