

Global agencies demand deeper budget cuts in Australia

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Australia's latest budget update, released yesterday, predicts a sharp economic slowdown and further blowouts in deficits for the next five years. It triggered renewed demands by big business, the media owners and the global credit ratings agencies, representing the world financial markets, for brutal cuts to social spending.

Although the three principal agencies—S&P, Moody's and Fitch—left the country's borrowing rating at AAA, they placed Prime Minister Malcolm Turnbull's government and the entire parliamentary establishment on notice to deliver deep cuts in next May's budget.

Markets analysts said the government had barely “kept the wolves at the door” and this was merely a “stay of execution.” They warned of a downgrade unless the government could impose S&P's demand for “forceful” cuts, preferably with the assistance of the opposition Labor Party, which this year has already helped push through parliament spending cuts worth \$22 billion over four years.

S&P stated that it did not believe the government's assurances that it could still eliminate the annual budget deficit of nearly \$40 billion by 2020-21. “We remain pessimistic about the government's ability to close existing budget deficits and return a balanced budget by the year ending June 30, 2021,” it said.

An air of unreality hung over the government's Mid-Year Economic and Fiscal Outlook (MYEFO) because of the worldwide uncertainty in the wake of the election of Donald Trump as US president. Trump has threatened trade war measures against China, which is the largest market for the commodity exports on which Australian capitalism's fortunes depend extremely heavily.

In the anodyne words of the MYEFO report, “the outlook for global growth remains uncertain.” Buried away in an appendix, under the heading of “risks,” the document states: “To the extent that unanticipated changes in economic circumstances occur, their impact

will flow through to government expense and revenue forecasts.”

Even on the government's own optimistic assumptions, the MYEFO forecasts an ongoing slump. It foreshadows a further cut to federal tax revenues of some \$30 billion more over the next four years than was admitted in last May's budget, just seven months ago.

May's economic growth forecast for 2016-17 has been downgraded from 2.5 percent to 2 percent, but this figure itself is dubious, given that the economy officially contracted by 0.5 percent in the September 2016 quarter, and entire regions of the country have been in recession for several years.

The biggest single factor in this downgrade is the lowest wages growth for decades, eroding income tax revenue. The MYEFO predicts that real wages will rise by just 0.5 percent this year and next. This figure indicates that substantial wage cuts are occurring throughout the working class, alongside soaring executive pay.

Behind these wage cuts is pressure of rising levels of unemployment and underemployment. The relentless destruction of full-time jobs, via mine and industrial closures and cost-cutting corporate restructuring has accelerated since the 2008 global financial breakdown.

There are now 51,000 fewer people employed full-time than there were a year ago. Most of the damage has been inflicted on young people. Full-time employment for 15- to 19-year-olds dropped by 15 percent in the past year and by 6 percent for 20- to 24-year-olds.

Only 39 percent of people aged 20-24 now work full-time—down from 54 percent before the 2008 crisis. The proportion of 15- to 24-year-olds working full-time is now the lowest recorded in Australia during the post-World War II period.

The government largely won its “stay of execution” by outlining more cuts to welfare and students. These include \$13 billion from child care benefits, aged pensions and

carers' income support over the next four years, \$7 billion from vocational education loans to students and \$3.7 billion from a crackdown on alleged welfare overpayments. Jobs and training programs will be cut by \$450 million, while criminal fines will be increased in value by almost 20 percent, raising \$90 million.

These measures enabled the government to claim that, despite its \$30 billion revenue slump, the budget deficits will blow out by "only" \$10 billion to \$94.9 billion over four years. Yet even that forecast makes a mockery of the government's pledge to the markets to produce a budget surplus by 2020-21.

The forecast deficit in 2019-20 has worsened from \$5.9 billion to \$10 billion, highlighting the difficulty of posting a surplus in the following year. Likewise, the deficit for 2018-19 was increased to \$19.7 billion. It was originally estimated at \$6.9 billion in last year's budget, then increased to \$15.4 billion in this year's budget.

Similar blowouts have occurred in the past 12 consecutive budgets and MYEFs. Empty promises of returning to surplus have been made since 2010, first by the Labor government until 2013 and then by the current Liberal-National Coalition. The *Australian's* contributing economic editor Judith Sloan observed that the pledges were based on "Pollyanna figures."

This year, precisely because of the global turmoil, the government did not try to make revenue projections based on this year's uptick in global iron ore and coal prices, which could reverse rapidly if China's economy falters. However, the government still made unrealistic assertions, including that the mining investment collapse will abate and that the unsustainable property bubble will continue to shore up residential construction in Sydney, Melbourne and Brisbane.

Economic forecaster BIS Shrapnel's Adrian Hart, said: "The decline of only 12 percent in mining investment in 2017-18 looks too small." BIS Shrapnel expects a 26 percent slide this year, 24 percent next and 17 percent in 2018-19. It also predicts a 5 percent decline in housing investment by 2017-18, with a worse drop the subsequent year.

While the working class—particularly the young and most vulnerable—are already bearing the burden of the economic reversal, the government is pushing ahead with the key planks in its "jobs and growth plan." They consist of company tax cuts worth \$50 billion over a decade, military spending of \$195 billion over the same 10 years, and programs to coerce young workers into low-wage "internships" as cheap labour for the corporations.

The government is also preparing for war, with a massive spending program on submarines, warplanes and other weaponry. Defence Industry Minister Christopher Pyne last week declared in Cherbourg, France, where Australia's new fleet of submarines will be designed: "We are a very wealthy country, as a consequence we have a responsibility to do our part to, as Donald Trump says, not be strategic bludgers but actually lift our percentage of spending of GDP to 2 percent, which we'll do by 2020-21."

To pay for tax cuts and military spending, the Liberal-National coalition government is under pressure to make deep inroads into social programs despite widespread hostility to the austerity agenda that has been enforced by Coalition and Labor governments alike.

Prime Minister Malcolm Turnbull called a rare double dissolution election last July 2 in a failed bid to break through a parliamentary logjam produced by the opposition parties' fear of electoral backlashes and social unrest. Instead the election reduced the government to a wafer-thin majority of one seat in the lower house and saw a record vote against the main establishment parties—the Coalition, Labor and the Greens—in the Senate. Despite their claims to be "anti-elite," the right-wing populists elected to the Senate helped the government survive to the end of the year, voting for key spending cuts. But the financial elite is demanding far more savage measures.

Corporate media editorials today again voiced frustration with Turnbull's failure to deliver this agenda, and appealed to the Labor Party to join hands with the government. The *Australian* declared: "Once again we see deficits widen and debt deepen. Once again we see incremental budget repair and an unambitious reform agenda in the face of obstructionist opposition. The song remains the same; it is a dirge."



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