Australian Treasury chief calls for “hard policy decisions” on spending cuts

Nick Beams
3 April 2014

Australian Treasury Secretary Martin Parkinson has called for deep cuts in next month’s federal budget and for many years, if not decades, to come.

Addressing the right-wing Sydney Institute last night, Parkinson said the budget could not return to surplus as a result of economic growth, particularly given the end of the “mining investment boom,” but only by “policy decisions, individual hard decisions.”

The Treasury chief warned that declining commodity export prices would be “a significant drag on Australia’s national income growth,” reversing the trend of the past two decades. Unless sharp adjustments were made, he declared, Australia would be “increasingly vulnerable to the next global crisis.”

Treasurer Joe Hockey vetted Parkinson’s speech before delivery, indicating that it sets out the Abbott government’s agenda. His remarks were in line with a barrage of commentary from media outlets and various economic think tanks over the past year that have focused on the supposed unsustainability of continuing budget deficits, in order to demand cuts to social services, especially health care and aged and other pensions.

While not specifying the extent of cuts in these areas, Parkinson noted that spending on health was anticipated under current conditions to rise from $64.7 billion in 2013–14 to $116 billion by 2023–24. Similarly, expenditure on aged pensions, disability support pensions and carers’ payments was expected to grow by 6 percent per annum.

In another statistic designed to make the case for deep cuts, he said real government spending had increased by 40 percent since 2002–03, compared to an increase in real gross domestic product of 34 percent over the same period.

Parkinson claimed that three characteristics of the present-day Australian economy—weak productivity growth, falling terms of trade, and an ageing population—“do not bode well for growth in Australian incomes and living standards in the period ahead.”

Even if labour productivity were to grow at its long-term average, per capita incomes would rise by only 0.7 percent per year, compared to the long-term annual trend rate of 2.3 percent.

Such an outcome would widen “the gap between community expectations and what governments can realistically do, which requires a frank, community-wide discussion to reset expectations.”

In other words, the expectation that governments must provide decent health care, pensions, and social services necessary to maintain living standards should be consigned to the past.

The *Australian Financial Review* took up this theme in an editorial today. Headlined “The message we have to hear,” it said Prime Minister Tony Abbott’s government had not done enough to “prepare Australians for the hard choices they are about to face.” Parkinson had now provided the analysis that Treasurer Hockey had to “turn quickly into a compelling political narrative.”

The broad outline of this “narrative” is already clear: “Australians” did not save enough during the past two decades of economic expansion and allowed productivity growth to decline, and must now pay for their profligacy through cuts to essential services and social facilities.

This is a political fiction. It is not “Australians” who make choices about economic policy for the “nation,” but the ruling political elites, acting on behalf of the most powerful corporate and financial institutions, whose interests they serve.

Parkinson reiterated the essential class orientation of the present agenda—initially characterised by Hockey two years ago as "ending the age of entitlement."

The Treasury chief insisted that the revenue-raising measures needed to bring the budget back into surplus had to focus on increasing indirect taxes, including the Goods and Services Tax (GST), which impact most heavily on lower-income earners. Specifically, he declared that the GST, currently set at 10 percent, had to extend to health care, a move that would severely affect working-class households and retired people.

Parkinson called for cuts in income tax, claiming that without them workforce participation would decline, leading to lower living standards. His remarks were couched in terms of the tax impact on the average income earner. But as the historical record shows, tax cuts invariably provide the greatest benefits to those on the highest incomes.

The income tax cuts initiated by the Howard government from 1996 to 2007, and continued by the Rudd Labor government, were a direct handout to these layers. These cuts helped lay the basis for the underlying budget deficit, which is now being cited as the justification for the need to slash spending—in order to impose the burden of the deteriorating global economic situation onto the back of the working class.

It has been calculated that reductions in income tax rates, together with the slashing of corporate tax from 49 to 30 percent and massive tax concessions on capital gains and personal superannuation contributions by high income earners, have cost the budget at least $111 billion a year—more than enough to cover the present deficit.

Parkinson foreshadowed further cuts in the corporate tax rate, because "in our increasingly globalised economy, Australia, like other countries, will face pressure to reduce the company tax rate to maintain competitiveness." He acknowledged that "obviously, such actions, would come at the cost of further eroding government revenues."

Of course, such a revenue loss would then be cited as a reason for further spending reductions. Parkinson airily dismissed claims that if tax cuts not been initiated in the 2000s then the budget would have been in better shape, saying that the revenue might have been spent on other outlays.

Moreover, Parkinson did not mention the massive tax concessions provided to the wealthiest layers of society levels via capital gains. According to research carried out by the International Monetary Fund, Australia has become a veritable haven for tax avoidance through "differential or preferential treatment of specific sectors, activities, regions or agents."

The Treasury secretary specifically warned against relying on assumptions of continued economic growth. "We can be confident that rising commodity prices will not be a source of significant national income growth over the next decade!" he emphasised.

"Were Australia to record 33 years of uninterrupted economic growth," as projected by the Abbott government's mid-year economic forecast, "it would be an extraordinary achievement … It is not, however, something on which I would want to rely."

Parkinson's speech came in the wake of media reports that the government's Commission of Audit, whose recommendations have yet to be released, has found that budget "savings" of $60 billion a year must be found for the next decade if the surplus target in 2023–2024 is to be reached.

Endorsing the prescriptions laid out by Parkinson, an editorial in the Murdoch-owned *Australian* today said the Abbott government would set the tone for a successful administration if it "heeds the advice of fiscal grown-ups on rampant spending this May: cut hard, cut early, cut often."