Australia: Liberal and Labor in virtual agreement on budget plans

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After years of warning about the growth of the budget deficit and rising government debt, the Liberal Party yesterday released its budget costings, setting out an agenda not significantly different from that announced by the Labor Party at the start of the election campaign.

The Liberals' stated plan would reduce the budget deficit by just $6 billion, as compared to the agenda set out by the Labor Party—an amount equivalent to a rounding error. It brought derisory judgments from media commentators, who have been voicing the demands of the big business and financial elites for much deeper cuts, especially in the areas of health and other vital social services they deem to be "unaffordable."

Writing for the *Sydney Morning Herald* web site Michael Pascoe noted that, after all the "hyperbolic fiscal posturing" over the past four years, the proposed "improvement" in the budget bottom line was "genuinely astounding."

Pascoe concluded that "the Joe Hockey who made the Age of Entitlements speech needs to be resurrected, or at least the writer of that speech needs to be put in charge of the soon-to-be treasurer."

In that speech, delivered in London in April 2012, shadow treasurer Hockey laid out a sweeping agenda aimed at rolling back the entire system of social services set in place after World War II. His declaration was welcomed in ruling financial and business circles at the time, and similar agendas have been set out by various think tanks and corporate organisations, including the Business Council of Australia.

Since Hockey's speech, however, there has been considerable dissatisfaction over the fact that the Liberals have not been prepared to openly enunciate this program, because they fear the electoral consequences.

Opposition leader Tony Abbott said a Liberal government could undertake more cuts when its proposed commission of audit published its findings. Abbott said the commission, which he would establish as a priority if elected, would "go through the whole of the administration." However, conscious that he was speaking on election eve, Abbott said while he was "more than happy" to make government more efficient, as determined by the commission—a euphemism for cuts—his government would not "do anything that's inconsistent with our mandate."

The reality is that both the Labor government budget plan for the next four years and the Liberal proposals, along with the respective commitments of both parties not to target health, education and other key social services, are not worth the paper they are written on.

This is because government revenue will suffer a major impact from the slowing Australian economy and the growing economic turbulence internationally. The rapidity with which shifts can take place was revealed earlier this year, when, just three months after the Labor government handed down its May budget, Treasury had to revise down its revenue forecast by $30 billion—a loss of $3 billion per week.

National accounts released on Wednesday show the growth of recessionary trends in key areas of the Australian economy. In the past 12 months, the economy has expanded by 2.6 percent, compared to 3.7 percent a year earlier.

Some key industries are contracting, including manufacturing, transport and utilities. Household consumption rose by just 1.8 percent in the past financial year, the lowest increase since the eruption of the global financial crisis in 2008.

Business investment, always a significant indicator of future developments, fell by 1.2 percent in the June quarter, after a drop of 4 percent in the three months to the end of March. Gross company profits fell by 3.2 percent. As one analyst noted, this was the biggest profit decline in 50 years of records kept by the Australian Bureau of Statistics.

JPMorgan Australia chief economist Stephen Walters told the *Australian Financial Review*: “In aggregate, the domestic economy essentially has stalled.” In other words, were it not for the boost provided by mineral exports, the economy could already be in recession.

The value of output from the mining industry rose by 17.6 percent over the past two years but increased by only 0.75 percent in the June quarter.

Reviewing international conditions, veteran economics commentator Max Walsh set out the agenda that is clearly being discussed behind the scenes in business and financial circles. In an article published on Wednesday in the *Australian Financial Review*, entitled “Austerity could become an urgent prescription,” he said that if elected Abbott could, in some ways, face “the most challenging economic outlook of any newly elected prime minister since the end of World War II.”

The mining boom was coming to an end, with business expectations signalling recessionary conditions. According to a Dun & Bradstreet survey only 2 percent of businesses planned to increase capital spending in the final quarter of the year and only 3 percent intended to hire new staff.

This means that the understated official unemployment rate, which is predicted to rise to 6.25 percent next year, could go higher.

If recession begins to develop and unemployment rises, Walsh wrote, there would be a temptation to expand the fiscal deficit. This meant that austerity should be initiated early.

After Saturday’s election, the phoney “debate” conducted during the campaign will be consigned to the dustbin. Whatever government comes to office will be faced with the immediate task of instituting the cuts to social spending that have been the central demand of the ruling corporate and financial elites.