Australian government pledges to keep slashing spending

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The Labor government's Mid-Year Economic and Fiscal Outlook (MYEFO), handed down yesterday, foreshadows deeper cuts to social programs, inflicting more financial pain on working-class households while boosting corporate subsidies and military spending to satisfy the financial elite.

In delivering the mid-year budget update, Treasurer Jim Chalmers said there were difficult decisions in it, but there would be "more to come." Anxious to meet the demands of the corporate elite, he framed the document as being "all about delivery, responsibility and restraint." It was about "ensuring that responsible economic management continues to be a defining feature of this Albanese Labor government."

By "responsibility," Chalmers meant that the government had found an extra $20 billion in "savings and reprioritisations" in the update. He boasted that Labor had far outdone the previous Liberal-National government in cutting spending, saying it had taken the Coalition seven mid-year updates to find $20 billion in cuts.

Chalmers avoided the word "austerity," but foreshadowed cuts for the rest of the decade, pledging to keep beating the Coalition's record. "We've kept average real spending growth to 1.7 percent over the seven years to 2028–29, compared to our predecessors who averaged 4.1 percent," he said.

That 1.7 percent figure barely matches the rate of population growth, without taking into account the higher costs of an ageing population. So more "difficult" decisions are being prepared.

The Treasury has upgraded its inflation forecast from the government's March annual budget, from 3 percent to 3.75 percent. That is above the forecast 3.25 percent rise in wages, thus continuing a decade of declining real pay for workers. At the same time, the official jobless rate is now expected to rise from 4.3 to 4.5 percent in 2026, which means 34,000 more unemployed.

According to Chalmers, the largest savings will come from the public service—$6.8 billion over four years. He said that would come from reducing reliance on consultants and by cutting down on travel and non-staffing expenses. Job cuts are inevitable, however. He also pledged to "unlock the full potential of AI in public service delivery."

Chalmers said the next biggest saving, $6.7 billion over four years, would come from curtailing the government's home battery subsidy program. That will add to the burden on households from the earlier announced decision to terminate the $300 a year electricity bill rebates that slightly eased the cost-of-living crisis over the past 18 months.

Electricity prices have jumped already by 37 percent in 2024–25, fuelled by energy company profit-gouging and the termination of similar state government rebates.

The MYEFO documents deliberately avoid providing details of other spending cuts, but disability services are a major target. The National Disability Insurance Scheme (NDIS) growth rate is forecast to fall from 8.1 percent to 7.6 percent, and the government says it needs to fall to 5 to 6 percent to remain viable. That means cutting thousands more people, particularly children, from support services.

Having boasted of already finding "$100 billion in savings" in Labor's first three years in office since 2022, Chalmers assured the financial markets that the Labor government will keep cutting spending, even while it is pouring hundreds of billions of dollars into the AUKUS pact and other military spending in preparation for a US-led war with China.

The MYEFO statement also outlines another wave of subsidies being handed to corporate giants for projects such as renewable hydrogen, "green" metals, critical minerals, "clean energy" manufacturing, aluminium and copper smelters and timber mills.

By contrast, there was no mention of increased military spending, except for the commitment of an "initial" $12 billion over 10 years toward constructing an AUKUS-related Defence Precinct and port at Henderson, a Perth suburb in Western Australia.

The Trump White House has publicly demanded huge increases to military spending by the Australian government, from a little over 2 percent of gross domestic product, to 3.5 percent and then 5 percent. That would boost annual military spending from the current record of $59 billion, to over $100 billion.

At meetings in Washington this month, the representatives of the US, UK and Australia pledged to proceed at "full steam" with the AUKUS pact, which is militarising the Indo-Pacific in preparation for war against China.

Already, Labor has committed to providing $4.5 billion in handouts for the AUKUS submarines, half of which has been transferred, and to spending $368 billion on AUKUS over the lifetime of the agreement. That will inevitably involve even greater cuts to social programs.

Despite Labor's spending cuts, the MYEFO figures indicate an intensifying economic crisis, with budget deficits and rising public debt for the foreseeable future.

Chalmers claimed an improvement in the 2025–26 deficit, down from $42 billion in the government's March budget. Yet the new estimate of $36.8 billion would still be the ninth-largest deficit in nominal dollar terms on record.

Much of the improvement is due to higher than forecast prices for two exports on which Australian capitalism depends—iron ore and gold. Iron ore prices were assumed in the March budget to fall from around $US100 ($A150) a tonne to $US60 ($A90) a tonne by the first quarter of 2026. Instead, iron ore is currently selling at $US106 a tonne. A 60 percent jump in world gold prices has also lifted government revenues.

But these prices could fall, given the volatility of global markets. Westpac bank warned yesterday that the iron ore price will plunge 20 percent to $US83 a tonne next year, as China slashes its steel output and a wave of fresh ore supply hits the global market.

The latest deficit forecast remains a $26.8 billion increase over figure for the 2024–25 financial year. That is a sharp reversal. Over the next four years, forecast total deficits have been revised down by $8.4 billion, from $151.9 billion to $143.5 billion, but gross debt is still likely to cross the $1 trillion mark during that period.

The MYEFO papers throw doubt on the global economic outlook, describing it as "highly uncertain." There are "downside risks from global trade disruptions, conflict and geopolitical tensions and more persistent inflation in major advanced economies," all of which are "adding to uncertainty and economic fragmentation."

Just before the budget update, Reserve Bank of Australia Governor Michele Bullock was more blunt. In an interview with Nine Media newspapers, she warned the next five years could be marked by a slow-moving global economic decay as Trump's tariffs and other policies to "make America great again" translated into higher costs and slower growth.

Bullock said that while the central bank's day-to-day focus was on China and the broader Asian region, the economic issues emanating out of the US were a harbinger of tougher times ahead.

Her remarks point to the basic dilemma facing Australian capitalism. China is its largest export market, primarily for iron ore, coal and gas. Yet the Albanese government, in line with previous governments, is fully committed to the US military alliance and preparations for a US-led war against China for global hegemony.

As a result of Trump's tariff war and China's slowdown, a downturn is already emerging. Australia's latest gross domestic product figures showed zero growth of production per person in the September quarter of 2025. This is accompanied by rising inflation and low levels of big business investment, except for AI-related data centres.

Corporate media outlets are demanding that the government go much further in cutting social spending. Today's *Australian* editorial declared the MYEFO a failure. "The government is yet to face the fact that taxpayers are not a money tree to fund largesse to Labor's favoured constituencies," it stated, particularly singling out spending on the NDIS, childcare, pensions and mental health programs.

The editorial concluded: "Entrapped in a vortex of big spending, only productivity improvements can deliver the returns and prosperity to create the major financial gains the budget and the nation need." In plain language, that means driving up the rate of exploitation of the working class, at the expense of jobs and conditions, while gutting already inadequate programs on which millions of working-class people depend to barely survive.

Labor won this year's May election by posturing as opponents of a Trump-style agenda, but the contradictions facing the government and the entire ruling class are mounting, fuelled by Washington's aggressive drive to restore US dominance. This will drive a more frontal assault by the Labor government and its partners in the trade union bureaucracies against working-class jobs and conditions, fuelling growing discontent.