

# Australian government announces budget deficit blowout

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Treasurer Joe Hockey released the Australian government's mid-year economic and fiscal outlook (MYEFO) yesterday, projecting slowing global growth, an unprecedented slump in export earnings, rising unemployment and a major blowout in the budget deficit. The economic forecast is intensifying corporate demands for cuts to social spending.

The MYEFO's release was overshadowed by the massive police siege of the Lindt Chocolate Café in central Sydney where a man took a group of staff and customers hostage. Hockey announced that the projected budget deficit for the 2014–2015 financial year has blown out by more than \$10 billion to \$40.4 billion. Budget deficits are now projected for the following four years as well, with a small surplus predicted in 2019–2020.

The *Australian Financial Review* dismissed even the delayed return to surplus as based on a “heroic assumption.” Despite global slump and deflation, the Treasury department has forecast that Australian economic growth will accelerate, from 2.5 percent in 2014–2015 to 3.5 percent in 2016–2017. Official unemployment is predicted to rise to 6.5 percent.

The reality is that Australia, like other commodity exporting countries, is being buffeted by the sharp fall in commodity prices. Iron ore, which generates 20 percent of export revenues, has collapsed to under \$70 a ton, compared with \$180 a ton in 2011 at the high point of what was called Australia's “mining boom.” Global prices for coal and liquefied natural gas, two other key exports, are also declining rapidly. The MYEFO concluded that Australia would experience a 13.5 percent fall in its terms of trade—the greatest since records were kept—and suffer chronic trade deficits.

The expected fall in iron ore prices to \$60 per ton is predicted to cost the federal government \$14.4 billion

in tax revenues over the coming four years. Investment in the mining and energy sectors, which was the main factor that drove economic growth after the 2008 financial crisis, is plummeting. Tens of thousands of jobs are being wiped out in mining-dependent industries, while entire sections of manufacturing industry, such as car production, are being shut down. Even the dubious official rate of unemployment is likely to rise well beyond 6.5 percent.

Underscoring the absurdity of the MYEFO predictions, the report forecast that growth in Australia's main export market, China, would slump to its lowest level since 1990. The situation in other key markets such as Japan and South Korea is even bleaker, while another meltdown in global financial markets is looming, with immense implications for Australia's speculative real estate bubble. The Reserve Bank is encouraging a fall in the Australian dollar back down to as low as 75 US cents, joining in the dog-eat-dog currency devaluations being pursued by central banks internationally.

Hockey, exuding bewilderment at the scale of the economic crisis he confronts, said yesterday the government would not make major budget cuts to compensate for falling tax revenue and rising welfare payments. Instead, he declared, the government would allow the deficit to grow and act as the “shock absorber” for the impact of global slump. He announced further cuts to foreign aid and the public service to finance \$1.3 billion in extra spending this year on deploying troops to Iraq and national security measures within Australia.

By ruling out new cost-cutting measures, Hockey provoked hand-wringing from the corporate establishment and media commentators.

The Liberal-National Coalition government came to

office in September 2013, with Hockey and Prime Minister Tony Abbott pledging to the financial markets and big business to go beyond the budget cuts imposed by the former Labor government. They vowed to slash social welfare entitlements and public spending to ensure that a budget surplus was achieved by 2016–2017, creating the conditions for company and income tax cuts.

After the Abbott government brought down its first budget in May, the Labor Party opposition helped pass the budget appropriation bills through the Senate, the upper house of parliament, setting in train \$80 billion in long-term cuts to health and education funding and thousands of public sector job losses. Labor refused, however, to vote for other measures. These include cutting off access to unemployment benefits for people under 30, up-front payments for public medical services, the deregulation and increase of university fees and lifting the retirement age to 70.

Labor's stance stemmed from its fear that such austerity measures could trigger an eruption of social discontent in the working class that would be directed against not only the government, but the entire parliamentary establishment. Desperate efforts by the Abbott government to pass its legislation with the support of various minor parties and independents in the Senate have largely failed. Hockey nevertheless included in the MYEFO tens of billions of dollars in "savings" that have not been enacted.

In today's *Australian*, economics commentator Alan Kohler questioned whether "Australia any longer has a political system that can deliberately run a fiscal surplus." He derided the parliament as "polarised" and "dysfunctional." In the same publication, businesswoman Judith Sloan lambasted Labor for its opposition to budget cuts and measures proposed by big business, such as increases in the goods and services consumption tax to finance corporate tax cuts.

The *Australian Financial Review's* editorial was devoted to recriminations over the parliamentary paralysis. Headlined "Labor must help clean up its mess," it labelled budget deficits as "a grand failure of economic management and a poor reflection on Australia's political culture." The Labor Party, the editorial declared, "needs to move from mindless opposition to accepting the national interest in dealing with this problem."

The musings in the corporate media have sinister and anti-democratic implications. What is being demanded is a "national unity" regime between the major capitalist parties to ram through savage attacks on working-class living standards and defy the inevitable political opposition.

All the pressure of the ruling class will be brought to bear over the coming months to push Labor and the Coalition into such an arrangement. A unity regime already exists on foreign policy and national security. The Labor Party is giving unconditional support to the Abbott government's participation in US-led wars and intrigues around the world, and its use of manufactured terrorist threats to vastly expand the powers of the state apparatus. The massive police and military mobilisations during the recent G20 Leaders Summit in Brisbane and yesterday's "siege" in Sydney amount to dress rehearsals for how mass protests against austerity and war will be answered.



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