Australian budget crisis deepens even before Trump escalates economic war against China

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The Albanese Labor government's Mid-Year Economic and Fiscal Outlook (MYEFO), released yesterday, points to an historic reversal in the fortunes of Australian capitalism, intensifying war preparations and escalating attacks on the conditions of the working class.

The MYEFO predicts that the federal budget will be in deficit for at least a decade, and that cumulative deficits over the next four years will be almost $22 billion larger than forecast in the government's budget in May.

Regardless of whether Labor or the Liberal-National Coalition heads the government after the next federal election, which must be held by May 17, it will wage a frontal assault on the living standards and basic democratic rights of workers and youth, no matter what is said during the election campaign.

"Treasurer Jim Chalmers' temporary budget surpluses have vanished into a deeper sea of red ink," the *Australian Financial Review* editorial this morning declared, demanding deeper social spending cuts. The Murdoch media's Australian editorial was equally insistent. "As the tide goes out on China's resource-hungry prosperity we, as a nation, risk being left high and dry," it stated.

In the MYEFO, the government downgraded this year's May budget deficit forecast by $1.3 billion to $26.9 billion, but that is still a $40 billion reversal from last year's $15 billion surplus, which was largely extracted by cutting health, education, housing and disability spending.

Beyond that, much worse is predicted. The sum of the deficits over the four-year budget estimates period starting in 2024–25 is calculated at $143.9 billion, up from the $112.8 billion forecast by the government in May.

That is not the full story. When considering all the "off-budget spending," including the government's handouts to big business via its $15 billion National Reconstruction Fund and its $22.7 billion Future Made in Australia subsidies, the headline deficit over the four years is $90 billion greater at $233 billion. That is a $33.6 billion deterioration since the May budget.

One of the biggest factors in this turnaround, after Labor gouged out two years of rare budget surpluses, is Treasury's $6.6 billion lower forecasts for company tax receipts this financial year alone, driven by expectations that mining exports, especially iron ore, will crash by more than $100 billion in total over the next four years.

That is even before US President-elect Donald Trump triggers a global trade war by imposing tariffs of up to 60 percent on Chinese imports. The Chinese economy, on which the Australian ruling class depends as its largest export market, is already experiencing a dramatic fall in its growth rate.

Those developments, and the massive global political, economic and geopolitical instability of which they are a part, render even near-term forecasts speculative.

However, the MYEFO provided some idea of the deepening slump already hitting the Australian economy and the working class. It forecast that real (inflation-adjusted) economic output will grow by just 1.75 percent this financial year, a downgrade from the 2 percent predicted in the May budget.

This is the weakest rate of annual growth since the 1990s recession, except for the first year of the COVID pandemic.

Nominal wages are forecast to grow by only 3 percent, down from the 3.25 percent forecast in May. That is even further below the Australian Bureau of Statistics estimate of a 4.7 percent cost-of-living rise for an "employee household" over the year to September.

Household spending is forecast to grow by just 1 percent, down from 2 percent at the May budget, reflecting the financial stress being experienced, especially by lower-income families.

Other figures released this week show that show more than 930,000 jobless workers are relying on welfare payments—far more than the official unemployment rate—and almost 26,000 businesses have gone into insolvency since the 2022 election, including a record number last month.

Releasing the MYEFO, Treasurer Jim Chalmers boasted that the Labor government had outdone the previous Liberal-National government in cutting spending. He said the government had found another $14.6 billion in savings, including more than $5 billion from its aged care "reforms," which will collect higher fees from many nursing home residents.

In a further pitch for continued big business support, the government is establishing a "Front Door for investors with major transformational proposals." No details were provided, only that "the Front Door will make it simpler to invest in

Australia and attract more global and domestic capital."

Further, the MYEFO declared that Labor was "continuing to deliver on its Economic and Fiscal Strategy by prioritising responsible economic management." These are codewords for satisfying the demands of the global money markets.

In the words of the MYEFO: "This is demonstrated by the government's discipline in returning 78 percent of tax upgrades to the budget since the PEFO [the 2022 Pre-election Economic and Fiscal Outlook], restraining real growth in payments to an average of 1.5 percent per year over the six years to 2027–28, and delivering $119.9 billion in savings, reprioritisations and budget improvements since the PEFO up to 2027–28."

Spearheading the cuts so far, National Disability Insurance Scheme (NDIS) payments have decreased by $1.4 billion since the May budget over the four years from 2024–25, mainly because of harsher eligibility tests, especially for children diagnosed with autism.

The MYEFO unveiled another reactionary move, stepping up a poisonous nationalist campaign to blame international students for the housing crisis caused by property speculators and real estate developers.

In addition to more than doubling visa fees for international students in July, from $710 to $1,600, the government will increase the application charge for temporary graduate visas by 14.75 percent from next February, estimated to increase receipts by $1.7 billion over five years.

Chalmers made another desperate effort to counter mounting social and political disaffection over the devastating cost-of-living and housing affordability crisis affecting millions of working-class households. He once again claimed that the government was doing everything it could, within the strictures of "responsible economic management," to help ease these pressures.

Chalmers cited several policies adopted since the May budget, such as a limited tertiary student debt waiver, and about $5 billion for childcare, including a $3.6 billion wage subsidy for poorly paid childcare workers.

More token "cost-of-living" measures may come before the looming election. The MYEFO reported a total of $5.5 billion in spending over four years in "decisions taken but not yet announced" and others for which the cost is "not for publication."

Notably, however, that figure includes confidential sums paid for AUKUS nuclear-powered submarines to confront China. This is part of the mounting plans for a US-led war against Beijing to assert American global hegemony.

The MYEFO also outlines the "investment" of more than $600 million to try to deal with a military recruitment crisis by expanding a continuation bonus for armed force personnel and increasing the Reserves numbers by 1,000.

Another $545.5 million has been allocated over two years to continue supporting the escalating US-NATO war against Russia in Ukraine. That covers 49 M1A1 Abrams tanks and 14 inflatable rigid hull boats, as well as "air to ground weapons, anti tank weapons and air defence missiles," together with "support, training and advice" for Ukrainian soldiers.

None of this has satisfied the financial and corporate elite, however. Its mouthpieces are demanding far deeper attacks on social programs.

Deloitte Access Economics budget analyst Pradeep Philip said the structural deficit was widening, as revenue from the "gravy train" of global commodity demand came to an end. "Given our revenue base, the spending is unsustainable," he insisted.

The *Australian*'s associate editor Eric Johnston declared: "Australia's multi-decade mining super-cycle is starting to fade. And with it are the boomtime revenues which flow directly to Canberra to prop up the budget."

Johnston warned that the MYEFO forecasts were based on false assumptions. "A big uncertainty in the outlook for the global economy remains the incoming Trump administration's promised tariffs, tax cuts and deregulation. These policies are 'yet to be settled,' the mid-year budget papers say."

Demands are emerging within the ruling class for an historic, all-out assault on the jobs, social services and living conditions of workers along the lines of that being mounted or planned by the fascistic governments of Trump and Argentine President Javier Milei.

No matter which party forms the next government, its response to the worsening budget crisis will be to deepen the attacks on the working class in order to satisfy the dictates of the ruling oligarchs. This will fuel intense resistance and immense struggles, underscoring the necessity for the fight for a totally opposed socialist alternative.