

# Growing nervousness over economic crisis

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Halfway through the election campaign there is a growing nervousness in ruling circles about the implications of the deepening international financial crisis and the ability of the next government to deal with its consequences. Signs of this concern were expressed in an editorial published last Tuesday in the leading big business newspaper, the *Financial Review*, calling for global issues to be addressed.

'The greatest failure in an election campaign called against the background of global economic and political turmoil,' it declared, 'has been the reluctance of both leaders to discuss frankly how the turmoil will affect Australia and their election promises. Mr Howard and Mr Beazley are like two men arguing about the rules for shuffleboard while their luxury liner steams into a minefield.'

An Australian election campaign, it concluded, could not be reduced to a debate over domestic issues and Howard and Beazley had to discuss the implications of a 'volatile international economic and strategic order.'

Responding to this directive, the Treasurer in the Howard government, Peter Costello, and his Labor Party opposite number Gareth Evans decided to address the international economic crisis in a debate conducted at the National Press Club the following day. It might have been better for both of them had they kept silent.

Taking his cue from Prime Minister Howard, who opened the campaign declaring there would be no global recession, Costello told a rather incredulous National Press Club audience that the Asian crisis would soon begin to dissipate.

'I actually think that there is every reason to think there will be a turning in Asia by 1999-2000. Just as the Asian crisis came on quickly, it could pass quickly--that was certainly the experience in Mexico.'

Unfortunately for Costello, on the very day he made these remarks, Moody's Investor Services published a warning that many Latin American governments would

have major difficulties refinancing their debts, citing Brazil, Mexico and Argentina as countries where credit ratings were either under review for a downgrade or had already been lowered. The report said the financial crisis would not resemble that of 1994-95 'because this time around the world economic environment is considerably less benign.'

Evans appeared to take the opposite position from Costello saying that Australia's economic growth rate would fall next year. 'Count me as one of the pessimists,' he said.

Attacking official Treasury growth rate projections of 3.5 percent, Evans said it was 'very hard to believe' that anything like that would be achieved and that the Latin American crisis, the fragility of the US stock market, the Russian crisis as well as the situation in Japan, China and Southeast Asia had a 'very real downside risk for us.'

But Evans failed to shed any light as to how, in view of this assessment, the Labor Party would make good its commitment to set an unemployment rate of 5 percent, compared to the present level of 8 percent.

Moreover, the Labor Party has made clear that it will run the same fiscal and monetary policy as the Howard government. A Labor government will not only maintain the spending cuts over the past two and a half years, it is committed to further cuts through the maintenance of a budget surplus.

While Evans and Costello agreed to disagree over the immediate economic outlook, the sharpest criticism of the Liberals has come from former party leader John Hewson. Speaking to a business conference in Sydney, he warned that the Australian growth rate would fall 'dramatically' and 'you could not be anything else but pessimistic about the magnitude of the impact of this crisis on Australia.'

'In this election campaign we're operating in blissful isolation--as if all that stuff that's happening [in Asia] is

not going to impact on Australia, and we'll be able to go ahead with very large Budget surpluses and deliver all sorts of tax packages and benefits,' he said.

'There's a lack of reality in this campaign which is most disturbing.'

Hewson is concerned that as soon as reality comes crashing home following the October 3 election the legitimacy of whatever government comes to power will be immediately challenged and the economic crisis will be followed by the rapid development of a political crisis as well.

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