

Australian Labor shadow treasurer foreshadows post-election spending cuts

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Labor's treasury spokesman Chris Bowen has emphasised that the economic policy of an incoming Australian Labor government will be completely beholden to international financial markets. In his reply address to the National Press Club on the Turnbull government's recent budget, he committed to bringing down a mini-budget within 100 days of coming to office, in order to preserve the country's AAA credit rating.

Bowen attacked the Turnbull government for failing to provide any concrete measures to reduce the budget deficit and government debt, amid growing concerns that international agencies may be getting ready to shift the country's rating downwards.

Bowen said the government's budget relied on "extremely shaky foundations" regarding economic growth, along with unrealistic assumptions about iron ore prices, in order to project a path back to surplus. In a clear commitment to introduce spending cuts, he said the government's contribution to deficit reduction was only \$1.7 billion over the next four years, amounting to just 0.02 percent of Gross Domestic Product, and that almost the entire return to surplus was "built on assumptions and projections about the economy, not on decisions to alter the direction."

He noted that the budget was based on the assumption of \$US55 per tonne for iron ore exports while other projections assessed the price at around \$US40 per tonne. Noting that every \$1 change affected government revenue to the tune of \$1 billion over four years, he declared that the budget had created \$16 billion in revenue "with the stroke of a pen."

Criticising the government for having "no clear plan" to return the budget to surplus, he said budget repair had to be based on tough decisions, and the Labor party was seeking a mandate to do "difficult things."

Emphasising the centrality of maintaining the country's AAA credit rating, Bowen insisted that the best strategy was "don't lose it." "If it means dropping ideological leanings and reducing the deficit through both spending and revenue decisions you do it."

This was a clear signal to the financial elites that Labor's commitment to "fairness" is so much populist election rhetoric and that a Labor government will implement their dictates for major attacks on vital spending in areas such as health, education and social services.

"I don't pretend that achieving our priorities, defending the AAA rating at the same time as having proper investment in schools and funding of hospitals will be easy. It won't. But it is precisely because of the degree of difficulty that we have to be both detailed and bold when it comes to budgetary policies," Bowen said.

He left no doubt as to where the central priority would lie. A May budget next year was too long to wait in advancing the government's policies and so the Mid-Year Economic and Fiscal Outlook would be brought forward from December 2016 to three months after a Labor government came to office. It would be based on figures supplied by the Parliamentary Budget Office "to reflect a realistic assessment of key economic parameters."

In effect, this means the Labor Party has already committed, just three days into the election campaign, to bring down a mini-budget based on an assessment that the economic situation was far worse than expected, requiring major cuts to social spending. Significantly, during question time after his address, Bowen refused to give details of any plans to restore cuts of \$57 billion to hospital funding—the result of decisions taken by the Abbott Coalition government in its 2014 budget—saying Labor would release its hospital

plan later in the campaign.

This followed an earlier evasion by Labor leader Bill Shorten during a television interview on Budget night last week, when he refused to place any dollar amount on money to be made available to the states to turn back the cuts in hospital spending.

Bowen was, however, very firm on one commitment: support for the Turnbull government's massive build-up of defence spending. This was laid out in the budget as part of Canberra's commitment to the US war drive against China under the Obama administration's "pivot to Asia." Answering a question on defence spending, Bowen said Labor had "very little difference" with the government.

While Labor espouses populist rhetoric over "fairness," and the government's support for high income earners and big business, through its plan to reduce the corporate tax rate from 30 percent to 25 percent over the next decade, the kind of discussions underway behind the scenes was indicated in a major article by former Labor government minister Craig Emerson, published in the *Financial Review* on Tuesday.

Emerson, who now works as an adviser to the global accounting and business consultancy firm KPMG, wrote that the recent decision by the Reserve Bank of Australia to cut its base interest rate to an historic low of 1.75 percent, because of consumer price deflation, was "a symptom of a deeper malaise afflicting the global economy as it spreads to Australia."

"Whatever party wins the federal election will face a grim reality—it will be governing in an era of weak global growth that is certain to drag down the Australian economy," he wrote.

The world economy had failed to achieve a sustainable recovery after the Great Recession of 2009 and there was now a "formidable array of forces" preventing any prospect of recovery in the foreseeable future.

Emerson noted that during the course of this year so far, three of the world's major economic agencies—the International Monetary Fund, the World Bank and the Organisation for Economic Cooperation and Development—had all revised downwards their estimates for growth, repeating the pattern set in place since 2009.

What growth had occurred was a result of the

unprecedented easing of monetary policy by major central banks, meaning that the "global economy is on life support..."

"Economic lethargy in the developed world has revived fears held during and after the Great Depression that the economic system might eventually reach permanent stagnation," Emerson continued. Real wages were flat, choking off consumer spending, productivity growth in the developed world had stalled, and high and rising levels of household and government debt had to be repaid.

"A profound shift in federal government policy-making is needed if Australia is to be shielded from the most severe effects of global economic torpor," he wrote.

Emerson's comments are a preview of the kind of "justifications" that will be advanced by an incoming Labor government as it takes the axe to its previous commitments—in line with the dictates of global financial markets and transmitted via the credit rating agencies, whose warnings Bowen placed at the centre of his National Press Club address.



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