Falling tax revenues deepen Australian budget cuts

By Mike Head
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Collapsing tax revenues have underscored the unprecedented magnitude of the cuts that the Gillard government must make to fulfil its commitment to the global financial markets to produce a surplus in the 2012-13 budget, due to be delivered on May 8.

Falling commodity prices, combined with the slump affecting much of the non-mining Australian economy, have caused sharp downturns in revenue, including from corporate and goods and services taxes.

Treasurer Wayne Swan last week declared that the government would have to "work much harder to find extra savings in the Budget," after Treasury papers revealed a further $2 billion fall in revenue since previous estimates at the end of February.

Even before that revenue downgrade, the government had pledged to carry out the greatest budget reversal in dollar terms in Australian history, transforming a deficit of $40 billion or more into a surplus. That sum amounts to over 10 percent of all government spending, or more than the entire federal budget for education (about $30 billion).

In a speech to a Western Australian business function, Prime Minister Julia Gillard last week insisted that a surplus was a "fundamental economic imperative." While arguing that the cuts would allow the Reserve Bank to reduce official interest rates, she made clear that her government's highest priority remained satisfying the demands of the global markets. It was essential, she said, to send a message that Australia had a government that "manages money prudently."

Interviewed on Australian Broadcasting Corporation radio, Treasurer Swan hinted at the pressure being applied by the markets. "Given the global uncertainty, a surplus is more important than ever," he stated. "International financial markets certainly understand that and the IMF absolutely understands that." The International Monetary Fund had just released a report warning that the Australian economy was vulnerable to global shocks and unpredictable commodity prices.

Reflecting the position of the credit ratings agencies, Matthew Circosta, an economist at Moody's Analytics in Sydney, told *Bloomberg Businessweek*: "There are big question marks over whether the government will actually manage to return the budget to surplus next fiscal year as recent history has seen it fail to meet fiscal estimates."

In order to assuage the markets, Gillard and her ministers have rejected criticism by other sections of business, particularly in the manufacturing, retail, tourism and property sectors, that spending cuts on such a scale will produce an outright recession. Among the latest comments, former Commonwealth Bank of Australia chief executive Ralph Norris last week called the government's pursuit of a surplus "mindless" and a major threat to the economy.

Summing up the corporate concern, *Age* economics editor Tim Colebatch told ABC radio: "We've got a lot of Australia on the brink of recession, if not in it. The danger is that this will push them over the brink into recession, with unemployment rising, growth falling and this in turn will mean that the government will not get the budget surplus it wanted anyway."

The revenue slippage highlights the over-optimistic forecasts in last year's budget, which assumed continuing record commodity prices, high rates of growth in China and a return to growth in Europe and the United States. That budget promised to halve the 2010-11 deficit of nearly $50 billion to around $26 billion for 2011-12, but the prognosis was undermined by the slowdown in China, the financial turmoil in Europe and the ongoing stagnation in the US.

Last year's budget slashed $22 billion from spending over four years, an amount now dwarfed by what the May 8 budget must do in one year. This inevitably means making deep inroads into basic social programs, such as health, education, housing and welfare. Labor began that task in the last budget, which targeted the most vulnerable members of the society—the unemployed, single parents and the disabled.

By cutting welfare entitlements, the government is also intensifying the pressure on welfare recipients to accept low-paid, insecure employment. It is backing the major corporations, such as Qantas, BlueScope Steel and Toyota, in aggressively restructuring their operations to compete with the new cost-cutting benchmarks being set internationally.

The class logic of these processes was spelled out last week by shadow treasurer Joe Hockey. In a speech delivered in London, he declared that the "age of entitlement" to welfare benefits was over for Western countries. In the "Asian century," they had to match their Asian competitors, where there were no welfare safety nets. He gave as an example, Chinese-ruled Hong Kong, where he said no welfare benefits existed and the top income tax rate was just 17 percent.

Gillard and members of her cabinet feigned outrage at Hockey's call, but the record shows that their own measures are aimed against those on welfare, as well as the government agencies on which they rely, such as Centrelink and Medicare.

In a foretaste of the much greater cuts to come, federal government departments have announced the elimination of almost 2,000 jobs in the past three months. They include the departments of education (500 jobs), human services (470), climate change (300), treasury (150), resources (100) and veterans affairs (90), as well as the Bureau of Statistics (75), the Fair Work Ombudsman (70) and ComSuper (50).

These cuts, driven by the government's demands for an elevated "efficiency dividend" of 4 percent in 2012-13, are leading to longer queues and associated problems for people seeking access to government services. In a trade union survey of Centrelink frontline staff, 82 percent said waiting times had increased.

Cultural facilities and agencies are also suffering, with a total of at least 55 jobs to go at the National Gallery of Australia, the National Library, the National Film and Sound Archive and the National Museum.

So far, the Community and Public Sector Union (CPSU) has been able to contain the rising discontent among public sector workers by appealing to the government to implement its job destruction via so-called voluntary redundancies. In February, for instance, the union "strongly welcomed" a pledge by the education department to avoid forced retrenchments. The far deeper cuts to come in this year's budget, however, will throw into doubt the union's capacity to control rank and file resistance.

Echoing the concerns of business, the Greens have joined in calls for the minority Labor government, which they sustain in parliament, to soften its surplus pledge, even if only slightly. Interviewed by the ABC, the newly-installed Greens leader, Christine Milne said "whether the budget is in surplus by a few billion either side of the line" would make little difference to Reserve Bank interest rate settings.

Milne hastened to add that the Greens would not withdraw from their agreement to support the government, and stood ready to back "responsible" budget decisions to reduce spending. The Greens have no real differences with the Labor government when it comes to imposing the burden of the global economic breakdown since 2008-09 on the back of ordinary working people, and remain intent on propping up the government as it intensifies its social assault.