

New Australian state government declares budget “black hole”

James Cogan
29 March 2011

Within hours of being sworn in yesterday as the new premier of New South Wales (NSW), Australia’s most populous state, Liberal Party leader Barry O’Farrell announced that the state’s budget was in a far worse position than the previous Labor Party government had admitted. Projecting budget estimates forward by four years, O’Farrell claimed there was a \$4.2 billion “black hole”.

The only surprising aspect of O’Farrell’s announcement was how rapidly and blatantly it was made. His so-called “small target” election campaign—in which he sought to capitalise on the deep and widespread hatred for Labor by promising to deliver better services and infrastructure—was always a cynical charade.

Behind-the-scenes, the financial and corporate elites were continuing to insist that the installation of a government with an unassailable parliamentary majority would provide the best opportunity for a major assault on public sector jobs and working conditions, further privatisation of state-owned assets and the slashing of social spending.

The Labor Party, which had governed NSW since 1995, lost office last Saturday in the largest repudiation of a sitting government in the state’s history. While a handful of seats remain undecided, most predictions indicate that the Liberal-National Coalition will hold 69 seats in the 93-member lower house of parliament, Labor 21 and independents three. (See: “Australian Labor Party suffers devastating election defeat”)

According to O’Farrell, treasury officials estimated yesterday that weak economic growth would cause

revenues to fall, plunging the budget into a deficit of \$405 million in 2012-2013, \$1.2 billion by 2013-2014 and over \$2.4 billion by 2014-2015. A full “audit” of the budget is being carried out by Michael Lambert, who worked as treasury secretary for the last NSW Liberal government in the early 1990s.

The new premier and his likely treasurer Mike Baird declared, immediately after hearing of the projected deficit, that their government would nevertheless honour its election promises to deliver major infrastructure projects, such as new rail lines, and road and hospital upgrades. Big business commentators wasted no time, however, in demanding major cutbacks in order to ensure that the state retained its current triple-A credit rating on financial markets.

Karen Maley, of the *Business Spectator* website, honed in yesterday on the wages of NSW public sector workers, which account for almost half of total state government spending. Maley declared that if wages continued to rise, “the state of the triple-A rating will quickly be jeopardised”. She wrote that the NSW government already had a state debt and unfunded public service superannuation (pension) liability of over 100 percent of revenue, a figure that rating agencies considered “very closely”. O’Farrell’s first budget, she concluded, “is likely to contain some tough measures.”

Former Victorian Liberal Premier Jeff Kennett, whose government eliminated 50,000 public sector jobs in the 1990s, and closed scores of public schools and hospitals, told the *Australian* that O’Farrell had the “opportunity of a lifetime... to cut into a sea of slime”. Asked about O’Farrell’s campaign denials that he

would cut public sector employment, Kennett replied: “You might be surprised. There might be a sleeping giant behind that person.”

Today’s *Australian Financial Review* editorial declared that “fiscal discipline” was required to “protect NSW’s coveted AAA credit rating”.

In his column, Alan Mitchell, the newspaper’s economics editor, spelt out an agenda of privatisations and “greater productivity savings”. O’Farrell, Mitchell wrote, “has all the excuse he needs to put the heat on the public service and its unions, and none of the constraints that bound his predecessor when it comes to making surplus public servants redundant.”

Mitchell demanded the O’Farrell government cooperate with the federal Labor government of Prime Minister Julia Gillard in imposing “tough decisions” to cut the cost of public health and “take the knife to low-value programs such as the state’s expensive school bus subsidies”. The budget situation, he insisted, meant the government would have to use “private sector services more intensively” to provide public transport, roads and health.

The sacred cow status given to the state’s credit rating reflects the dominance of international financial markets over every government. In the past, governments borrowed the funds for infrastructure projects and gradually paid off the loans. Any build-up in a government’s debt today, however, risks triggering hikes in the cost of borrowing through the downgrading of its credit rating. The hegemony of financial institutions has intensified since the 2007-08 onset of the global financial crisis, because of the debts incurred by governments in propping up the banks and big business.

The entire record of the outgoing state Labor government, and a major factor in the extent of popular hostility toward it, was one of sordid relations with investment banks and property developers, which were given “public-private partnership” stakes in major road, rail, health, electricity and other infrastructure projects.

The financial markets will demand that the new

government continue the sale of assets and outsourcing of services. Already, there have been corporate calls for the selling off of the remaining state-owned electricity industry infrastructure, the Sydney water desalination plant, ferry services and rail lines.

At the same time, the financial and corporate giants are insisting that budget cuts be implemented by both federal and state governments, in order to force down wages and finance business tax cuts to match the international benchmarks being set in Europe and the United States.

Federally, the Gillard government is preparing to cut billions of dollars from social welfare spending in its May budget, while state governments are slashing spending by axing public jobs. In South Australia, the Labor government is destroying close to 4,000 jobs, in order to protect its credit rating. In Tasmania, a Labor-Green coalition has unveiled plans to eliminate 1 in 10 public service positions, and there is no question but that the O’Farrell government will follow suit.

O’Farrell’s “black hole” announcement underscores the fraudulent character of the entire parliamentary set-up. Ordinary people went to the polls on March 26 to vote against the deterioration of their living standards under the pro-big business 16-year Labor government. As far as the financial markets—and their parliamentary servants—are concerned, their votes and views count for nothing.

The task now facing working people is to prepare for the inevitable struggles that will erupt in defence of jobs, social rights and basic conditions. They must draw the necessary conclusions and make a conscious political break, not only with the Labor Party, but with the entire parliamentary charade. An independent political movement of the working class must be built on the basis of a socialist and internationalist perspective.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact