Australian government pledges new cuts as budget deficit looms

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The Gillard government has signalled to the financial markets its determination to impose a harsh new round of social spending cuts in order to meet its pledge to produce a budget surplus by 2012-13. This follows the collapse of its May budget predictions of high rates of economic growth driven by the mining boom.

Treasurer Wayne Swan issued an economic note on Sunday aimed at reassuring the markets after the Reserve Bank of Australia downgraded its domestic growth forecast to 3.25 percent in 2011-12 from 4 percent.

"While the turbulence in the global economy makes our task harder, we're determined to bring the budget back to surplus in 2012-13 as planned," Swan stated. "Sticking to our strict fiscal strategy is absolutely critical at a time when global financial markets are punishing those without discipline."

The Treasurer still claimed that Australia was "in a stronger position than just about any other developed economy." Nevertheless, his statement revealed nervousness that in the event of a renewed global crash, the financial markets could turn on the Australian economy, just as they have already in Greece, Portugal and Spain, and now Italy and France.

Within less than 24 hours, Swan was forced to reiterate his vow after Deloitte Access Economics on Monday predicted a deficit of $1.9 billion in 2012-13—a $5 billion-plus shortfall from the Labor government's $3.5 billion surplus forecast. "That means tough decisions will have to be made in terms of the budget," Swan told Australian Broadcasting Corporation radio.

Access Economics said falling employment, profits, share prices and housing values would blow-out this financial year's deficit to $31.2 billion from the $22.6 billion forecast. It predicted at least two more years of deficit—even if the previously forecast growth occurred. Chris Richardson, a partner in the firm, declared: "Recent economic developments will tell the Treasurer that the dream is over—that the 2012-13 surplus has slipped back into deficit."

The company's half-yearly "Budget Monitor" underscored the vulnerability of Australian capitalism to the turmoil in Europe, the continued slump in the United States and the danger of a reversal in China. Access Economics said it had not greatly changed its Australian forecasts, but the uncertainty had intensified. "Not only are the forecasts for the world weaker, the potential downside to them is now much bigger, as there's a chance the ticking time bomb of Europe's financial markets could explode."

If the European crisis sparked a renewed global meltdown, the resulting collapse in commodity prices would produce a $36 billion hole in the budget by 2013-14, the firm warned. It added that the gap could be permanent if mineral export prices did not regain their elevated levels of the past year.

A separate report by ANZ Bank senior economist Katie Deans forecast that Australia's terms of trade (export prices compared to import prices) would drop by 21 percent by the end of 2013, a sharper fall than expected by Access Economics or the Treasury. Iron ore and coking coal prices have so far plunged by more than 20 percent in the past three months, amid signs of slowing steel production in China.

Several economic commentators, including Access Economics' Richardson himself, have suggested that the government should re-consider its 2012-13 surplus promise, because achieving it now could further slow growth by dampening consumer and business spending.

Richardson said the surplus promise was merely a "political line in the sand." He questioned whether Swan would have the political nerve to "tell the public that fading global prospects and weak markets here at home have delayed the return to surplus—possibly not for one but for two further years until 2014-15?”

Swan, however, was adamant that the government would deliver on its surplus commitment, highlighting the fact that the constituency which dominates the Labor government’s calculations is not the “public,” but the financial elite.

At the same time, the Treasurer refused to elaborate on what further cuts the government would inflict. The *Australian Financial Review* nominated one of the main targets as health spending. It reported that the cabinet expenditure review committee had demanded reductions in the Pharmaceutical Benefits Scheme, which subsidises prescription medicines.

The government is under pressure to outline substantial cuts before releasing its Mid-Year Economic and Fiscal Outlook, which is due by next month.

In a revealing comment, Labor Senator Doug Cameron declared that Swan would prove up to the task. “I have more confidence in Wayne Swan than I ever would have had in [former Howard government Treasurer] Peter Costello, who was certainly a jelly-backed treasurer who allowed John Howard to push him around,” he told reporters in Canberra.

Cameron’s remarks reprise the pitch that Labor made to the corporate elite during the 2007 election campaign, when Kevin Rudd won the backing of big business and the media proprietors by promising fiscal “restraint” and attacking the Howard government for allegedly over-spending.

The government’s May budget austerity measures, which slashed more than $20 billion from social spending, have already compounded the recession gripping much of the non-mining economy. The axing of thousands of federal and state public sector jobs, combined with sweeping retrenchments at BlueScope Steel, OneSteel, Qantas and the banks, are increasingly showing up in unemployment statistics.

Job advertisements fell by a seasonally adjusted 0.7 percent in October, the fourth consecutive monthly decline, according to the ANZ Bank’s survey. While job ads grew marginally, by up to 1.4 percent, in the so-called resource-rich states of Queensland, Western Australia and the Northern Territory, they dropped markedly in the most populous and industrialised states—by 2.6 percent in Victoria and 2.1 percent in New South Wales.

Market analysts are predicting that the official jobless estimate, due out on Thursday, will show a rise to 5.3 percent, with ANZ Bank economists warning that it will reach 5.5 percent by mid-2012. These official figures understate by at least half the actual rate of unemployment and under-employment.

In his statement on Sunday, Swan also re-emphasised the government’s resolve to restructure the economy in line with the post-2008 global requirements, declaring: “Change is an inevitable part of life.”

What this “change” means for the working class has been demonstrated already in the government-backed offensive by corporations such as BlueScope Steel and Qantas, which are seeking to compete with their American, European and Asian rivals by slashing costs and boosting profit rates.

Today’s editorial in the *Australian*, which has long denounced Labor for “overreaching” in its 2008-09 stimulus packages, demanded more fundamental measures to slash government spending and facilitate such corporate restructuring. It dismissed the government’s difficulty in meeting the surplus pledge as a case of “political self-harm” produced by over-generous spending in the first place.

The editorial condemned the lack of a “serious reform and productivity agenda” and demanded “long-term taxation and expenditure reform to provide a structural surplus.” By that the newspaper means tax cuts for the corporate elite and the further gutting of public health, education and welfare programs. This is a recipe for an accelerated assault on the living conditions and basic rights of the working class to impose the burden of the worsening global capitalist crisis.