Australian budget: Reality versus rhetoric

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If Labor treasurer Wayne Swan's budget speech on Tuesday were to be believed, then Australia is situated in some kind of parallel universe, far removed from the storms and stresses ripping through the global capitalist economy, with its people about to share in the wealth provided by the boom in mineral exports, lifting them to new heights of prosperity.

Swan began his fifth budget speech by pronouncing four years of future surpluses. This prospect was a "powerful endorsement of the strength of our economy, resilience of our people, and success of our policies." In an uncertain and fast-changing world, Australia "walked tall", one of the world's "strongest economies", having "stared down a global financial crisis" and putting the "deficit years of the global recession behind us."

The reality, however, is very different.

At the core of the budget projections is the forecast by Treasury that the Australian economy will experience a return to a trend growth rate of 3.25 percent, notwithstanding the slowdown in the US, the recession spreading across Europe and fears that Chinese growth, upon which Australia depends, could fall sharply in the coming period.

Not only will Australia grow at rates well above other major capitalist countries, this growth will produce a significant increase in tax receipts boosting the government's bottom line. In previous upturns, tax revenues have increased by about 8 percent. On this occasion, however, the increase is 11 percent. This forecast is put forward despite the fact that Treasury has significantly overstated tax revenue since 2008. In the budget for the 2011-2012 financial year, this has led to the expected deficit blowing out from around $22 billion to more than $44 billion.

Moreover, any notion that the Australian economy and budget revenues are somehow isolated from the shifts in the global economy is belied by the fact that, as the treasurer himself acknowledged, over the past four budgets government tax revenues have declined by $150 billion due to the global financial crisis.

The Treasury forecasts are called into question not only by its previous forecasts but by its own projections in the current budget. Economic growth will supposedly return to trend, but revenue from the goods and services tax (GST), levied on consumption spending and on which the finances of the state governments depend, is set to fall by $11 billion over the next four years. In addition, even the vastly understated official rate of unemployment is expected to rise from 5.2 to 5.5 percent. (The real jobless rate is over 9 percent with a further 8.2 percent of the workforce looking for more work, making a total of more than 17 percent either unemployed or underemployed.)

Furthermore, as the budget papers prepared by Treasury note, government spending will contract, consumer spending will remain flat and construction of dwellings, always a key economic indicator, is likely to fall.

The Treasury forecast is based entirely on the expectation that the boom in mineral exports to China will continue, leading to major investments in new mining projects. According to its Economic Outlook statement: "The main drivers of economic growth are expected to be business investment [chiefly in new mining projects] and commodity exports."

This projection is based on Treasury's assessment of what it calls the "dramatic structural change" in the global economy as the weight of economic activity shifts towards Asia. Strong demand from Asia is set to drive record levels of investment in Australia resources and resource-related projects. But such an analysis ignores the fact that the economic expansion of China and other Asian countries is completely dependent on investment from the major economic powers and the continued expansion of export markets in both the United States and Europe—all of which is now being called into question.

After basing its projections on the continuation of the mining boom, the Treasury budget papers acknowledge that "activity in other parts of the economy is likely to be uneven" as pressures from global uncertainty continue to "weigh heavily" on retailing, manufacturing and tourism, with conditions remaining "challenging." As always, the use of "officialese" covers over the real situation in these key areas of the economy where jobs cuts are proceeding at the rate of hundreds per day.

While the official view is that Australian capitalism is being bolstered by its connection to China, other observers see it as the source of a major crisis. Last week, CNBC reported that according to Albert Edwards, a strategist for the French finance house Société Générale, Australia was headed for the "mother of all hard landings" if the Chinese economy suffered a slowdown.

"We see [in Australia] a credit bubble built on a commodity bull market based on a much bigger Chinese credit bubble," he said in a report. "Of all the bubbles I have seen over the last 30 years in this industry, this one is even more obvious."

Edwards and others point to the fact that largely because of the escalation of house prices, the ratio of household debt to disposable income in Australia rose from about 100 percent in the year 2000 to more than 150 percent by 2006, where it has remained ever since. But if exports to China slow significantly and the dollar comes under pressure, leading to a rapid withdrawal of money from the Australian financial system, the credit bubble will collapse.

The real significance of the budget was made clear by Swan in his address to the National Press Club yesterday. It had established a new principle: henceforth budgets must be framed on the basis of the dictates of international finance capital for austerity. Global financial markets, he said, "have a watching brief on any government that fails to achieve its fiscal targets.

Even though the mining boom and associated investment had not produced the increase in tax revenue that might have been expected, Swan said the government decided to proceed. "We took the decision that we would come back to surplus and we'd have to find more savings. We might end up in that position again."

Asked if that meant the government would bring in further cuts to public spending, if revenue projections in the budget did not eventuate, Swan offered a simple, unqualified reply: "Yes."