

# Australia: economic forecaster slams government budget estimates

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For days on end, the Australian media has given saturation coverage to rumours of previously unknown details about the past life of Labor Party leader Mark Latham. Absolutely nothing of any substance or significance has emerged, except that Latham, like all capitalist politicians, rose to the top through a sordid combination of political backstabbing, self-aggrandisement and opportunist manoeuvring.

The entire affair has served as a distraction from the fact that the two major parties, Labor and the Liberal-National Coalition, have no real policy differences, foreign or domestic, in the lead-up to the coming federal election. Now that Latham has all but dropped talk of withdrawing the small Australian contingent from Iraq, the bipartisanship is becoming increasingly obvious. Both parties are committed to imposing the dictates of the financial markets, which means further dismantling social services and working conditions.

In the midst of all the speculation about Latham, the media quickly buried another story. An influential economic consultancy firm this week warned that regardless of which party won the election, the next government would be compelled to take drastic action to slash public services, or impose higher taxes, or both.

Access Economics advised its business clients that the Howard government's unprecedented \$52 billion worth of handouts in its May budget had left the Treasury cupboard's "distressingly bare". By throwing money at voters, the government had "displayed all the restraint of Meat Loaf at McDonalds," the Access Business Outlook report commented. It predicted "unpalatable" post-election spending cuts, and/or tax increases, as well as higher interest rates.

The budget was the most blatant vote-buying exercise in living memory. Facing a quagmire in Iraq and

disastrous opinion poll ratings, Prime Minister John Howard and his ministers unveiled substantial cash bribes, particularly targetting upper and middle-income earners, whose votes it is desperately seeking. Those earning more than \$52,000 a year were handed tax cuts, starting on July 1, worth \$15 billion over the next four years. Another \$23 billion went in so-called family payments. Mothers were offered "baby bonuses," commencing at \$3,000 and rising to \$5,000, for every newborn child. Families who qualify for the government's family tax package were promised \$1,200 per child every year, and the first cheques began arriving immediately.

Equally desperate to shore up its own diminished electoral base, and just as anxious to please high-income earners, Labor took the highly unusual step of immediately pledging to pass the budget intact. Led by Latham, it promised to retain all the handouts and even expand them, should it win the election, by spreading the tax cuts further down the income brackets. The Access report demonstrates that this bipartisan package will be paid for by the working class, via the gutting of essential services, including health and education.

Since the budget, the government has dished out another \$1.2 billion in various pork-barrelling exercises, notably road projects and energy industry subsidies. This is before the official campaign has even begun—Prime Minister John Howard is still to set a date for the poll.

Access said the economic impact of the spending spree was five times greater than official Treasury forecasts and would probably fuel interest rates rises of at least half a percentage point after the election. With household debt, mainly on house mortgages and credit cards, running at record levels, higher interest rates will cause widespread financial strain and hardship. They

will also burst what remains of the economic bubble of the past few years, caused by soaring home prices and retail sales.

Access described the government's projections of budget surpluses for the next several years as "bull". The estimates are based on continuing record corporate profits, yet profitability is beginning to fall. Access says the government's corporate tax forecasts are overstated by \$5.7 billion over the next three years.

It was little wonder that the media swiftly dropped the issue. The Access report underscores the sham of the entire election, with empty promises being made daily by both major parties. Speaking for the government, Treasurer Peter Costello refused to comment, saying he would not "dignify" a private sector report. Howard simply asserted that Access was "wrong" and vowed to keep the budget in surplus.

In an effort to impress the capital markets, Latham said a Labor government would reduce spending rather than raise taxes if the Access predictions proved correct. "We would be tightening the budget," he stated. Shadow finance spokesman Bob McMullan sought to lay the basis for discovering a budget "black hole" if Labor won the election. "If the economy is worse than forecast, or the government's lied about the budget, then we'll have to adjust," he said.

McMullan and shadow treasurer Simon Crean announced that an international accounting firm, PricewaterhouseCoopers (PWC), would cost all of Labor's election promises and verify that they could be funded from spending cuts. Labor has already pledged to produce budget surpluses each year, and reduce both spending and taxation as proportions of Gross Domestic Product (GDP). Labor's "Budget Pledge" means further gutting public and social services to meet corporate demands for ever-lower levels of business and high-income taxation.

The PWC arrangement, McMullan stated, would allow Labor to keep the details of its proposed budget slashing under wraps until the last two weeks before the election. He and Crean claimed that this would prevent the Liberals from matching Labor's cost-saving proposals, but their real concern is to keep Labor's agenda hidden from ordinary people.

The PWC deal was suddenly unveiled 10 days after Labor's about-face on drastically increasing prices for essential medicines under the Pharmaceutical Benefits

Scheme. Having opposed the government's planned 21 percent hikes for more than two years since the 2002 budget—saying they would hurt the "sickest and poorest" in the community—the Labor leaders said they had no choice but to reverse their position in order to fund their election policies.

Labor's u-turn added to the deep-going animosity felt among ordinary people toward the political elite. Doctors, medical groups and welfare organisations condemned it outright. Nevertheless, the Labor leaders were determined to prove their fiscal responsibility, for the benefit of the markets. Now they are endeavouring to keep the rest of their economic plans secret for as long as possible.

Questioned on their plans, Crean and McMullan ruled out public service job cuts, but were unconvincing. They claim to have identified \$9 billion in savings that can be made by "re-prioritising" government programs, as well as eliminating waste and mismanagement. However, they refused to nominate the details of further cuts, except to reduce the extraordinary war chest of \$120 million in public funds that the Howard government has allocated for blatant electioneering—under the guise of advertising government programs—before the election is officially called.



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