

Revealed: Australian Labor government's record spending cuts

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Buried away in the budget outcome for 2012-13, released last week by Treasurer Joe Hockey, was the fact that the previous Labor government reduced public spending in that year by the greatest amount on recent record.

Total government expenditure fell one percent in cash terms—something that has never happened previously according to Treasury data since 1970-71—and dropped by a record 3.2 percent in real terms, allowing for inflation.

This underscores the lengths to which the Labor governments of both Kevin Rudd and Julia Gillard went to satisfy the austerity dictates of the financial markets at the expense of working people, the poor and students.

Hockey, flanked by Finance Minister Mathias Cormann, sought to use the budget deficit of \$18.8 billion to condition public opinion for deeper cuts. Hockey declared that the result “confirms the deteriorating state of the Budget under six years of Labor,” and vowed to “rebuild the public’s trust in the government’s finances through prudent management of taxpayers’ money.”

In reality, the budget figures demonstrate that the Labor government began an historic assault on social spending, clearing the way for the Liberal-National Coalition administration to intensify the offensive.

Just to keep pace with inflation (officially 2.4 percent in 2012-13) and population growth (1.8 percent in the year to March 2013), total expenditure should have risen by about 4.2 percent in cash terms, or \$15.6 billion. Instead, it dropped by almost \$4 billion—a gap of nearly \$20 billion in a year.

Even that figure does not take into account the extra services and welfare provisions needed by an ageing population and by the rising number of unemployed or

under-employed workers. Reflecting those growing social needs, over the past decade, up until 2010, government spending rose by 120 percent in cash terms, or approximately 12 percent a year.

Labor’s cuts fell most heavily on education and health. Compared to the budget outcome for 2011-12, education spending fell by more than half a billion dollars to \$28.5 billion—an outright cut of 2 percent—despite rising student numbers. Health expenditure dropped by \$700 million to \$61.3 billion—a reduction of 1.1 percent—despite ever-greater patient needs. Social security and welfare spending rose about \$5 billion to \$132 billion, but that increase of 4 percent fell short of matching inflation and the rising population.

These figures do not cover most of Labor’s cuts to universities—\$2.3 billion over the next four years—or the tens of thousands of single parents now being stripped of welfare entitlements and forced onto poverty line unemployment benefits as soon as their youngest children turn eight years of age.

Acting on the demands of big business for sweeping austerity measures, the Gillard government’s treasurer, Wayne Swan, promised that financial year 2012-13 would be the year the budget returned to surplus, “come hell or high water.”

Last December, that pledge was abandoned as the mining boom began to unravel under the impact of the ongoing world slump, triggering a collapse in taxation revenues. Nevertheless, due to Labor’s cuts, the budget deficit fell to 1.2 percent of gross domestic product (GDP) in 2012-13, down from 2.9 percent in 2011-12. This was the largest year-to-year reduction since at least 1970-71.

On the *Business Spectator* web site, Stephen Koukoulas, a senior economic policy adviser to Prime

Minister Gillard between September 2010 and July 2011, boasted of Labor's record of outdoing the Liberals. He declared that Labor produced "the most contractionary year for fiscal policy ever seen." He added: "Contrary to conventional wisdom, Coalition governments have never once delivered a year where there was a cut in real government spending."

As a share of GDP, government spending fell to 24.3 percent in 2012-13, well down from the recent peak of 26.1 percent in 2009-10, driven by Labor's stimulus packages. Labor's cutbacks took the level down to that of 1975-76, reflecting an historic reversal of previous concessions made to the working class.

The budget papers reveal the impact of the worsening international economic breakdown, compounded by huge tax concessions handed to big business by successive Labor and Coalition governments since the 1980s, including Labor's rewriting of its proposed mining tax.

In 2012-13, taxation revenue represented 21.6 percent of GDP, a \$40 billion a year drop from the 24.2 percent recorded in 2004-05 and 2005-06 at the height of the mining boom fuelled by China's decade of rapid economic growth.

Compared with the 2012 budget forecasts, the biggest fall came from company tax—from an anticipated \$75 billion to \$68.2 billion. In percentage terms, the greatest collapse occurred in the revised mineral resource tax. It was predicted to yield, along with the petroleum resource rent tax, \$7.4 billion; instead the two taxes combined produced only \$1.9 billion. Overall, a predicted \$343 billion in tax revenue shrank to \$326.4 billion. Anticipated non-tax income fell short by a billion as well, producing a total revenue writedown exceeding \$17 billion.

While blaming "Labor's deception" for this "budget mess," Hockey refused to set a date for the release of the mid-year budget review, due by next month, suggesting that it may be delayed until the new year. Having embraced, and vowed to enforce, all of Labor's cuts, the Abbott government's plans to slash social spending remain shrouded in secrecy, for now.

The financial elite, however, is demanding swifter action. Yesterday's *Australian Financial Review* editorial insisted: "The Abbott government must quickly deliver on its promises to slash red tape, revive productivity growth, reduce Australia's high cost base

and repair Labor's budget damage." Central to this agenda are wholesale welfare cuts, both in order to drive down corporate taxes and to push more working people into low-paid employment.



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