

IMF demands austerity, Australia jumps

In its 31 October concluding statement reporting on its latest staff visit, the International Monetary Fund (IMF) advised typical austerity measures for Australia on the basis of continuing inflationary pressures. It called for a continuation of interest rate rises, reduction of government deficits, increased “economic efficiency” (code for austerity), and reining in of government infrastructure spending. It even recommended a “higher GST” to increase government revenue.

The report stated:

“Although inflation is gradually declining, it remains significantly above the RBA’s target and output remains above potential. Staff therefore recommend further monetary policy tightening to ensure that inflation comes back to the target range by 2025 and minimise the risk of de-anchoring inflation expectations. In that context, continued coordination between monetary and fiscal policy is key to securing more equitable burden sharing. The Commonwealth Government and state and territory governments should implement public investment projects at a more measured and coordinated pace, given supply constraints, to alleviate inflationary pressures and support the RBA’s disinflation efforts. Otherwise, interest rates would have to be even higher, putting the burden of adjustment disproportionately on mortgage holders.

“Over the medium term, the governments need to reduce structural deficits and promote economic efficiency. All levels of government need to improve expenditure outcomes and contain structural spending growth in health, aged care, and the NDIS.”

According to reporting in the 1 November *Sydney Morning Herald*, chief of the IMF’s Australian mission Abdoul Wane “praised the federal government for saving most of the extra tax revenue it had collected over the past 12 months”. He demanded federal and state governments go much further, however, “arguing spending on infrastructure had to be brought under control”.

Appearing before a Senate Estimates session on 26 October, new Reserve Bank of Australia governor Michelle Bullock issued the same, coordinated, line. She praised the federal government’s decision to “bank the revenues” it has raked in over the past year. “[W]e’ve got a situation”, she said, “where there’s been a large increase in revenues, the fact that those revenues have been banked and not spent, I think, is helpful.”

Helpful to the balance sheet bottom line—to ensure “financial stability”—but not to the average Australian.

Financial stability is a mantra that was adopted after World War I to protect the City of London’s financial domination. Implemented via a power sharing arrangement with Wall Street, the financial code of austerity enshrined among member nations of IMF-precursors and from 1930 the Bank for International Settlements (BIS), was designed to siphon money from the population and from projects devised in its interests, to prop up the mega banks. (See “The genesis of austerity” series, available [online](#).) The post-2008 “bail-in” project is just the latest initiative to achieve that end.

Infrastructure Review

A review of federal government infrastructure projects (reported by AAS on 12 July 2023 in “Infrastructure go-slow won’t fix inflation!”) was commissioned in May and decisions will be announced by the government in a December budget update. The government has indicated that it could delay up to 400 projects that have not yet commenced construction, including the Melbourne Airport rail link and NSW south coast bypass.

Now is not the time to cut the only investment that will grow the economy, particularly with immigration rising in record numbers. The nations that have best withstood the recent economic downturn and inflationary squeeze are those, such as China, that have continued or expanded investment in nation-building infrastructure. The supply constraints that are blamed for infrastructure spending fueling inflation should be addressed by *more* investment in supply chains, including local manufacturing and training, not by cutting investment in productivity-enhancing infrastructure.

Treasurer Jim Chalmers concurred with the IMF’s advice, telling ABC’s *Insiders* on 5 November, “We’re going to need to make some difficult decisions about the infrastructure pipeline, which factors in those \$33 billion of blowouts from projects announced by our predecessors.” Reports suggest that commencements of many projects will be pushed back into the 2030s, rather than being cancelled outright.

Another rate rise

During Senate Estimates, Greens Senator Barbara Pocock raised Michelle Bullock’s assertion in June that “the unemployment rate will have to rise” to quash inflation. (“RBA demands higher unemployment to ‘solve’ inflation”, AAS, 28 June 2023.)

Pocock drew attention to a similar statement: “We recently saw some comments from the CEO of the

Gurner Group [property developer Tim Gurner], who said the rate of unemployment had to increase by 40 to 50 per cent to discipline workers and rebalance the labour market. It was met with outrage, appropriately. But, essentially, isn't his economic project comparable to the RBA's tolerance of increased unemployment to discipline inflation?"

Bullock denied that such a sentiment—"the idea that unemployment has to increase to discipline inflation"—had ever come out of her mouth, but acknowledged the truth of Pocock's assertion that the consequence of RBA monetary policy decisions would be "an increase in the official rate of unemployment". Responded Bullock: "It will. In our forecast, that's what we forecast. It's a mechanical thing." Pocock retorted: "It's a mechanical effect *with very human consequences*, of course." (Emphasis added.)

Bullock insisted more than once in the hearing that the RBA is limited to but one instrument to tackle inflation: "We do know that there are portions of the Australian public that are hurting; we do understand that. We only have one tool, though...." She affirmed interest rates are indeed a "blunt tool" when that terminology was used by One Nation Party Senator Malcolm Roberts as well as Pocock.

That needn't be the case. Before financial deregulation Australia's central bank, the Commonwealth, had numerous ways to take the heat out of markets. An interesting contrast was drawn during the Estimates discussion, when Bullock and her sidekick Assistant Governor Christopher Kent were asked about nervousness regarding the Chinese property market. Kent noted that, "*They have a lot of tools and a lot of capacity to respond, if needed.*" (Emphasis added.) Furthermore, it was inadvertently admitted that their tools are oriented to the good of the population. Bullock noted that the Chinese government has been acting to reduce "leverage in the property sector" and is "prioritising the people who bought the properties", rather than bailing out overleveraged companies. She added that to correct the situation, "The central government is looking to the local governments to try and spend more on infrastructure". Taking into account their respective track records, the RBA and Australian government should learn from China and ignore the IMF.

By Elisa Barwick, *Australian Alert Service*, 8 November 2023