Workers, austerity, and the 2014 federal Coalition budget

Presentation to the ‘Bust the Budget’
All-Delegates meeting in Sydney (12 June, 2014)

Dr Shaun Wilson
Department of Sociology
Macquarie University
To start: Is public debt always a bad thing?

- The Coalition says that debt and deficits are threatening Australia’s future.
- Their argument assumes that Australia’s public debt is very large and will risk a credit downgrading, and higher interest rates.

- Using official statistics, I will show you that Australia does not have a debt or deficit problem.
- Deficits and debt are sometimes ‘good’ and ‘necessary’ when they help generate economic activity.
- Used well, deficit budgets can fund jobs and growth for the future.
Australia’s public debt is very low & rising slowly (figure from: https://theconversation.com/the-state-of-australia-the-economy-26230)
Australia’s economy grew strongly through the GFC under Labor (figure from: https://theconversation.com/the-state-of-australia-the-economy-26230)
Australia had a small budget deficit when Labor left office in 2013 (OECD 2013)
Why did the deficit emerge in the first place?

- It is true that the Coalition ran small surpluses over its term in office.
- But they presided over a period of record terms of trade (nothing to do with the Howard government), so company tax receipts were very high during the 2000s.

- The Howard government gave a lot of the money away in tax cuts of various kinds—and the OECD noted that the cuts favoured the wealthy (SMH 2008).
- The Australia Institute estimate around $40 billion in Howard-era tax cuts would have paid for Gonski education reforms and the NDIS.
Actually, the federal government doesn’t have a spending problem…

It has a revenue problem, partly because tax cuts to the wealthy by the Howard government in the 2000s were too generous (SMH 2008) and partly because company tax receipts are down in harder times.

If taxes are too low, we can’t pay for services or balance the books.


(Table 4; total receipts to GDP) → this figure basically maps our falling (not rising) taxes
So .. why is the Abbott government insisting there is a crisis?

- The Coalition has a formula for governing.
- It frames its first budget around the narrative of cleaning up Labor’s mess, etc.
- It uses this frame to build public support for cutbacks to policies it does not like, usually to promote smaller government & privatisation of government services.

- The Government’s Commission of Audit was a way of developing policy at ‘arm’s length’.
- This year, the Commission’s report basically called for the dismantling of Australia’s welfare state and severe cuts to the minimum wage (which is already falling in relative terms).
- Business leaders dominated the Commission.
Some of the worst measures in the budget

Medicare ‘copayment’ of $7.

The government is not that concerned about raising money from the copayment. My view is that the real intention here is the privatisation of primary health insurance over the long run, and it’s all about getting people used to pay for primary health care.

Reason: Private insurers have a strong interest in gaining access to the primary insurance market (effectively controlled by Medicare).

By getting people used to paying for the doctor, the Government can prepare Australians for a privatised health system.

Young people without any income support/ access to Newstart.

- Newstart is already very stingy (one of the meanest payments in the OECD)
- Government has budgeted for 550,000 young people receiving emergency payments in next four years.
- Joe Hockey argues: “We're putting a huge number of safety nets in place - we hope none of the safety nets need to be used”
- This claim is hard to reconcile with the government’s proposals.
Newstart is hardly generous…when compared to other rich countries from Morris and Wilson (2014: 6)

Table 1. Net replacement rate of Australia’s unemployment benefit compared, 2011 (%).

<table>
<thead>
<tr>
<th></th>
<th>Initial phase of unemployment</th>
<th>Long-term unemployment (60th month)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Single, no children (100% AW)</td>
<td>Two children (1 earner couple at 100% AW)</td>
</tr>
<tr>
<td>Australia</td>
<td>28</td>
<td>58</td>
</tr>
<tr>
<td>English (5)</td>
<td>47</td>
<td>70</td>
</tr>
<tr>
<td>Conservative (7)</td>
<td>64</td>
<td>74</td>
</tr>
<tr>
<td>Southern (3)</td>
<td>56</td>
<td>65</td>
</tr>
<tr>
<td>Nordic (4)</td>
<td>56</td>
<td>76</td>
</tr>
<tr>
<td>East Asia (2)</td>
<td>50</td>
<td>62</td>
</tr>
<tr>
<td>OECD Median</td>
<td>57</td>
<td>72</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Single, no children (100% AW)</th>
<th>Two children (1 earner couple at 100% AW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>28</td>
<td>58</td>
</tr>
<tr>
<td>English (5)</td>
<td>47</td>
<td>70</td>
</tr>
<tr>
<td>Conservative (7)</td>
<td>64</td>
<td>74</td>
</tr>
<tr>
<td>Southern (3)</td>
<td>56</td>
<td>65</td>
</tr>
<tr>
<td>Nordic (4)</td>
<td>56</td>
<td>76</td>
</tr>
<tr>
<td>East Asia (2)</td>
<td>50</td>
<td>62</td>
</tr>
<tr>
<td>OECD Median</td>
<td>57</td>
<td>72</td>
</tr>
</tbody>
</table>


AW: average wage; OECD: Organisation for Economic Co-operation and Development.
Net replacement rates are defined in footnote 4. Calculations based on data, including housing and other social benefits; 100% of AW data used in all comparisons. English welfare states = Canada, Ireland, New Zealand, United Kingdom and United States. Conservative welfare states = Austria, Belgium, France, Germany, Italy, The Netherlands and Switzerland. Nordic welfare states = Denmark, Finland, Norway and Sweden. Southern welfare states: Greece, Portugal and Spain. East Asia welfare states = Korea and Japan. Some figures for Greece and Italy use 2 children, 2-earner data reports.
What is meant by austerity?

- **Austerity** involves cutting social spending and reducing public investment as a solution to deficits and low growth.
- Privatising public assets usually follows.
- It is a **dangerous policy that makes recessions worse**, but business and the financial markets see it as ‘necessary’ to restore financial health. They make money from privatisation and poor workers desperate for work.

- Nobel laureates in economics, Paul Krugman & Joseph Stiglitz, have spoken out against the dangers of austerity for the economy.
- In the long run, harsh budgets will lead to more severe unemployment, inequality and poor government services—even when ‘growth’ recovers.
Austerity in Europe: the case of Greece

- Greece has had the worst experience of austerity, with severe cuts to its public sector as part of an EU-financed bailout.

- Epidemiological (health) research shows a clear link between severe cutbacks and rises in health and social problems.

- Explosion of health/social problems in Greece.

For more → Stuckler and Basu’s new book, *The Body Economic*.

Figure 1 from Wolf (2013).
Why is this budget a key moment for the union movement?

Now, we might say: this isn’t a trade union matter; let’s leave it to the federal Labor Party to oppose.

or…let’s not worry too much because the Senate will block the worst of it…

- But … the budget attacks the foundation stones of Australia’s social democracy. Among other things:
- It has seriously undermined Medicare, which was an achievement of the union movement’s Accord in the 1980s.
- It threatens to produce US-style poverty conditions for young Australians who depend on, and will now miss out on, unemployment benefits.
- It badly undermines federal responsibility & resources for public health and education.
Let’s use John Howard’s criteria for fairness in budgets and reforms

- The Australian public rejected John Howard and the Coalition’s aggressive workplace reforms called WorkChoices in the 2007 elections.
- Over time, he proved a strong critic of unions and the causes and interests they support.
- But, in a recent speech, the former PM made a sensible observation:

  "They [the Australian public] will respond to an argument for change and reform [but] they want two requirements. They want to be satisfied it's in the national interest, because they have a deep sense of nationalism and patriotism. They also want to be satisfied it's fundamentally fair." (Gordon, SMH, 4 June).

The union movement is in a unique position to show the community that an austerity budget is neither fair nor in the national interest.
Actually, moderate (even pro-business) commentators have opposed this budget and austerity policies like it …

- Ross Gittins, Economics editor of *The Sydney Morning Herald*, 10 June:

  “Trouble is, this budget is neither fair nor in the nation's interest – unless you share the Business Council's certainty that the world would be a much better place if only big business was allowed to do whatever it pleased and executives paid minimal tax.”

- Martin Wolf from the financial paper to the City of London, the *Financial Times* said of European austerity:

  “Austerity has failed. It turned a nascent recovery into stagnation. That imposes huge and unnecessary costs, not just in the short run, but also in the long term: the costs of investments unmade, of businesses not started, of skills atrophied, and of hopes destroyed.” (*NYRB*, 11 June 2013).
Why tax cuts are actually a con...

- People are cynical about politicians delivering on tax cuts. Sometimes, they don’t deliver them...
- But we should be more worried about when they do deliver them!
- Tax cuts mean public services won’t be there in the future. Privatised services are a natural consequences.
- A country that follows tax cuts and privatisation leads to its people, workers, pensioners and students have to pay for more in the private market – for privatised schools, health care, transport, electricity, toll-ways.
- No wonder so many people feel a cost-of-living pressures and worry about bills and mortgages.
A better budget?

• Australia does not have a spending problem; it is a low spending rich democracy.
• It has a revenue problem, which needs slow, gradual repair that is fair.
• To restart growth, massive public investment is needed to build new industries and jobs, using the best and greenest technologies.
• The ‘deficit levy’ simply restores part of the unfair tax cuts to the better-off from the Howard era. It should be permanent.
• Australia could cut back on huge tax-breaks to wealthy superannuation clients.
References and reading material

**Australian Government** (2014) *Budget Papers*; online at:


**National Commission of Audit**; online at: http://www.ncoa.gov.au/

**OECD** website for statistics on slide 5; www.oecd.org.

