Australian budget position worsens as cuts deepen

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The Australian government's Mid-Year Economic and Fiscal Outlook (MYEFO) has revealed a further worsening of its budget position coupled with a series of cuts aimed at health, child care and welfare payments.

The report, released in Perth yesterday by Treasurer Scott Morrison and Finance Minister Mathias Cormann, showed the budget deficit had grown by $2.3 billion from May and by a total of $23.8 billion in the three years from 2016–17.

One of the major factors has been a decline in the iron ore price. From its peak of around $180 in 2011, iron ore has fallen to under $40 per tonne and is threatening to go even lower. In the budget it was estimated to fetch $48 per tonne but this has been now downgraded to $39—a figure which may still prove to be too optimistic.

Iron ore comprises one fifth of Australia's export revenue and the fall in its prices has cost the government $7 billion in tax revenue over the next four years compared to estimates made just over six months ago in the May budget.

The government has increased spending by more than $3.5 billion since the budget was brought down but Morrison said the increase had been "more than offset" with new savings measures. These include a saving on welfare payments of $2 billion over the next four years by targeting people who supposedly incorrectly claim benefits.

Other cuts include: changes to bulk billing procedures under the health system will save $650 million on pathology, diagnostic imaging and MRI scans, a cut of $595 million in health workforce programs, a cut of $472 million from aged care services, supposedly by "better aligning" the funding claimed with the actual level of care provided and a previously announced change to child care for families earning more than $250,000 providing a saving of $441 million over four years.

In the press conference on the report, Morrison said it was a "statement of confidence in our economy." But his upbeat remarks are not matched by the data. The forecast for economic growth for next year was cut to 2.75 percent from the 3.25 percent at the time of the budget. GDP growth for the current year is expected to come in at 2.5 percent, down from the figure of 2.75 percent previously projected.

An air of unreality surrounded the press conference conducted by Morrison and Cormann as there was virtually no mention of the rapidly worsening global economic outlook.

While one Western Australian journalist did at least point out that the theme of "jobs and growth" did not apply to that state, the three reporters from the Murdoch and Fairfax media, who teleconferenced in their questions, focused on whether a return to surplus had been abandoned and requested further details on some of the cuts.

But no one asked about the state of the world economy and its impact on Australia under conditions where plunging commodity prices, reflected not least in the falling price of iron ore, turbulence in the corporate bond markets and slowing growth in China are threatening to set off a new economic and financial crisis.

Even if the government's own dubious estimates for growth are accepted as good coin, a comparison of GDP forecasts with the projections for unemployment reveals some striking anomalies.

While growth forecasts have been significantly reduced, the unemployment rate is predicted to be around 6 percent over the coming year, down from the

6.5 percent rate forecast in the budget. In other words, while the economy is not growing as fast as estimated at the time of the budget, unemployment is predicted to fall from the previous forecast.

How much this is due to dubious data on employment and unemployment rates, which have been severely criticised in recent times as being completely unreliable, based as they are on sample surveys, and how much is due to changes in the underlying economy is not completely clear.

The unreliability of the figures was underscored by the November report of the Australian Bureau of Statistics which showed that unemployment fell slightly to 5.8 percent and that 127,500 jobs had been created in two months. This was the largest two-month gain in 28 years—hardly believable under condition of major job losses in the mining sector as well as job shedding across the economy.

But even the shaky official jobs and growth estimates point to a far-reaching transformation in the structure of the Australian economy.

Throughout his press conference, Morrison stated that the Australian economy was in "transition" from dependence on mining to a more "broad-based" economy. What this actually involves is indicated by the figures on jobs and wages. If the MYEFO predictions of a fall in the expected unemployment do eventuate, it will only be as a result of the growth of low-paying part-time employment.

A total of 344,000 jobs have been created in the past year but two-thirds of these have been part-time and at low pay. According to the co-head of Australian economics at the ANZ banking group, Felicity Emmett, around three jobs need to be created in the services sector to make up the spending for one job lost in mining, with six jobs needed in hospitality industries.

Emmett told the *Business Spectator*: "The income story is a structural one. So many of these jobs that are being created are lower paid and part time so we're not getting that boost to household income that you would normally expect from such strong employment growth."

Underscoring the fact that jobs growth does not signify economic expansion, male fulltime employment actually fell by 5,800 in November.

A further expression of the real state of the economy is in the wages data. Wages in money terms are growing at about 2 percent a year. But in real terms wages per hour have been unchanged for the past four years, despite increases in productivity. This indicates that employers are not facing pressure for wage rises because, in their daily experiences, workers confront a real level of unemployment not reflected in the official statistics.

Responding to the cuts, opposition Labor leader Bill Shorten said the deficit figures showed the government was "on the road to nowhere" with no prospect of improvement and was "proposing the harshest cuts to the people least able to protect themselves."

But the central thrust of Labor's position was to attack the government from the right over the deficit. Shadow treasurer Chris Bowen said Prime Minister Turnbull and Morrison had "presided over a budget deficit blowing out at the rate of $120m a day since the last budget" and the government had no plan to bring it back to surplus.

This is in line with the Labor strategy to present itself to the financial elites as the best option to implement their demands for an austerity agenda.

"Deficit reduction and returning to surplus was at the heart of this Liberal government, and it begs the question: if they have no plan to return to balance, what is the point of the Turnbull government?" Bowen said.