Australian government boasts of budget “buffering” economy from world turmoil

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The Labor government’s third budget, delivered in Canberra last night, has been accompanied by an extraordinary series of media and government declarations that Australia will be unaffected by the worsening global economic crisis. Treasurer Wayne Swan claimed that the Australian economy had “defied global economic gravity” and had “a budget position that is the envy of the developed world”.

Virtually every section of the media echoed these statements. “This budget is the stunning story of Australian Exceptionalism in action,” the *Australian*’s editor-at-large Paul Kelly declared today. “The narrative of this budget is how Australia has defied the woes of the rich world. It happened in denying any recession and now it is happening in recovery.”

Rarely has the myth of Australian “exceptionalism”—that the country is somehow exempt from global economic processes—been so openly promoted. The hype appears a combination of self-delusion and deliberate misinformation regarding the regressive measures being prepared against the working class in the next period.

Far from being exempt, last year’s budget revealed an unprecedented collapse in taxation revenue, reflecting plummeting business investment and terms of trade amid a severe slowdown in Australia’s major trade partners. Twelve months on, a revival in world commodities prices driven by Chinese demand has led to revised treasury department forecasts. This year’s budget deficit of $40.8 billion is $16 billion less than was anticipated last year. The Labor government said it now expects to return to surplus in 2012-2013, three years ahead of schedule. Real gross domestic product (GDP) growth is expected to increase from 3.25 percent this year to 4 percent in 2011-2012, reducing the official unemployment rate to 4.75 percent. Net debt is forecast to peak to 6.1 percent of GDP, about one-tenth the average level reached by other advanced capitalist economies.

“Events in Greece remind us risks in the global economy stubbornly endure,” Swan admitted in his budget speech to parliament, before adding, “The robustness of this budget forms a solid buffer against the troubles of Europe.”

The notion of Australia being buffered from world developments by the quicker than expected reduction of the fiscal deficit was taken up with enthusiasm in the press. The *Age* declared that any “comparisons between Australia’s prospects and those of Greece can only charitably be described as crazy hyperbole”.

The myth of Australian exceptionalism is based on the flimsiest of assumptions—that the mining boom will continue for the foreseeable future. Australia’s improved economic situation over the last year is above all due to the best terms of trade in six decades, driven by massive increases in the contract prices for iron ore, coal and other resources. An extra $30 billion is forecast to be injected into the economy as a result of higher commodity prices. Financial journalist Alan Kohler noted that the gap between the real GDP growth rate of 3.25 percent and the nominal rate of 8.7 percent is almost solely due to rising export prices. “In other words,” he explained, “the entire difference between the [nominal] economic growth rate for 2010-11 predicted a year ago (3.75 per cent) and that predicted today (8.7 per cent) is export prices—the resources boom.”

Commodity prices are among the most volatile of all economic indicators. While Australia’s terms of trade index is now at record levels, only a year ago it plunged by more than 13 percent. Any slowdown in Chinese manufacturing activity, let alone a full-blown economic crisis in East Asia, would see another severe decline.

Only a few critical voices have questioned the viability of the Rudd government’s economic perspective. The Business Council of Australia noted: “If the resource boom was to falter or be killed off the whole budget would collapse in a heap.” The *Australian*’s Peter van Onselen noted that the budget was “based on shaky foundations”, adding: “They should hold long enough for the next election, which is what the government is focused on.”

Robert Gottliebsen of *Business Spectator* noted that any repeat of the 2008 financial crash would again threaten the Australian banking system with insolvency. Describing this as one of several “treasury time bombs,” Gottliebsen noted: “In both the Lehman and European crises Australian bankers shivered because about half their funding comes from overseas lenders who tend to zip-up their wallets in a crisis.”

Labor's budget was generally well received by business and the media. Despite being an election-year budget, there were few significant spending announcements, with Rudd and Swan emphasising their status as "economic conservatives" in line with increasingly urgent ruling class demands for austerity measures and debt reduction. The new spending and taxation measures announced underscore the Labor government's role as the ruthless defender of the interests of big business and finance capital.

Many of the most vulnerable layers of the population were targeted as a means of cutting government spending. Access to the disability support pension (DSP) is to be severely restricted, with new applicants from 2012 to be forced to first attempt to seek employment through job services networks. This is aimed at forcing the disabled into low-wage work or onto the unemployment benefit, which pays just $230 a week, $116 less than the DSP, while doing forced training programs lasting as long as 18 months. The government expects the new measure to deny the disability pension to at least 25,000 people, reducing expenditure by $383 million over four years. Labor aims to succeed where the previous Howard government failed in slashing the number of DSP claimants, currently more than 770,000.

The government also allocated an extra $57 million over four years for welfare surveillance, including alleged organised crime welfare fraud. Meanwhile, no money has been set aside for aged pensioners, the unemployed, public housing tenants, carers, or other welfare recipients. Several welfare groups condemned the Rudd government for doing nothing to resolve the social crisis or address escalating social inequality.

The budget also targeted child care, with the Rudd government reducing and capping the annual rebate from $7,778 to $7,500. As a result, parents will pay considerably more for child care over the next few years while the government will save $86 million. Another change is to tighten Family Tax Benefit A, which is paid for 16-20 year-olds only if they are participating in education or training. This is forecast to reduce spending by $31 million over five years.

A 25 percent increase in tobacco excise will rake in an additional $5 billion over five years. This is effectively a regressive tax, disproportionately hitting the poorest members of society, who tend to smoke at higher rates. The government has promoted the measure as a health reform, but it is not in fact aimed at assisting people to quit. On the contrary, the higher tax revenues forecast is predicated on the assumption that people will continue to smoke.

One billion dollars in spending was removed from forward estimates for Australia's foreign aid program. At the same time, an extra $1.2 billion was allocated for "border security" measures largely aimed at preventing refugees from exercising their right to claim asylum in Australia. Military spending was similarly increased, from $24.4 billion last year to $25.7 billion in 2010-2011.

Health was allocated $7 billion over the next four years, including $2.2 billion to build more so-called GP super clinics and expand the role of nurses in doctors' surgeries. All these measures are part of the Rudd government's plan to slash long-term health spending, including by restricting hospital access.

While ordinary people received nothing from the budget, big business received a series of extra handouts. On corporate infrastructure, an additional $1 billion was allocated for the Australian Rail Track Corporation and the creation of a new freight terminal in Sydney.

The finance sector is arguably the big winner from the budget. It receives the additional superannuation revenues flowing from the increased mandatory super contribution from 9 to 12 percent that was announced earlier this month with the release of the Henry tax review. Swan yesterday delivered a range of further handouts, including a 50 percent tax cut on the first $1,000 income earned from corporate bond investments, bank deposits and other savings products. This measure is aimed at establishing what the *Australian* described as a "fully fledged retail bond market" in Australia.

In addition, the budget incorporated the various tax measures announced with the release of the Henry review, including a reduction in the corporate tax rate from 30 to 28 percent. Further detail emerged on the so-called Resource Super Profits Tax, with $5.6 billion of the revenue collected over the next decade to be directly handed back to the mining companies in the form of capital infrastructure.

The budget as a whole was framed within an earlier commitment to big business that real spending would be capped at 2 percent. As the *Australian's* economics editor Michael Stutchbury pointed out today, the "spending straightjacket… will get tougher every year, given spending pressures for areas such as health and infrastructure". And if the Australian economy and projected government income is hit by a downturn in China or a new round of global financial turmoil, the impact will be even more severe.

The author recommends:

Australia: Mining companies declare war on new resource tax
[10 May 2010]

Australia: Government unveils pro-business tax reforms
[4 May 2010]