Enormous debt crisis looms amid Australian state election campaign

John Wilson
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The state election campaign in Victoria has seen the incumbent Labor government and opposition Liberal Party issue various spending promises. Neither party has discussed the real agenda of severe austerity spending cuts that will follow the election this Saturday, regardless of which of them wins government.

State debt is the highest in the country, and is projected to reach $165.4 billion in 2026, more than the combined debt of New South Wales, Queensland and Tasmania. Both parties have been put on notice that this must be addressed through spending cuts.

An editorial in the Murdoch-owned *Herald Sun*, “Shocking debt will burden us for decades,” noted that “the ballooning debt is spiralling out of control.” It demanded: “Both major parties must set out how they are going to bring our debt under control and produce a specific timeline for paying it down.”

Instead, however, the election campaign has been conducted with scant discussion of the looming crisis. Both Labor and Liberal hope to get through the election only to “discover” the problem afterwards and declare the need for emergency cuts. This would follow the model of the Australian federal election in May, where Labor was elected with promises that things would be “better” only to announce a week after that poll that workers had to “make sacrifices” and accept budget cuts and declining real wages.

The Victorian Labor government of Premier Daniel Andrews claimed in October that the state budget will return to surplus by 2025–26, through projected economic growth at 3 percent per year for the next four years. Treasurer Tim Pallas likewise insisted that the growth in debt would not be an issue because “as our economy grows, our capacity to deal with our liabilities grow.” These projections, however, are based on fanciful assumptions of economic growth that presume no negative impact from the ongoing US-NATO proxy war against Russia in Ukraine, the increase in global interest rates or the effect of the next waves of the COVID-19 pandemic.

Since April, the Reserve Bank of Australia (RBA) has lifted official interest rates seven times to 2.85 percent and market forecasts estimate it will reach 4 percent by the middle of 2023. The RBA has made clear it is prepared to keep lifting interest rates, inducing a recession if necessary, in order to oppose wage demands of workers which are expressed in the surges of strikes and industrial action as workers are only offered below inflation wage “rises.”

The Victorian budget will face increased debt servicing costs, with interest payments due to rise to $7.3 billion by 2025–26 or 6.4 percent of total revenue, an increase of $1 billion from the previous forecast made only six months ago. If global interest rates continue to rise, debt payments will increase further.

Spending cuts have already been made. Total state government spending will reach almost 20 percent of gross state product in 2022, and is projected to fall back to 14 percent by 2026. Melbourne, the state capital, had one of the longest COVID-19 lockdowns in the world at over 100 days. Growth in government expenditure over the past two years, to $99.5 billion in 2021–22, was directly tied to the COVID pandemic, including via massive public subsidies to corporations. Expenditure is projected to fall by $10 billion to $89.8 billion in 2022–23.

Inflation will be one mechanism for state governments in Australia to reduce deficits. Economist Chris Richardson told the Australian *Financial Review* in October, “Inflation is the friend of state budget ... it equals more money for the states through GST.”

Twenty-one percent of government revenue comes from the regressive Goods and Services Tax (GST) on consumption. This tax of 10 percent on everything except fresh food and health care hits hardest those who must spend all their income to survive. Victoria's GST income is projected to increase by 18 percent to 21.7 billion by 2025–26.

Because the levels of private debt in Victoria are among the highest in the world, particularly housing debt, interest rate rises are ravaging workers' incomes. Since May, repayments on a 25-year $500,000 mortgage, less than half the average price of a house, have risen by $760 per month.

The combined impact of rate rises and inflation is already being exposed with the collapse of a number of home builders and a drop off in new apartment construction. In July, at the start of rate rises, the Australian Bureau of Statistics reported total dwelling unit commencements were down 6.5 percent over the previous quarter and home commencements had fallen 11.1 percent.

The Andrews government has promoted its infrastructure spending measures as a means to make up for declining corporate investments. The state is investing $21.6 billion a year in infrastructure over the next four years, and has $184 billion in capital works projects underway or commencing in 2022. Ongoing large-scale construction projects include new freeways, replacement of 110 railway level crossings, a new metro line through the Central Business District, and a rail line to the airport and regional rail project. The government also plans to construct over the next 50 years a 90 kilometre suburban rail loop that is projected to cost $100 billion.

These pro-business plans do nothing to resolve the shortfall of basic infrastructure and social services in outer working-class suburbs. Melbourne, Australia's second largest city, has nearly 5 million residents and its population is projected to surpass Sydney's by 2030. Both cities have significant urban sprawl as workers have moved to outer suburbs to find affordable housing.

The lack of rational planning is highlighted in the suburban "growth corridors" which suffer from a lack of public transport and other basic amenities such as schools. To take just one example, an ABC report this month revealed that Williams Landing, with over 9,448 residents, has no primary school. Families are forced to cross the busy Princes Freeway twice a day to get children to schools in Laverton. The suburb also has few bus services.

After the election, the working class will confront a stepped up assault on its living conditions. The last austerity offensive pursued by a Victorian state government was in the 1990s under Liberal Premier Jeff Kennett. That included the forcible closure of more than 300 schools and the sacking of 50,000 public sector workers. The coming spending cuts may prove to be even worse.

The Institute of Public Affairs last month issued a report, "Victoria on the Edge: Debt, Deficits, and Unsustainable Growth," which noted: "Unlike the 1990s, the sale of public assets to pay down the debt and reduce the deficit is not available as an option, as major public assets have already been sold and their proceeds spent."

Already, the Andrews government has carried out significant attacks on the working class, including through the imposition of the profit-driven "let it rip" COVID policies. It maintains a punitive wage cap for public sector workers, recently forcing through pay rises of less than two percent per annum for public school teachers and doing nothing to address the crisis in the schools and hospitals.