Australia: Global institutions tell Rudd government to cut spending

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Warning of continuing "weak" and "fragile" conditions in the Australian and world economy, global financial institutions have insisted that the Rudd government must make deep spending cuts in coming years to pay off mounting debts.

In reports on Australia last week, the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) called into question the government's forecasts of a rapid return to record growth. The IMF said "output will likely remain below potential for a number of years," in contrast to the May budget's predictions of an unprecedented seven-year period of growth averaging 4 percent, starting within three years.

Both the IMF and the OECD expressed satisfaction with the Labor government's stimulus packages, which have poured billions of dollars into the hands of banks, property developers, the car industry and construction companies, saying the measures had so far helped produce a shallower recession than in the US and Europe.

This praise highlights the present backing of big business for the Rudd government, and further undercuts the position of the Liberal-National opposition, which has opposed many of the stimulus handouts. Treasurer Wayne Swan welcomed the reports as a "clear endorsement" of the government's actions.

In its 2009 Australian consultation report, the IMF predicted that national output would fall by 0.5 percent this year, and grow by 1.5 percent next year, "led by government spending". Both figures are about a percentage point higher than the forecasts in its April global economic outlook, causing misleading media reports that Australia was "set to soar out of its economic downturn".

In reality, after hailing as "commendable" the government's commitment to return to budget surpluses by 2015-16, the IMF warned of "considerable uncertainty about Australia's medium-term prospects" that could require "further fiscal adjustment". In particular, "the growth of real spending would need to be constrained below the 2 percent annual rate envisaged in the budget, once growth has recovered."

The report said the Rudd government would have to cut much deeper than the May budget, which slashed $22.6 billion from spending over four years, increased the pension age from 65 to 67 and tightened means tests on health care and welfare payments. "Looking further out, while some pension and health care reform has been included in the budget, remaining longer-term pressures from aging and rising health care costs argue for more policy action," the IMF emphasised.

The IMF report also voiced concerns about the Australian banks, saying "the government may need to assume additional debt on behalf of the banks should they be unable to rollover their significant short-term external liabilities." While the government has repeatedly claimed that the "big four" Australian banks are among the soundest in the world, they have some of the highest debt-to-deposits ratios internationally and depend heavily on overseas borrowings.

The IMF further pointed out that the Australian government had just passed legislation guaranteeing the debts of the state and territory governments, which last month handed down 2009-10 budgets with deficits totalling $2.8 billion—a $7 billion turnaround from their predictions, just a year ago, of surpluses totalling $4.2 billion. “State governments are projecting higher cash deficits and increased debt levels. This highlights the importance of maintaining fiscal restraint at the Commonwealth level over the medium term, given the new guarantee of state debt,” the IMF noted.

According to calculations by the *Australian*, the net financial liabilities of the states and territories have more than doubled since 2007-08 to $155.7 billion. In addition, even on the budget assumption that the economy will experience a remarkable recovery, massive federal government debt levels of around $300 billion will remain, which will be paid off at the expense of jobs, wages and social conditions.

The OECD, in its latest Economic Outlook, predicted that Australia’s gross domestic product would contract by 0.4 percent in 2009, a weaker forecast than its late 2008 outlook for 1.75 percent growth; and expand by 1.2 percent in 2010, less than half its previous prediction of 2.7 percent. It warned that a sharp fall in private investment would see growing numbers of workers join the ranks of the long-term unemployed or permanently leave the workforce altogether. Official unemployment would rise to 7.9 percent by the end of 2010, less than the government’s estimate of 8.5 percent.

The OECD also cautioned that the forecasts were “wrought with uncertainty” and pointed to Australia’s dependence on exports to China. It said: “A more adverse external situation cannot be ruled out if the financial disorder lasts longer than expected. But a faster, more sustainable upturn in the Chinese economy would also spur a stronger recovery in Australia.”

The OECD added that while the global downturn had forced governments into deep budget deficits, they would increasingly be forced to put government finances back on a “sustainable footing”.

The reports show that the global financial institutions are counting on the Labor government to impose increasingly severe austerity measures, deepening the toll already being felt by wide layers of the working class through mounting job losses, wage cuts, short-time working and the decimation of retirement incomes.

One indicator of the suffering being caused by the financial crisis came in a separate OECD report, which noted that Australian seniors had the fourth highest poverty rate in the OECD, more than double the average. Nearly 27 percent of over-65s had incomes below the OECD poverty threshold of half median household income. Of the 30 OECD countries, only Ireland, Korea and Mexico had higher old-age poverty rates.

Public pension spending was only 3.5 percent of national income in Australia, half the OECD average of more than 7 percent, and provided only 55 percent of retirement incomes, much less than the OECD average of 80 percent.

Moreover, the country’s superannuation funds—the biggest of which are jointly controlled by trade unions—recorded the second worst investment performance in the OECD. That was mainly because the Australian funds had 57 percent of their funds invested in the share markets before the onset of the global financial crisis, compared to an average of 36 percent in the 20 OECD countries where data was available.

Despite the greatest market failure since the 1930s, the international financial authorities are insisting that the full burden of the cost of rescuing those responsible must be borne by working people, including retirees. There is no doubt that the Rudd government has heard the message and is determined to deliver.