Australian government pledges deeper cuts as economy slumps

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Economic growth and unemployment data released over the past two days has revealed a deepening slump across much of the Australian economy, worsened by an avalanche of job losses. In addition, a downturn in China and the ongoing financial turmoil in Europe have started to drive down prices for the mining exports on which Australian capitalism depends heavily.

Prime Minister Julia Gillard's Labor government responded by vowing to further slash spending to offset a severe decline in tax revenues and deliver its commitment to the financial markets to produce a surplus in May's annual budget.

Treasurer Wayne Swan declared: "[T]here is nothing in these numbers that deters the government from bringing down a surplus in 2012-13 although obviously this makes that task more difficult." Swan refused to elaborate, but according to media calculations, the cuts will total many billions of dollars.

Gross domestic product rose only 0.4 percent in the December 2011 quarter, half the rate predicted by most economists. Growth for 2011 was 2.3 percent, well below the government's own forecast, in last year's budget, of 4 percent.

A broader measure of economic well-being—real net disposable income—fell 0.9 percent in the December quarter. This was fuelled by a 4.7 percent drop in the terms of trade, the first in nearly three years, reflecting falling export commodity prices.

The official unemployment rate, as measured by the Australian Bureau of Statistics (ABS), rose from 5.1 to 5.2 percent in February. The number of jobless workers jumped 2.7 percent to 632,200. Last May, in the 2011-12 budget, the government predicted that unemployment would fall to 4.5 percent this year.

The official jobless figures understate the real depth of the recession. The ABS itself released another estimate—14.5 percent of the workforce is now looking for work, or more work. This level has risen from 13 percent since December and from less than 10 percent before the global financial crisis erupted in 2008. Even this estimate does not count those who have dropped out of the workforce—the labour participation rate has fallen from 66 to 65.2 percent over the past 14 months.

Recessionary conditions prevail in the former industrial states of Victoria, South Australia and Tasmania, where the high value of the Australian dollar, buoyed by mining and financial investors, is flattening the manufacturing, retail and tourism sectors.

Over the past year, Tasmania's economy shrank by 0.7 percent and South Australia's by 0.6 percent. Victoria's contracted by 0.5 percent in the December quarter, resulting in annual growth of just 1.6 percent. By contrast, the two main mining states, Western Australia and Queensland, grew by 11.1 and 10 percent respectively during 2011.

At his media conference, Swan made light of this economic divide, referring to a "patchwork economy." He claimed that the poor GDP result was "a backward looking number"—a "snapshot" of the economy at the height of the European crisis last year. In reality, the figures point to a worsening trend, accentuated by China's slowdown.

Swan sought to maintain the myth that the mining boom would ensure prosperity, with a "massive" $164 billion to be invested this year. His claims were contradicted by his own warnings of the cuts that would have to be imposed in the May budget.

Swan said this would be his "hardest" annual budget yet. "We will certainly need to go through another savings exercise because, as you know, we've been exercising very, very considerable expenditure restraint as we've followed our fiscal rules to come back to surplus in 2012-13," he told reporters.

According to one estimate, by the *Australian's* senior economics correspondent David Uren, if company tax receipts are as low in the current half year as they were in the second half of 2011, the government will face a deficit this year approaching $50 billion.

This inevitably means drastic reductions in social spending, services and public sector jobs, wages and conditions, on top of those inflicted in last year's budget. That budget contained savings of $22 billion over four years, featuring cuts to welfare entitlements for the unemployed, disabled and single parents.

In a speech on Wednesday, Treasury Secretary Martin Parkinson gave the government a blunt message, insisting that "significantly greater expenditure restraint" would be required in the decade ahead than had been seen during the 2000s. He declared that a "credible" fiscal policy was essential to avoid the fate of Europe. It was a veiled reference to the devastation being imposed by the financial markets on the people of Greece and other countries.

The Treasury head emphasised that the government's revenue collapse was not temporary, but bound up with structural shifts in the economy flowing from the 2008-09 crash. The tax-to-GDP ratio had fallen by 4 percentage points since 2008 and "is not expected to recover to its pre-crisis level for many years to come." That amounts to a yearly shortfall of about $60 billion.

Parkinson said the capital gains tax had been hit by the drop in the property market since the crisis, and households had reduced their spending, dampening indirect taxes. He revealed that mining companies, despite accounting for a fifth of all company profits, contributed only a tenth of company tax receipts, because of their ability to claim depreciation on their investments.

In other words, while the mining giants are reaping a bonanza, assisted by the Labor government's tax concessions, the government must impose long-term sacrifices on ordinary people in order to satisfy the dictates of the mining and financial elite. While the austerity measures may not yet be on the same scale as those in Europe, they will, as in Europe, intensify recessionary trends.

Parkinson also stipulated that the high value of the Australian dollar gave the government and employers no choice but to drive up productivity much faster than had occurred in the previous decade. It was "absolutely imperative that firms begin to focus on getting significant improvements in productivity" and essential that the government's current review of the Fair Work industrial laws provided business with greater "flexibility."

These are code words for the government-backed offensive already begun by the corporate elite, spearheaded by companies such as Qantas, BlueScope Steel and the major banks, to restructure their operations, eliminating thousands of jobs, offshoring and outsourcing production, and slashing wages and working conditions. In Victoria alone, more than 1,000 jobs have been shed, on average, every week since mid-2011.

Since defeating the leadership challenge by her predecessor Kevin Rudd last week, Prime Minister Gillard has underscored her commitment to meeting the requirements of business. Earlier this week, she held a media conference with peak business representatives to announce a new advisory forum. About 25 business leaders will work with the government to "lift productivity," particularly by pushing for faster business deregulation.