

Financial elite demands deeper spending cuts in Australia

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Confronted by a renewed global slump and a sharp downturn in mining investment, the Australian Labor government is moving to meet demands from the financial markets and big business to slash spending, far more than it has already done, in order to produce a budget surplus.

This week, the credit ratings firm Standard & Poor's further dashed the myth that Australia was a peculiar exception to the global economic breakdown that erupted in 2008. It drew parallels between Australia and Spain—where official unemployment now stands at 25 percent—and warned that Australia risked losing its AAA credit rating if the federal budget did not return to surplus by 2013-14.

London-based Kyran Curry, global director of public finance at S&P, told the *Australian Financial Review* there were similarities between Australia's banking system, which depends heavily on foreign borrowing, and Spain's position before its housing and financial sectors imploded.

Curry said Australia had "high levels of external liabilities" and "very weak external liquidity," that meant its banks were "very highly indebted compared to their peers." He added: "For us, we look to Spain, which was Australia's closest peer four or five years ago in terms of having a very strong fiscal position."

These remarks are a warning that the financial markets can turn against Australia just as brutally as they have against the European economies, if Prime Minister Julia Gillard's government fails to deliver its promise to produce a surplus by the current financial year. In effect, the government has pledged to make the working class pay for the worsening economic crisis, and the multi-billion dollar stimulus packages that it

implemented in 2008-09 to prop up the banks and other large corporations, particularly in the construction, auto and retail sectors.

The S&P threat, featured on the *Australian Financial Review's* front page, is part of an intensifying campaign by financial commentators and media outlets for deeper austerity measures against the working class. Over the past few months, the economic slowdown in China and the related plunge in mining export prices have already triggered major spending cuts by federal and state governments, and demands by business leaders for even greater, European-style, attacks on welfare, health, education and other basic social services, as well as cuts to wages and working conditions.

The Labor government's Mid-Year Economic and Fiscal Outlook (MYEFO), released last month, unveiled further inroads into social spending, on top of \$33 billion worth in the May budget, and forecast a \$1.1 billion surplus in 2012-13—just 0.1 percent of gross domestic product. But there are mounting signs that this target will not be met, because of plunging revenues, especially from mining, corporate and consumption taxes.

Within days of the MYEFO's publication, its estimate of mining tax revenue of \$2 billion in 2012-13, already slashed from the May budget's prediction of \$3.7 billion, was shattered by the revelation that the tax raised no money at all from the mining companies in the first three months of the financial year. This situation is unlikely to change because global commodity prices, which recovered a little in August and September, have since fallen again by 9 percent.

Last weekend, Macroeconomics, an economic consultancy headed by a former Australian Treasury official, estimated that the 2012-13 deficit would be \$6.5 billion, due to a \$6 billion shortfall in tax revenue. In 2013-14 the deficit would reach \$17 billion without policy changes, and \$22.9 billion in 2014-15. Moreover, Macroeconomics stated there would be a “structural deficit” (that is, after deducting \$27 billion in revenues generated by still-historically high commodity prices) of \$34 billion in 2012-13.

Macroeconomics said this structural gap had been produced by a combination of factors, starting with income tax cuts favouring the wealthy, introduced by the Howard Liberal and Rudd Labor governments. Then came the decline of business and capital gains taxes following the global financial crash, and large mining company depreciation claims arising from investments made during the China-related mining boom of 2010-12.

Commenting on this “\$34 billion structural hole in the budget,” *Business Spectator* columnist Alan Kohler lamented that the coming federal election campaign, due within the next 12 months, would see both major parties asserting that “they will run budget surpluses without painful spending cuts or tax increases, when it will be plain to all that this is impossible.” In other words, savage austerity measures will be unleashed as soon as the election is out of the way, regardless of whichever party wins the poll.

Prime Minister Gillard’s response has been to step up her commitment to deliver a budget surplus. Appealing for the support of the leaders of Australia’s 100 largest companies, she told a Business Council of Australia dinner on Thursday that her government would make “further structural savings” in the budget. By cutting spending, she stated, the government had created the conditions for interest rate cuts that saved the business sector \$18 billion a year in borrowing costs.

Business leaders, however, are insisting that the government go much further to drive down labour costs, because of a deepening slump. The National Australia Bank (NAB) monthly business survey

showed that in October business conditions fell to their lowest point since the initial aftermath of the global financial crisis in the May 2009. The bank’s index of business conditions dropped to -5 in October from -3 in September.

NAB said the fall was mainly prompted by global concerns, including a belief that US Federal Reserve and European Central Bank economic stimulus measures had not solved those economies’ wider problems. A record 72 percent of businesses saying they did not need finance now—an indication of future contraction.

NAB said the Australian economy was “undergoing a structural transformation towards mining and service-based industries, and away from traditional manufacturing and discretionary retailing.” But the mining investment boom is already breaking up, leaving Australian capitalism in a much-weakened state.

How far the austerity agenda being demanded by the corporate elite extends was underscored in May, when shadow treasurer Joe Hockey called for an end to the era of entitlement, insisting that continued funding for social programs was “simply unsustainable.”

In her speech to the Business Council, Gillard emphasised that the Labor government had made substantial steps toward dismantling welfare entitlements by “means-testing benefits” and “reforming the tax and transfer system to lift participation.” However, far deeper inroads are now being demanded.



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