Western Australian cuts highlight sharp turn to austerity

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Deeper spending cuts announced yesterday in Western Australia—the premier “mining boom” state in Australia—are another sign of a reversal in the country’s economic fortunes. The 21-year period in which Australian economy has officially avoided a recession, largely due to soaring mining exports to China, is coming to an end, with devastating consequences for government budgets.

Because of rapid falls in coal and iron ore prices, state governments in the main mining states—WA and Queensland—have now joined the other states in unveiling cuts that will have a severe impact on public sector jobs and the most basic social services that affect the working class, particularly health, education, housing and transport.

On top of cuts already made in the May state budget, WA Treasurer Troy Buswell unveiled another $330 million of cuts to the public sector. He said they were essential to maintain the Liberal-National government’s projected $196 million 2012-13 surplus in the face of lower iron ore prices, a persistently high Australian dollar and falling Goods and Services Tax (GST) grants from the federal Labor government.

While the latest cuts avoid outright redundancies, they impose a staffing freeze to lower the total number of public servants by about 1,500, effectively destroying jobs and services by stealth. In addition to a 2 percent “efficiency dividend” announced in May, Buswell imposed a 1.5 percent reduction in agencies’ 2012-13 procurement budgets for consumables, stationary, communication, travel, administration and consultants.

Buswell warned of further cuts to come in a December mid-year budget review, unless there was a sudden turn-around in iron ore prices. He specifically targeted public health, claiming it was responsible for the largest part of a growing public sector wages bill. “There is significant revenue-related pressure on our bottom line,” he told parliament. “We’re going to have to look at recurrent spending and understand where we can trim our cloth.”

These statements underscore the abrupt reversal that has taken place this year, as well as the dependence of the WA government on mining-related revenues. The state economy still grew by an extraordinary 14.7 percent in 2011-12, more than double the forecast in last year’s state budget, but the drop in iron ore prices over the past few months has already blown a major hole in the state budget.

Although iron ore prices have rebounded since investment bank UBS warned this month that the WA budget was facing a $1.5 billion revenue hit, the current iron ore spot price of $110 a tonne is well below the $127.30 price assumed in the budget papers. According to the WA Treasury, each $1 change in the iron ore price is worth about $33 million annually to the budget bottom line. Royalties make about 20 percent of total WA government revenue. On the current iron ore price and currency exchange rate, the budget would suffer a $890 million revenue hit.

As a result, WA is facing a similar fiscal crisis as Queensland, the other main mining state, whose Liberal-National government this month imposed at least 14,000 public sector retrenchments, including more than 4,000 in the public hospital and health system. The two “boom” states have now joined the less miningdependent states, all of which have announced sweeping budget cuts this year.

Earlier this month, the Liberal-National government in New South Wales, the most populous state, announced a total of more $3 billion in cuts to education and health over the next four years, on top of the 10,000 public sector retrenchments in the June state budget. In the neighbouring state of Victoria, the state Liberal government is imposing severe education spending cuts, particularly in Technical and Further Education.

The states, which are responsible for most basic services, are being hit by a combination of plunging tax revenues—the result of the recessionary conditions already prevailing throughout the non-mining related areas of the economy—and reduced grants from the federal government, which faces an even greater budgetary crisis.

The mounting pressure on the states was highlighted yesterday, when credit ratings agency Standard and Poor's downgraded South Australia for the second time in four months, reducing it from AAA to AA+, and now AA, because of weakening revenue projections and a lack of confidence in government savings targets. The downgrade followed BHP Billiton's decision last month to indefinitely defer a $20 billion expansion of its Olympic Dam mine, an announcement that heralded the collapse of the mining boom.

This week, federal Finance Minister Penny Wong said the Labor government had identified $550 million in cuts to be made over the next years. She said the public service would have to slash "unnecessary spending," including on air travel, consultants, printing and newspaper advertising. This would be in addition to a 4 percent "efficiency dividend" imposed in May, which already required cuts to all these expenditures.

But these measures represent only a tiny fraction of the $44 billion turn-around that Prime Minister Julia Gillard's government must make in a single year, in order to meet its commitment to the global financial markets to return its budget to surplus this financial year. This would amount to the biggest withdrawal of government spending in post-World War II history, sending the economy into a greater slump.

In her announcement, Wong continued the Labor government's efforts to make a contrast with the elimination of jobs and services by the Liberal-National state governments. "Labor targets efficiencies, the Coalition slashes jobs," she said. "We've taken the explicit decision to target savings, not job cuts and to maintain frontline services."

This is a fraud, designed to try to reverse the government's disastrous opinion poll ratings, and convince voters to return the government at the next election as a "lesser evil" than a Liberal-National government headed by opposition leader Tony Abbott. In reality, it is the Gillard government that is driving the austerity drive nationally, and is preparing for the most punishing spending cuts in modern history.

For the past four years, since the onset of the global financial crisis, the Labor government has claimed that the mining boom would continue indefinitely, making Australia a unique exception to the worldwide economic breakdown. The WA spending cuts demonstrate how abruptly those claims have been shattered by the downturn in China, which is, in turn, being driven by the ongoing turmoil in Europe and slump in Japan and the United States.