

Australian election: Treasury report points to more budget cuts

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In last Sunday's televised election debate, both Prime Minister Kevin Rudd and opposition leader Tony Abbott pointedly refused to address former Treasury Secretary Ken Henry's assessment that whatever government came to office after September 7 would be forced into "a permanent process of cutting spending."

Henry's forecast reflects the insistent demands of the corporate elite for a "restructuring" of government spending, particularly targeting major items of social entitlements. These demands are underscored by the Pre-Election Fiscal Outlook (PEFO) statement released by the treasury and finance departments today.

The PEFO was broadly in line with the Labor government's economic outlook statement, itself based on treasury forecasts, issued on August 2. Prepared under the so-called Charter of Budget Honesty legislation, the PEFO is generally regarded as more authoritative because it is drawn up without any government intervention.

The PEFO statement reported that between the bringing down of the Labor government's budget in May and the August 2 economic statement—a period of just 10 weeks—there was a negative impact on the budget cash balance over the four years to 2016–17 of \$41.5 billion, mainly due to write-downs in expected tax receipts of more than \$33 billion.

The PEFO endorsed the government's forecast that the budget would return to surplus in 2016–2017 on the basis of present policy settings. Yet, while the report indicated that the haemorrhaging of \$3 billion a week had halted, the PEFO's own assumptions show that such write-downs could resume at any time.

The report predicted growth in the Australian economy of 2.5 percent in 2013–14 and 3 percent in 2014–15. The economy, it claimed, was expected to "transition away" from resource-led investment

growth, in mining, toward "broader based growth." However, it added that "this transition may not occur as smoothly as forecast" because of "increased uncertainty about global growth prospects, particularly in China and India."

The terms of trade for Australia—the ratio of a weighted index of export prices to a weighted index of import prices—were predicted to fall almost 10 percent in the two years to 2014–2015, after having reached their highest levels in history as a result of the minerals boom.

If the terms of trade were to fall by a further 4 percent—a highly possible scenario, given the stagnation in the US economy, the recession in Europe and the slowdown in the Chinese and Indian economies—this would produce a fall in nominal Australian gross domestic product of 1 percent in 2014–15.

Tracing out such a scenario in its "sensitivity analysis," the PEFO report found that "the overall impact of the fall in the terms of trade is a decrease in the underlying cash balance of around \$3.1 billion in 2013–14 and around \$6.0 billion in 2014–15."

That is, further cuts of at least \$9 billion would be immediately on the agenda, in order to meet the commitment to return a budget surplus. Treasurer Chris Bowen foreshadowed this prospect when he issued the government's economic outlook statement on August 2, warning that further cuts would be initiated if circumstances changed.

The Labor Party will now seek to use the PEFO statement to step up demands that the Liberal-National Party release its budget costings, after repeatedly declaring that Abbott has a list of \$70 billion worth of "cuts to the bone" that will be implemented should he come to power.

However, Labor's claim that it can bring a

“transition” in the economy without further deep cuts is as threadbare as the Liberals’ assertion that their return to office will somehow miraculously boost business confidence and see an upswing in economic growth.

While speaking of “transition” at every available opportunity, Rudd never addresses the question: transition to what? Some indication is given in the PEFO report, which predicts a rise in the unemployment rate to 6.25 percent, and in the Reserve Bank of Australia’s economic outlook, published last Friday, which pointed out that a fall in wages has already taken place.

The actual course of economic events may proceed far more rapidly and turbulently than even these forecasts indicate. That is because the entire framework of Treasury’s “economic modeling,” on which PEFO and its reports for the government are based, has been shattered by the breakdown in the world capitalist economy that began in 2008.

The PEFO report bases its economic projections on “medium term assumptions for growth that are consistent with underlying historical trends in the economy.” Those underlying historical trends are no longer applicable.

The nearest that Treasury comes to acknowledging this fact is to note that revenue forecasting has relied on historical relationships that “may continue to shift” and that the “real and financial dimensions of the recent global financial crisis” have posed “particular challenges” in estimating losses.

The PEFO report, like the statements of the major parties in the election campaign, makes virtually no mention of the world economic situation. It is here, however, that the forces driving economic developments in Australia are to be found.

Far from taking measures to produce a global recovery, the world’s major central banks are pumping trillions of dollars into the financial system, boosting the prices of shares and other speculative assets. This is only creating the conditions for another global crisis, on an even greater scale than in 2008.

None of these issues received so much as a passing mention in the PEFO report. The major parties will each seek to use it for their own immediate electoral ends and above all, to cover up the deepening crisis in the global capitalist economy, which will determine the economic reality that will confront the working class

after the election.



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