Australian state governments prepare sweeping spending cuts

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Several Australian state governments, Labor and Liberal alike, are preparing to deliver enormous spending cuts, following the austerity budget delivered by the federal Labor government of Prime Minister Julia Gillard on May 8. State governments are responsible for delivering most health, education, and other social services, which have already been hit by decades of neglect and underfunding.

The Gillard government's budget sent a signal to the international financial markets, pledging no more deficits and permanent austerity, but the most savage cuts are still to come and state governments will play a key role. A sharply lower intake for goods and services tax (GST) revenue, on which state budgets are heavily dependent, has triggered a spate of warnings that spending programs will have to be eliminated.

Analysing the federal budget papers, the *Australian Financial Review* on Monday reported that federal payments to the states over the next two years would be down by $15 billion from previous projections. Most of these payments comprise GST revenue. The massive shortfall will trigger equivalent cuts in state budgets announced in Tasmania and Western Australia tomorrow, in South Australia later this month, New South Wales (NSW) in mid-June, and Queensland in September.

The Victorian budget that was released on May 1 provided a foretaste—it included $2.9 billion in cutbacks, including 4,200 public sector layoffs and devastating funding withdrawals for the Technical and Further Education (TAFE) sector.

The credit ratings agencies and financial markets have issued unambiguous instructions to state governments. Moody's released a statement on Monday declaring that the decline in GST revenue was a "credit negative for the state governments." UBS analyst Matthew Johnson warned that "some states may come under rating agencies pressure, unless offsetting expenditure reductions are found."

Every state government has stressed its determination to do whatever is necessary to avoid a credit rating downgrade.

In South Australia, the state Labor government has already imposed more than 4,000 public sector job cuts in the last two years. Treasurer Jack Snelling has now reported a $2.8 billion hit to the state budget over the next four years, the largest ever revenue decline. "Nothing is off the table, we will have a look at all our options," he declared. "In the wake of these revenue falls, tough decisions will need to be made."

In Tasmania, where a coalition Labor-Greens government has already slashed spending on public health and education, Premier Lara Giddings has warned of further "pain" as the state "follows through with our responsible financial management."

The NSW Liberal government has reported a $5.4 billion GST revenue shortfall over four years. The Associated Press reported that treasury secretary Philip Gaetjens has insisted that "the budget would prioritise retaining the state's triple-A credit rating."

The Liberal government in Western Australia has also foreshadowed additional cuts, despite presiding over the country's highest economic growth rates via record mining investment levels. Its budget will feature a 2 percent cut in funding for government departments, with the "efficiency dividend" expected to lead to significant public service layoffs.

The Gillard government is pressing the states for austerity measures. In an extraordinary statement last month, the prime minister suggested that West Australian Treasurer Christian Porter should resign if he was not able to impose enough cuts to deliver a surplus. "For the federal government, our revenues have been hit by $140 billion," Gillard declared, boasting of the cuts made to eliminate the budget deficit. "That's the hard work of government," she continued. "And if the Western Australian treasurer isn't capable of doing that hard work of government here in WA, well, he should hand the job over to someone who can."

The record GST revenue write-downs are primarily due to sharply lower consumer spending patterns. Before the 2008 financial crash, spending was fuelled by record levels of household debt. Now, however, people are attempting to save their wages, reflecting continued economic uncertainty and growing financial pressures on households.

Treasury documents explained that one factor behind the GST revenue decline was that "households have been allocating a larger share of consumption towards goods and services not subject to the GST, such as education, rent, health and food, as their prices have increased substantially compared with the prices of goods and services that are subject to GST."

The situation reflects the deepening economic and social crisis in Australia. Official GDP growth and unemployment rates conceal wrenching contradictions and disparities. The mining sector is undergoing an unprecedented expansion, on the basis of record commodity prices fuelled by China's industrial growth. Most other sectors of the economy, however, face recession-type conditions. The Labor government is orchestrating a sweeping economic restructuring, with the mining boom and associated high Australian dollar providing the mechanism through which large swathes of manufacturing and other "non-competitive" sectors are being eliminated.

The Reserve Bank's deputy governor Philip Lowe delivered a speech on Monday that detailed aspects of this restructuring. He estimated that the mining sector as a whole—including related construction, manufacturing, transport, and business services—now accounts for 16-17 percent of the total Australian economy and about 8 percent of total employment.

Mining related activity, Lowe continued, is expanding at 12 percent a year, whereas non-mining sectors are stagnant, averaging just 1 percent growth. "It would not be surprising if, over the next few years, growth in mining-related employment, broadly defined, was as high as one-half of the total growth in the Australian workforce," he concluded.

Large sections of the working class confront the spectre of permanent unemployment or poorly paid part-time work. Unless workers are willing and able to get into the mining sector—including by moving to Western Australia and Queensland and enduring debilitating "fly in, fly out" conditions—they will be left jobless.

Working people are already under enormous pressure. A Boston Consulting Group (BCG) survey, assessing self-perceived levels of financial hardship and insecurity around the world, was released yesterday. The BCG questioned 15,000 people in 16 countries. In Australia, 12 percent of people said that they were "in financial trouble" and another 35 percent said they were "not financially secure." The combined proportion of 47 percent matched that in the US, and was higher than Germany (45 percent), Spain (41 percent), and Britain (45 percent).