

# Australia: Labor to take a knife to welfare in 2009 budget

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On the eve of the May 12 federal budget, Australia's corporate elite has stepped up its demand that the Rudd Labor government use the historic "opportunity" presented by the global financial crisis to slash welfare, intensify free-market policies and declare war on what remains of social spending.

There is no subtlety in these demands. According to Paul Kelly, editor-at-large of Rupert Murdoch's the *Australian* newspaper, **"from next week the Government assumes full political responsibility for the recession, its economic management and the way it intends to use the recession to change Australia's social, economic and political priorities. Recessions alter nations. This one will be no exception."** Kelly continues: "There are two things to remember about this budget. If its defining story is just about more stimulus, then it fails; and if its defining story is a Robin Hood redistribution, then it fails again. This is where the political spin hits the brick wall."

Labor will not disappoint. Although there has been much talk from the Rudd government about "nation-building" and stimulus priorities along with ongoing claims that Labor can drag Australia out of a global depression with a few well-targeted spending initiatives, there has been a dramatic collapse in government revenue.

According to the International Monetary Fund's 23 April global outlook report, the Australian economy will shrink by 1.4 percent this year—twice as much as the IMF predicted in January 2009. By 2010 the unemployment rate will be 7.8 percent.

Even on the government's own revised forecasts, the four-year tax revenue estimate it made last year was out by \$115 billion, a direct result of the global meltdown and the precipitous collapse in Chinese demand for Australian mineral resources.

Instead of the May 2008 prediction of a \$22 billion surplus in 2009, the government is likely to face a deficit of at least \$60 billion. An estimated \$200 billion will be cut from revenue over the four years starting in May 2009.

In the words of Prime Minister Kevin Rudd, the government's finances have been "torpedoed", making this year's budget "the

toughest to prepare in modern economic history". Treasurer Wayne Swan has told the media that the global financial crisis had sent a "wrecking ball" through government revenues.

The Labor government is under enormous pressure from the financial sector, big business and the bond markets to deliver a budget that will attempt to keep this ballooning deficit under control, with major cuts to recurrent social spending. Business, as Kelly's comments suggest, want these cuts to be huge and permanent. The government has signalled that it will oblige. Its key ministers have spent the last few weeks telling the media that the population should expect a budget full of "very tough decisions".

## Razor cuts to welfare

The welfare and social spending cuts to be announced on May 12, and the attempts to pre-sell those cuts, should be placed against the backdrop of the Rudd government's broader response to the economic crisis.

Since October 2008, Labor has spent or risked (or announced the intention to spend or risk) over \$100 billion to protect bank and business profits. It has done so via borrowing and deposit guarantees, corporate bailouts and commercial property lending, and as well as \$42 billion in so-called stimulus package cash handouts, which were primarily aimed at propping up the retail sector (see "Australia: Rudd pledges billions to protect banks from property crash").

Now, several months into the crisis, "selling the budget" involves distracting attention from this vast transfer of public wealth and promoting the idea that ordinary working people must make sacrifices as part of their "national" responsibility. As Rudd put it last week, "We are a nation where everyone has got to pitch in and do their bit."

Any suggestion that social spending cuts are just collateral

damage in a politically neutral budgetary process is fraudulent. For instance, there is no constraint in the government's pre-budget defence spending announcement, via the White Paper, of a 3 percent increase in Australia's military budget, which will see military expenditure rise to 2 percent of GDP or about \$22 billion. The government has also indicated that it will be keeping its 2008 promise to deliver tax cuts, most of which will go to the highest earners. Those earning less than \$50,000 per year (a vast section of the working class) will receive less than \$15 per week from the tax changes.

The range of leaks and private briefings reported in the mainstream media indicates that the government is proposing an attack on what it terms "middle class welfare". This deliberately vague phrase is calculated to evoke images of wealthy, well-coiffed, non-working mothers receiving free handouts. But so-called "middle class welfare"—a label originally devised by Labor to attack non-means tested family payments made by the previous Howard government—covers every form of welfare payment or subsidy, including basic unemployment and pension provisions.

In reality, those receiving the various family payments and child care rebates, which routinely fall within Labor's phraseology, include ordinary working people, especially those with large urban mortgages, for whom government assistance is essential for meeting daily costs. In other words, the middle class welfare bogey is being used to cover welfare cuts across the board. The *Australian* gives a preview of this tactic in its claim that the budget "will be reduced to a cosmetic gimmick" if Labor does not reappraise the income point at which its cuts should kick in.

The *Sydney Morning Herald* has reported that the government has refused to increase unemployment benefits, despite widespread claims that joblessness will go beyond official predictions of 7.8 percent in 2010 and hit double digits. For those who lose their homes in Australian cities, where rents are a now crippling expense, this will mean widespread homelessness, including for families.

The government's savage approach to the prospect of a million or more unemployed extends to young people, who are currently joining the dole queues at a rate of 10,000 per month. To corporate media applause, the government has announced that from mid-year those in the 16- to 20-year-old age brackets will be cut off youth allowance benefits unless they are still at school, enrolled in an accredited training program or have previously attained a Year 12 school certificate. The parents of young people who lose their unemployment benefits will be stripped of their associated family tax benefit.

## The politics of deficit

In the 2007 federal election, the ruling class threw its support behind Rudd in the expectation that he could be trusted to haul back what it regarded as the populist excesses of the decade-long Liberal-National coalition government of John Howard. For those in the corporate elite who helped propel Rudd into power, the budget is, to again quote Kelly, Labor's "moment of truth". And to deserve future political support, Rudd's government must produce a budget that will not only control the deficit, but implement major "reform" in social welfare.

These demands are consistent with the structural dictates being made by global capital. With tax revenues savagely diminished, the government will go to the global bond market to borrow the deficit. Unless it can show the financial markets that the deficit is, despite its size, under control, Australia will be perceived a higher lending risk.

The Labor government is receiving instructions on these matters from the leading global capitalist institutions. Senior IMF executive **Jorg Decressin told the Australian Broadcasting Corporation in late April that although the IMF supported fiscal stimulus as the only measure that would save the globe from a long-lasting depression, Australia had to keep "strengthening fiscal frameworks, to give the markets reassurance that when times are turning good again then the fiscal accounts will also move out of deficit and into surplus."**

The phrase "strengthening fiscal frameworks" is a euphemism for reducing long-term recurrent expenditure, i.e., social expenditure—entailing a major assault on the social position of the working class. This is what Labor's 2009 budget is set to deliver.



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