Australian government imposes new spending cuts

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The Labor government of Prime Minister Julia Gillard yesterday announced additional socially-regressive spending cuts in its mid-year budget update, aimed at delivering the fiscal surplus it promised the financial markets and credit ratings agencies in May.

The cutbacks include a reduction in the "baby bonus" one-off payments for parents of new children. After their first baby, parents will receive $3,000 instead of $5,000 for subsequent children—a measure that will disproportionately affect welfare recipients, as working mothers have alternative access to the paid parental leave scheme.

The government has also targeted education and training. Funding for trade training centres is to be cut by $305 million over four years, and $277 million cut over four years in payments to employers of part-time and casual apprentices. The university system will suffer cuts totalling more than $1 billion, including a $499 million cut to research funding which, according to one estimate, could cost 1,450 research jobs. The government has also reduced funding for "Student Start-Up" scholarships, which helped poor students pay for textbooks and equipment. Proposed student income support for masters' students will be further delayed, until 2017, saving the government another $167 million.

The Labor government has claimed nearly $1.4 billion in savings from changes to the private health insurance rebate scheme, including by capping the annual increases in the government subsidy to the inflation rate. Successive Labor and Liberal governments have deliberately run down the public health and hospital system, driving people to take the rebate and pay for private health cover. The Gillard government is cutting costs by increasing the amount people will pay for health insurance. In addition, the government has shut down a Medicare teen dental program, cutting spending by $513 million, though it claims this revenue will be redirected into a new dental services scheme.

Swan also announced that large companies will soon have to pay company tax on a monthly rather than quarterly basis, a measure that boosts government revenues through interest payments.

Even with all these measures, however, the projected budget surplus will be just $1.1 billion, down from $1.5 billion forecast in the May budget—an indication that worse is to come.

The new round of cuts was triggered by a rapidly worsening economic outlook. Slowing growth in China has seen key commodity export prices plunge, in turn lowering government tax revenues by an estimated $20 billion over the next four years. Treasurer Swan declared that revenues in 2012-13 would be $4 billion lower than had been forecast just a few months ago in the May budget.

The revenue write-downs underscore the absurdity of the government's rhetoric about Australia "defying global economic gravity", as Swan put it just two years ago. The Labor government has evaded a fiscal crisis on the scale of Europe and the US only because of the China-driven commodity boom. The abrupt end of this mining boom has had an immediate impact on the government's budget, demonstrating the acute sensitivity of Australian capitalism to global economic shifts.

While yesterday's Mid-Year Economic and Fiscal Outlook (MYEFO) downgraded economic growth and revenue estimates, the projected budget figures are still based on inflated expectations. Swan stated that the official forecast is for gross domestic product growth of 3 percent this year (down from 3.25 percent in the May budget) and for unemployment to stay at 5.5 percent in 2012-13 and 2013-14 (unchanged from May budget).

The government also expects to receive $9.1 billion over the next four years from its minerals resource rent tax (MRRT). This is down by $4.3 billion from the May budget forecast but is still likely to be a gross overestimate. The only companies likely to pay any mining tax at all will be Rio Tinto and BHP-Billiton, and even they, according to *Australian*, "will be doing so out of a sense of obligation because of their role in designing the tax." Company sources told the newspaper last week that tax liability could have been calculated at zero, or even yielding a net credit.

This farcical situation underscores the extent to which the Labor government serves as the handmaiden of the mining giants. Immediately after ousting Kevin Rudd as prime minister in an inner-party coup in 2010, Gillard junked the government's proposed 40 percent "super profits" mining tax and allowed the mining companies themselves to draft the legislation for a watered down mining rent tax. Now it is clear that the new tax will generate zero revenue, other than that voluntarily handed over by BHP and Rio to avoid embarrassing the government.

The Gillard government is clearly attempting to cover up the situation. It has unveiled the mid-year budget update a month earlier than usual, suppressing the need to revise its fiscal policies based on actual, rather than forecast MRRT revenue. The upshot is that additional spending cuts will be imposed to make up for any further shortfall in revenue.

The Treasury optimistically expects strong economic growth for Australia's major trading partners, including China, which is forecast to return to 8 percent GDP growth in 2013. Iron ore and coal commodity prices are similarly forecast to rebound. MYEFO papers blithely dismissed the likely impact of further economic turmoil in Europe and the US: "If global conditions were to deteriorate further, the Chinese authorities retain significant capacity to adopt further measures to support growth." Senior Macquarie Group economist Brian Redican told the *Australian* that the Treasury's figures "could occur", but described them as "a best-case scenario."

The global economy faces further shocks as policy makers confront the sharpest crisis since the 1930s. The Gillard government has merely postponed imposing even more severe austerity measures on the working class.

Swan openly admitted yesterday that far greater "savings" would be required to implement the government's pledged National Disability Insurance Scheme and Gonski school funding model. These are both regressive policy measures, aimed at creating privatised and "user pays" models of education and disability support services, but they require an initial increase in public funding.

There is mounting speculation that the Labor Party will trigger an early election, before delivering the next budget in May 2013. Such an election would represent a conspiracy against the Australian people, with both major parties concealing their real, bipartisan, agenda of massive spending cuts, attacks on welfare recipients, destruction of public sector jobs, and elimination of public spending on basic services including health, education, and social infrastructure. Major figures, including Labor advisor and economist Ross Garnaut and Treasury Secretary Martin Parkinson, have recently issued warnings against any further postponement of this European-style social counter-revolution. (See: "Australian Treasury secretary outlines austerity offensive for Labor government")

Swan yesterday continued Labor's bogus campaign against the "slash and burn" spending cuts imposed by state Liberal governments in Queensland, New South Wales, and Victoria. He warned of similar measures federally under an opposition government led by Tony Abbott. The treasurer declared that the Labor government, in contrast, made "difficult decisions" but "always with an eye on jobs, and always with an eye on fairness." In reality there is bipartisan agreement on the austerity agenda. Labor is complicit with all of the cuts being imposed at the state level, passing on revenue writedowns to the states that inevitably mean spending cutbacks to health, education, and other services. These will intensify after the MYEFO, with revenues to the states falling again, by more than $1 billion.

The government's budget update was met with more demands from the corporate media for stepped up spending cuts to social programs. The *Australian* declared in its editorial: "Confronted by weakened global economic conditions, reduced growth forecasts and a new $20 billion revenue shortfall, Wayne Swan has responded with what is more akin to financial fiddling than fiscal rectitude... The serious challenge of budget reform–of placing the nation's finances on a footing that is sustainable outside boom conditions—is kicked down the fiscal and political calendar, for another financial year, another budget and, quite possibly, another treasurer."