Australian government pledges to slash billions from budget

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Australian Treasurer Wayne Swan yesterday warned that massive spending cuts and savings will be necessary to deliver the Labor government's promised budget surplus on May 8.

The budget will involve the most severe cutbacks in decades, drastically lowering spending on social services and infrastructure, public sector jobs and wages, and welfare entitlements. These measures are in line with the sweeping austerity cuts that have devastated the working class in Europe, the US and internationally.

The preparations for the May budget further expose the government's claim that Australia avoided the global economic crisis. They also underscore the fraud of Swan's recent demagogic criticisms of the "self interested 0.01 percent" and the "mining billionaires."

Labor's budget plans are centrally directed at satisfying the demands of the international financial markets. Addressing an Australian Business Economists event in Sydney, Swan emphasised that the government's pledge to deliver a surplus in May was not a politically driven target—aimed at countering opposition and media accusations of wasteful spending—but rather was "economically imperative in a turbulent new global economic era." He explained: "Maintaining our credible fiscal policy sends a strong message of confidence to investors across the world in uncertain times."

The treasurer's speech detailed an entrenched shortfall in taxation revenues. The ratio of tax intake to total gross domestic product (GDP) has fallen to 20 percent, down from 24.2 percent before the 2008 financial crisis, marking "the biggest reduction in the tax-to-GDP ratio since the 1950s."

Swan stressed that "we're witnessing a structural change in the tax base and not just the lingering effects of the crisis." Falling property prices have gutted the previous record intake from capital gains tax. Lower debt-driven household consumption spending has hit the retail and other sectors. Manufacturing, tourism, education and other non-mining trade-exposed sectors confront recessionary conditions exacerbated by the high Australian dollar, driving down government revenue from corporate taxes.

The mining companies' unprecedented profits have not translated into higher government revenues—despite accounting for about 30 percent of corporate gross operating profits, they pay only 15 percent of corporate tax receipts. This is due to the myriad tax breaks and concessions related to their record investment spending, up from 1 percent of GDP a decade ago to more than 8 percent in 2012-13.

According to Treasury estimates, released last November, at least $37.1 billion in cuts and savings are necessary to deliver a budget surplus. Other analysts have calculated that a further drop in tax revenues since then would take that figure to about $55 billion.

Media reports today have suggested that some of the shortfall will be made up by phasing out several corporate tax concessions related to capital depreciation and research and development. But the bulk of the budget surplus will be delivered through spending cuts.

"The reality is that we will need to cut and cancel existing programs if we are to meet our targets," Swan declared yesterday. The treasurer made clear that austerity was now a permanent condition. "Maintaining fiscal discipline is not for the faint-hearted, especially given the global and structural factors I've talked about today," he said. "The days of shovelling out bounty from the boom are long gone. We live in very different times. We govern for very different times."

Prime Minister Julia Gillard's government has orchestrated a vast economic restructuring, aimed at bolstering Australian capitalism's international competitiveness by gearing the entire economy around the profit interests of the major banks and mining companies. The working class has been hit with higher unemployment, lower wages and continual productivity speed-ups. Data released this week showed that the net worth of the average Australian household is now 11.5 percent lower than its 2007 peak. The poorest five million people, nearly a quarter of the population, have not increased their net worth since 2003-2004.

Living standards will further decline after the May budget. The *Age*'s economics editor, Tim Colebatch, explained today that the projected cuts "would take at least 2.6 percent of GDP out of the economy in 2012-13 ... equivalent to shutting down the entire electricity industry, all arts and entertainment venues and all airline travel for a year." He continued: "What Swan is planning for 2012-13 goes far beyond any previous budget cuts. In 1986, the hairshirt Hawke-Keating budget cut away 1.1 percent of GDP. The first Howard-Costello budget in 1996 took out 1 percent of the economy. Labor now pledges to deliver cuts two to three times as large as those landmarks of fiscal austerity—at a time when most sectors of the economy are already going backwards or sideways under pressure from the high dollar and low demand."

The budget is heightening tensions between different sections of the corporate elite. Manufacturing and many other non-mining sectors are alarmed that the government's proposed cuts will trigger a severe recession.

The *Age*, published in the state of Victoria where a large proportion of Australian manufacturing is based, today issued an editorial stating that it "accepts the desirability of restoring a surplus, but not right now." The newspaper asked: "Is a surplus meant for global consumption, or to benefit the majority of Australians who live in the south-eastern states whose economies have stalled, or is the most plausible explanation Labor's need to salvage political credibility?"

The International Monetary Fund, on the other hand, has intervened on behalf of international finance capital to demand the government deliver a surplus, without "replacing genuine spending cuts or tax increases with accounting devices that give the illusion of change without its substance."

The Murdoch-owned *Australian* declared that the May budget was Swan's opportunity to "atone" for failing to sufficiently slash spending in previous years. The newspaper emphasised that the key task confronting the government was to eliminate the "structural budget deficit." According to the *Australian*, budget surpluses ought to be delivered on the basis of assuming tax revenues derived from long-term commodity export prices, not their actual current value. On this basis, eliminating the deficit would require spending cuts at least twice as severe as the record cuts already being prepared.