Amid signs of slump, Australian PM reiterates "tough" budget pledge

Mike Head
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Despite gathering signs of downturn and social distress throughout much of the Australian economy, Prime Minister Julia Gillard last week emphasised her Labor government's commitment to deliver a 2012-13 budget surplus in order to satisfy the global financial markets.

To meet that pledge in the budget to be delivered on May 8, the government must slash spending by a greater amount than any previous post-war Australian government. It must reverse an expected 2011-12 deficit of $40 billion or more. Cuts of that magnitude will exceed the total of $35 billion in austerity measures just announced in Spain, which has a comparably-sized economy.

Sections of business, as well as charity organisations, have urged the government to soften its stance because of the recessionary impact that the budget cuts will have on jobs, household spending and economic output. Such an unprecedented fiscal contraction will deepen the slump in non-mining related industries, particularly manufacturing, property development and tourism.

Reflecting those concerns, Australian Broadcasting Corporation radio host Fran Kelly asked Gillard the following question last Tuesday: "[N]o Australian government has ever attempted such a huge withdrawal of spending in just one year, and that's been described by some as seriously reckless. It could cost thousands of jobs and push the economy into recession. What do you say to those people who are worried about that kind of withdrawal?"

Gillard said the government had no choice but to honour its promise to the financial markets, citing the "uncertain economic times globally." She insisted: "With us wanting to lock in confidence and send a signal to the world, the right economic zone to be in is with a budget surplus." The prime minister reiterated that her government was "driven" by this "economic imperative," even though it would entail "very tough choices."

Attempting to answer the concerns expressed by some business leaders, Gillard also claimed that a budget surplus was necessary to give the Australian Reserve Bank room to cut domestic interest rates. Any rate cuts, however, will be insufficient to offset the deep budgetary hit to the economy, particularly if, as expected, the major banks fail to fully pass on rate reductions.

As ANZ's decision last Friday to lift its mortgage and business rates by 0.06 percent demonstrated, the banks are increasingly hiking up their lending rates regardless of the central bank, because their European and global borrowing costs are once again escalating.

In the same interview, the prime minister contradictorily argued that there was no reason to fear that there would be a downturn, because Australia's economic fundamentals remained "strong," with a $400 billion "pipeline" of investment planned in the resources sector.

Her remarks only highlighted the exposure of Australian capitalism to the slowdown taking place in China, its largest customer for mining and energy resources. The Bureau of Statistics reported last week that Australian earnings from mineral exports slumped 17.5 percent in six months, from $17.3 billion in August to $14.3 billion in February. The Reserve Bank's commodity price index also peaked in August and was down almost 10 percent in March.

This week, the International Monetary Fund forecast a further fall in commodity prices during 2012-13, with a "downside risk" that slower global growth could force even greater price “adjustments”. The IMF commented that long-term prices were “even more unpredictable.” This warning effectively undercut all the Labor government’s economic and budgetary predictions, which are predicated on commodity prices remaining at near-record levels for the foreseeable future.

Australia’s dependence on China has heightened concern in financial markets about another economic vulnerability—the reliance of the Australian banks on overseas sources for more than 40 percent of their borrowings, a weakness that forced the Labor government to guarantee their funding in 2008-09. Earlier this month, two credit ratings agencies, Standard & Poor’s and Fitch Ratings, pointed to renewed bank liquidity concerns and declared that a tough budget was essential to protect Australia’s AAA credit rating.

Australian property prices, which have already fallen about 5 percent on average in the past year, are also exposed to China’s slowdown, presenting a further risk to the banks.

Standard & Poor’s this week warned that the Chinese regime’s decision to lower its growth rate to 7.5 percent this year could reduce Australian property prices by another 5 percent. If, however, Beijing failed in its bid to deliver a “soft landing” for China’s economy, a worse crash could follow. According to the S&P report, if China’s growth slowed to 5 percent, Australia would be sent into a recession and house prices could fall by as much as 20 percent.

Australian property prices are so sensitive to China’s difficulties for several reasons. One is the underlying upward effect of the mining boom on real estate values. Another is that foreign investors accounted for one-third of Australian property transactions in the first nine months of 2011, according to property firm CB Richard Ellis. These investors included many seeking to escape the collapse of China’s own property bubbles.

Official unemployment statistics released last Thursday provided some indication of the devastating job losses taking place in non-mining sectors, especially manufacturing, as well as the increasingly dislocated character of the economy.

While the national jobless figure for March remained at 5.2 percent—up from 4.9 percent over the past year—the situation was much worse in the industrial state of Victoria. There the number has jumped from 4.4 to 5.8 percent over the past year, representing a net loss of more than 50,000 full-time jobs. By contrast, the more mining-dependent state of Western Australia edged down from 4.3 to 4.1 percent.

Some measure of the heavy impact on working people produced by the job losses over the past year is also showing up. Surveys point to consumer confidence dropping to the lowest level since the early months of the global financial crisis in 2008, rising numbers of personal bankruptcies, especially in the outer suburbs of Melbourne and Sydney, and falling applications for loans to buy homes.

In order to achieve its budget target, the Labor government will have to gut entire areas of social spending, which will intensify the hardship being experienced by wide layers of workers and young people. In an early warning of what is to come in the May 8 budget, the Department of Human Services last week unveiled 470 job cuts, driven by the cost-cutting imposed in last year’s budget.

These cuts will mostly affect people, including the unemployed, welfare recipients and retirees, who depend on government service delivery and benefit payment agencies such as Centrelink and Medicare. Even before these cuts, the department’s workforce had been reduced by more than 10 percent—from 42,000 to 36,600—over the past year.

Prime Minister Gillard’s vow to make “very tough choices” in this year’s budget is a warning that this offensive on jobs, social services and working-class living standards is to be accelerated. The Labor government is determined to impose sweeping austerity measures, in order to assure the financial markets that it has begun the task of matching those being inflicted on the populations of Greece, Spain and other European countries.