Australian government slashes spending as global crisis deepens

Mike Head
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Prime Minister Julia Gillard's government yesterday announced $11.6 billion in new cuts to public sector, education and welfare funding to pay for a blowout in the budget deficit caused by the worsening global economic crisis.

The government reported a looming deficit for 2011-12 of $37.1 billion—more than 70 percent higher than the $22.6 billion forecast in its May budget just six months ago. Nevertheless, it re-committed itself to satisfy the financial markets by producing a surplus next financial year.

Given the deteriorating world situation and the unreliability of the Labor government's optimistic economic predictions, even deeper cuts to social spending are virtually certain in the New Year.

According to the government's mid-year review statement, an unprecedented budget turnaround of about $40 billion will be required to produce the promised $1.5 billion surplus for 2012-13, even if the European sovereign debt crisis does not trigger a global financial collapse.

Treasurer Wayne Swan made clear the government's acceptance of the dictates of the banks and finance houses that are imposing austerity measures on governments across Europe. While the "marked weakening" of global conditions had made a surplus more difficult, he said, the European sovereign debt crisis had "underscored the importance of maintaining fiscal credibility."

His remarks reveal the acute concerns in ruling circles over the vulnerability of Australian capitalism to the credit freeze already underway in Europe. Australia's major banks depend heavily on foreign borrowings, as do the big mining companies and other corporations. A drying up of trade credit also threatens to severely curtail mining exports to China and other Asian markets, as it did in 2008-09.

Swan boasted of getting a tick of approval from the financial markets after the credit ratings agency Fitch joined its peers, Moody's and Standard & Poor's, in lifting the Australian government's rating to AAA. Fitch's statement, however, noted that Australia's external finances remained weak by AAA standards, with net external debt at 53.2 percent of gross domestic product (GDP). "This makes Australia relatively sensitive to external financing shocks," it warned.

Delivering what amounted to a mini-budget, Swan unveiled a $21 billion write-down in revenue over the next four years, featuring substantial cuts in income from capital gains, company, income and goods and services taxes. These trends reveal the depth of the recession already hitting much of the economy, which has been flattened by the impact of the mining boom on the Australian currency, interest rates and other business costs.

The Mid-Year Economic and Fiscal Outlook revised the growth forecast for 2011-12 from 4 percent to 3.25 percent, and lifted the unemployment forecast from 4.5 percent to 5.5 percent by June 2012, representing a loss of at least 100,000 jobs.

These estimates are no more reliable than those in the May budget. The government's figures are so rubbery that net debt will rise to $133 billion, way above the $107 billion predicted only six months ago. When the Gillard government was elected in August 2010, it forecast a deficit of $10.3 billion—less than a third of the latest prediction.

Swan's revised estimates underscore the fraud of the government's May budget claim that the "unprecedented mining investment boom" would be converted into "an opportunity boom" for millions of ordinary people. That budget slashed the welfare entitlements of some of the most vulnerable members of society, particularly the disabled, unemployed and young single parents, on the basis that "tough measures" were necessary to restore a fiscal surplus.

Six months on, the assault has escalated, with public sector jobs and services taking the brunt. A near trebling of the annual "efficiency dividend" imposed on the public service, from 1.5 percent to 4 percent for 2012-13, combined with a 20 percent reduction in capital spending, is expected to cost some 3,000 jobs and reduce services by agencies such as Medicare and Centrelink. These cost-cutting measures are designed to save $1.5 billion.

Universities will be hit by $640 million in funding reductions, on top of hundreds of millions taken in January. Tuition (HECS) fees for mathematics, statistics and science students will nearly double to $8,353 a year. Staff-student ratios, which have already blown-out under Labor to record levels, will worsen. Baby bonuses will be cut, disproportionately affecting working class mothers. Visa charges will be increased by a total of $613 million over four years, hitting immigrants and their families. Several promised tax concessions for workers will be deferred.

Far from delivering "shared prosperity" from the mining boom, the mini-budget revised downward the projected income from the mining tax, which passed through the lower house of parliament just last week. Mining companies will pay $500 million less than anticipated over the next four years. Because of the huge concessions made to the mining giants, and other business tax cuts, the mining tax package was already expected to produce an annual revenue deficit of around $3 billion by 2014-15 (see: "Australian government 'delivers' on mining tax ").

Many financial commentators were scathing of the government's efforts to paper over the likely impact of the global economic crisis. *Business Spectator* columnist Stephen Bartholomeusz noted: "Having presided over a budget deficit that has blown out by $14.5 billion in six months, Wayne Swan can't actually expect anyone to take his promise of a $1.5 billion surplus in 18 months' time seriously. At 0.1 percent of GDP, that forecast surplus is a rounding error in the scheme of a $1.5 trillion economy. With the eurozone on the brink of collapse, the US economy still stalling and China slowing, Swan has redefined optimism."

Swan's statement was itself full of contradictions. He said the "storm clouds gathering, this time over Europe" had forced the spending cuts. "Global economic and financial conditions have deteriorated markedly in recent months, and the risks to global stability from the European sovereign debt crisis have intensified," the treasurer said. "Global growth prospects have been downgraded markedly in 2012, with the euro area expected to return to recession."

The treasurer also referred to "significant falls in prices of some of Australia's key export commodities—particularly iron ore and coal." He referred to "weaker business and consumer confidence" and "a slowdown in employment growth." These were the only oblique references to the hardship already being felt by working people, including those affected by the thousands of layoffs at BlueScope Steel, OneSteel, Qantas, Westpac and other major companies.

Despite his concessions, Swan said the government's forecasts were based upon assumptions of "solid growth prospects", "low unemployment" and a "record pipeline of resources investment." He produced a chart showing a seemingly endless rise in resource project investments, from $100 billion in the "pipeline" in 2004, to $450 billion in 2011.

Even so, the treasurer added a caveat. Growth in Asia was forecast to remain strong, defying the global shocks, but "this could change if events in Europe were to trigger significant deleveraging in global financial markets or a more severe economic growth slow down in the major advanced economies."

The Business Council of Australia, which represents the country's 100 largest companies, endorsed the mini-budget, saying it sent "a strong signal to households, business and investors that Australia can keep its house in order." This praise reflects the fears in the corporate elite about the fragility of the financial system, and a determination to make "households", i.e., the working class, bear the burden of the economic meltdown.

Numbers of economists expressed reservations about the government's surplus goal, worried that further spending cuts could deepen the domestic slump, which has been particularly hitting retail sales, housing construction and tourism. Swan claimed the government was trying to steer a "middle course" between these conflicting business concerns.

The *Australian Financial Review*, the mouthpiece of the financial elite, agreed with the government that a 2012-13 surplus was "important to Australia's international market credibility." Its editorial criticised Swan for not cutting spending more fundamentally to tackle "the structural budget deficit"—by which it meant eliminating entire welfare and other social programs.

The *Australian* likewise complained of a "faint-hearted fiscal policy" that found "only $11 billion in savings"—declaring that a "price" would be paid if the global situation "goes from bad to worse." These editorials are a warning of an even more savage and sweeping assault on working class conditions in the period ahead.

Treasurer Swan still maintained the myth that the Australian economy was somehow an exceptional success story. It "continues to outperform the developed world," he insisted. The mini-budget shows that, far from being exceptional, developments in Australia are rapidly catching up with those in Europe and America, with austerity measures being unleashed to make the working class pay for the global financial breakdown that began in 2007-08.

The author also recommends:

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[29 November 2011]