Australia: Labor’s budget reveals unprecedented revenue collapse

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Confronted by a $200 billion collapse in tax revenues over the next four years—the largest fall since the Great Depression—in Tuesday night’s budget, the Rudd Labor government has responded by cutting social spending. Some $22.6 billion has been slashed over four years, while the framework for deeper long-term “structural savings” has been established in pensions, health and superannuation.

“The global recession has been unleashed on Australia with a brutal uncompromising force,” Treasurer Wayne Swan told parliament in his budget speech. The revenue collapse, which is $86 billion more than predicted just three months ago, is largely driven by the demise of the mining boom. Australia’s terms of trade have declined by 13.25 percent this year, and business investment has plummeted by 18.5 percent.

Even on the government’s highly dubious assumption that the Australian economy will experience a full-blown recovery within three years, massive debt levels of around $300 billion will remain, which will be paid off at the expense of jobs, wages and social conditions.

Despite the shattering of all previous forecasts—transforming a predicted budget surplus for 2008-09 of $25 billion to a deficit of $57.6 billion—Labor is claiming that nominal GDP growth will quickly rebound from minus 1.5 percent in 2009-10 to 3.75 percent by 2010-11, followed by six years of boom-time levels of around 6 percent.

Labor’s pledge to return to budget surplus in 2015 is based on predictions that have no basis in reality. Most economic commentators have questioned the expectation of a swift revival of the Chinese export boom, pointing to the extreme uncertainty of the global economic situation and the possibility of further financial crashes. RBS economist Felicity Emmett pointed out that the growth projections were “more optimistic than the IMF has implied in its commentary”. Others called them “heroic”, “courageous” and “fanciful”.

Swan urged working people to “pull together” and accept “hard choices” on the promise of an early recovery. Yet, by the government’s own estimate, official unemployment rate will rise from 5.4 percent to 8.5 percent by 2010-11—supposedly while a recovery is underway—and remain at 8.25 percent the following year. Even according to the “recovery” scenario, about a million workers will be jobless for at least a year, and more than another million will be “under-employed” or on short-time working.

While big business and the corporate media mostly praised the government for making initial inroads into social spending, some warned it had not gone far enough. “This budget makes it inevitable that Mr Swan, or some future treasurer, will have to make the hard and deep cuts to government spending Mr Swan ducked last night,” the *Australian* declared.

In the *Sydney Morning Herald*, Peter Hartcher described as “extraordinary” Labor’s failure to find ways to avoid “indefinite indebtedness”. This indicated, he wrote, “a frightened government.”

What the government fears was underscored in a comment by Joe Quinlan in the *Financial Times* entitled “Insight: Unemployment could derail recovery”. He warned: “There are many questions hanging over global financial markets, but none more pertinent, perhaps, than the following: will the global economy rebound in time to quell rising discontent among the millions of workers who have turned—violently in some cases—against capitalism? We believe markets have not adequately priced in the possibility of such disorder.

“The capitalist global order was under attack even before the current crisis began, but the virulence against free enterprise has become more intense in the past year. And with the global economy in the midst of one of the deepest declines since the Great Depression, the backlash is bound to intensify.”

The Labor government is hoping that it can prevent such an eruption by delaying the deepest cuts until a “recovery” is underway. There are growing signs that Prime Minister Kevin Rudd may call an early election in the hope of retaining office before his recovery claims disintegrate. Last night, he refused to rule out such an election if the budget were blocked in the Senate.

“Structural savings”

The most far-reaching budget measure lifts the pension age from 65 to 67 from 2017—the first increase in the male retirement age since aged pensions were granted in 1909. This will force every man and woman born after mid-1952 to keep working longer, or live on much-lower unemployment benefits. It will place particular hardship on older manual workers, many of whom already find it physically impossible to continue labouring until 65.

Only the wealthy, who have no need to rely on the aged pension, will be untouched by this historic social reversal. Moreover, the government is already discussing going further, by making 67 the age for accessing compulsory superannuation benefits. This would give ordinary workers no choice but to stay on the job or the dole queue, and would reduce their pension entitlement by whatever superannuation amounts they accumulated in the meantime. In Italy and other countries, similar moves have led to widespread protests.

Swan bragged that the government had kept its promise to pay single pensioners a $32 per week increase, as a commitment to social equity. But those who live as a couple will receive only an extra $5 per week each, and around two-thirds of pensioners will still live below the poverty line. The government is also sharpening the pension income test, so that those who try to supplement their income with modest earnings, will now lose 50 cents of every dollar they earn above $138 per week. This pension "taper" will deliver $1.2 billion to government revenue over four years.

Labor has given nothing to the hundreds of thousands being thrown out of work, whose benefits will remain below the poverty line at $226.60 a week, or to young workers aged under 20, who will be stripped of benefits altogether unless they enrol in vocational training. These decisions are designed to force youth and the unemployed into cheap labour, along with sole parents, who were also denied any rise in their benefit.

Means testing has been used to start driving a wedge into other social programs. Family Tax Benefit A, which most families receive, will be indexed to the consumer price index, rather than to average male weekly earnings. Average families will lose $18 per year for each child under 12 and $26 per year for each child between 13 and 15, and those losses will increase as each year passes. Families who earn more than $112,000 per year (if both parents work, this means individual incomes below the national average) will lose $832 per year in the first year. A large proportion of the families in this bracket are working class couples paying off mortgages in the suburbs and, especially for those with young children, with little or no discretionary income. These measures will cut $2.4 billion over four years.

Tighter means-testing of the 30 percent health insurance rebate will also hit double-income families with large mortgages, most of whom are now suffering chronic job insecurity. In addition, those without private insurance will have to pay a higher Medicare levy, ranging up to 1.5 percent. While the private insurance rebate is a $3 billion per year subsidy to the insurance companies, many people have been forced into private health insurance by the chronic under-funding of the public hospital system. The government itself predicts that, despite paying higher premiums, 99 percent will remain privately insured. None of the money saved by the government—$2.4 billion over four years—will be re-directed into under-funded public hospitals.

Swan and Rudd have claimed that the budget restores "Labor values". Both said not a word, though, about another key provision—the government's second tranche of income tax cuts that overwhelmingly benefit high-income earners. Individuals earning over $150,000 a week will receive an extra $49 to $66 a week, compared to those earning between $40,000 and $60,000, who will receive just $14.43, at a cost of $5.3 billion in the next three years.

Equally fraudulent is the announced parental leave scheme. Those who opt to receive 18 weeks leave at the minimum wage will lose the current $5,000 baby bonus and Family Tax Benefit B. That is why the initiative is costed at just $260 million per year. Moreover, the measure represents another subsidy to business, which will have no obligation to pay anything.

Likewise, the government said it was giving tertiary students greater leeway to earn money before losing student allowances, which remain at starvation levels—often less than $150 a week. In reality, student income support will be cut by $62 million by 2010-11, primarily through doubling the workforce participation rule for independent student allowances, requiring students to work full-time for at least 30 hours a week for 18 months before they can qualify.

"Nation-building": largesse for big business

The theme of Labor's budget was "nation-building for recovery". Treasurer Swan claimed that $22 billion would be spent on economic infrastructure (chiefly road, ports and rail) as a "third phase" following two economic stimulus packages worth $52 billion. In fact, only $1.7 billion is scheduled to be spent in 2008-09, and just $1.5 billion in 2009-10. The rest is supposed to flow after the "recovery" has already commenced.

The project money will form another subsidy to big business, paid, through an infrastructure building fund, to the large construction companies. Not a single public works job will be created, and there are no guarantees about the wages, conditions or longevity of private sector jobs flowing from these contracts.

Australian Industry Group chief executive Heather Ridout praised the Rudd government for "pushing a reset button in very important areas, including infrastructure, pension and welfare reform". Australian Chamber of Commerce and Industry chief executive Peter Anderson, while warning that the budget would have to be revised if the recession proved long and deep, praised measures that have long been demanded by the major corporations: "The strength of the budget is its investment in infrastructure, which is well targeted to major transport and logistics."

Driven by its fears of a precipitous rise in domestic opposition and unrest, as well as social upheaval throughout the Asia-Pacific region, Rudd Labor has ensured a major boost in funding for defence and "national security". Australian Federal Police (AFP) net resourcing has been increased by about $600 million, or some 50 percent, for 2009-10, and its five-year program to add 500 officers will continue. Australian Security Intelligence Organisation net resourcing will rise by about $250 million, or nearly 60 percent, for 2009-10, and its staffing will rise to 1,810, or almost treble the 2002-03 level of 668. Defence gets $26.6 billion, an increase of 21 percent for 2009-10, and a commitment for ongoing increases of an average 3 percent a year in real terms until 2017-18.

"Border protection", which includes the cost of naval patrols to intercept asylum seeker boats and anti-refugee AFP activities in Indonesia, was increased by $650 million over 6 years. And, in its ongoing attempt to link immigration with unemployment, the Labor government has cut the migrant intake from 21,600 to 168,700.

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