

# Australian prime minister reverses key policy as split looms in ruling coalition

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7 March 2001

The more Australian Prime Minister John Howard tries to deal with the political fall-out from last month's two state election debacles, the worse his predicament becomes. A series of extraordinary policy backflips executed by Howard over the past weeks points to the depth of the divisions wracking the Liberal-National Coalition government and the precariousness of his own position.

Early last week, the Prime Minister pronounced to a gathering of the parliamentary Liberal and National parties that he was ready to "spend the surplus". On Thursday he emerged from a hastily convened Liberal Party Cabinet meeting to announce the government was cutting the price of fuel by 1.5 cents per litre and removing the half-yearly indexation of the fuel excise.

The decision represents a staggering departure from the "fiscal responsibility" line Howard has fiercely defended since his government took office. Even two weeks ago he was still insisting that no matter how rapidly petrol prices increased, or how widespread the popular anger, defending the budget surplus remained his top priority. Any cut, he said, would amount to "economic irresponsibility", and was therefore "impossible".

There is no question but that Howard's retreat was made in the face of an imminent split in the federal Coalition. Since elections in Western Australia and Queensland saw the state Liberal and National parties routed by a growing tide of opposition to free market policies, Howard's coalition partner, federal National Party leader and deputy Prime Minister John Anderson has come under sustained pressure from his own MPs to wrench major policy concessions from Howard. Threats against Anderson's leadership and warnings of a split were given added weight after the Nationals in WA and Queensland decided to break up the coalition partnership in both states.

One of the most contentious issues for the Nationals' rural constituents has been the Howard government's new Goods and Services Tax (GST), introduced last July. The centrepiece of Howard's second term in office, the GST, is part of a new taxation system, designed to lift the tax burden off investment capital and big business, and place it squarely on the shoulders of ordinary working people. Small business has suffered, facing time-consuming reporting duties and, particularly in rural areas, significant increases in the price of fuel. In January 2000 a litre of petrol cost around 67 cents. Since then it has risen, mainly as a result of increases in the world oil price, by 50 percent to just under one dollar. But around four cents of the increase is due to the GST, while about half the total price is due to another indirect tax—the government's fuel excise.

In Anderson's own electorate in country New South Wales, coal miners are reportedly spending \$130 per week on petrol just to drive to and from work every day. The local mayor was quoted as saying that, in a seat that has been staunchly National for 52 years, "surprises could happen at the next election."

Confronting a leadership challenge and the prospect of a split, Anderson compelled Howard and Treasurer Peter Costello, in a series of closed door

discussions, to backdown on fuel, apologise for failing to act earlier, and inform rural voters the Prime Minister was now prepared to "listen."

Announcing the policy shift, Howard accordingly remarked: "I was plainly wrong in not understanding some of the concerns held by the Australian people about the price of petrol...We decided to act now because we believe there was undeniably public anger...". Henceforward, he told the media, his government would be "sensibly flexible."

## An apparently irrational decision

On the face of it, the petrol price cut is totally irrational. It signifies a saving of about 85 cents on a \$55 full tank of petrol for an average family car. From the standpoint of lessening the burden on ordinary working people, the measure is pointless. And public reaction has been predictably scathing. "I have to work out what I'm going to do with the extra 50 cents a week," one motorist approached by journalists at a local petrol station, remarked.

Moreover, as Howard would have foreseen, financial and media pundits view his backdown with deep suspicion. Warnings are being made that it could spark a loss of confidence in the government's policy direction and a further fall in the value of the highly unstable Australian dollar. If this happens, the impact of the price cut will be immediately wiped out, because Australian petrol prices are pegged to world oil prices, measured in US dollars. A \$US1 increase in the world price translates into a rise of 1.2 cents per litre for fuel in Australia. In other words, by selling the Australian dollar, the financial markets could nullify the price cut overnight.

Taken together, Howard's measures have served to temporarily placate the National Party's federal MPs and their rural small business constituents. But appeasing the National Party has only deepened the grievances of the Coalition's other major constituency, big business. Despite its insignificant impact on the lives of working families, the petrol package, including the abandonment of the automatic indexation of the fuel excise, will slash \$2.7 billion out of the projected \$4.7 billion budget surplus. Over the next four years, it will cost an estimated \$4 billion, becoming one of Howard's most costly initiatives. It overshadows his recent "Innovation" initiative, for example, worth \$4 billion over five years, and designed to overcome criticisms by financial investors and corporate CEO that the government was allocating insufficient funds towards technological innovation, research and development.

Since coming to office five years ago, Howard's credibility with corporate Australia has rested upon his commitment to economic rationalism and budget surpluses—that is, to defending profits and the interests of finance capital at the direct expense of government expenditure on education, health, public services and welfare.

Now, as far as big business and its media representatives are concerned, he has thrown it all away.

Murdoch's *Australian* editorialised that Howard was a "weak leader willing to jeopardise hard-won economic gains by delivering the wrong sort of tax cuts during risky times—especially when the political benefits

are as shaky as a prime minister's credibility." It accused Howard of "panicking" and of eroding the Budget surplus "at a dangerous time."

The *Financial Review*'s Tony Harris declared: "The government's decision to cut excise and eliminate indexation shows it is susceptible to crass pressures. It seems that fiscal prudence is the rarest virtue when a government is faced with electoral failure."

According to Michelle Grattan of the *Sydney Morning Herald*, the Prime Minister had "turned... populist as he stares at his likely political demise." He had "shamelessly put the demands of survival above the need to be fiscally careful."

The ANZ Bank's chief economist, Saul Eslake, characterised Howard's government as the biggest spending government in two and a half decades. Government spending, excluding defence and interest payments, he argued, had risen by 11.7 percent in 2000—"the biggest increase since the dying days of the Whitlam government in 1975."

#### **Policy paralysis**

As far as the bourgeoisie is concerned, the government has been reduced to a state of policy paralysis. For fear of alienating regional voters, the GST has been compromised, the further privatisation of the telecommunications giant, Telstra, put off indefinitely, while IT outsourcing and the government's banking policy are also on hold. National Party backbenchers, representing what one of them termed the "owner-operator class" in the bush are, to all intents and purposes, determining day-to-day policy.

Business displeasure with Howard is already expressing itself in the form of mounting tensions within the Liberal Party leadership. Before the fuel announcement, a furious Treasurer Costello was obliged to publicly disclose two other significant retreats on the GST: small businesses would only be required to submit annual, rather than quarterly, Business Activity Statements (BAS) and the taxing of family trusts as companies would be delayed for at least another year.

For Costello, this was a bitter pill, because he has spent the past year ingratiating himself as a future prime ministerial candidate with the business elite and financial markets, and distancing himself from Howard's political overtures to the National Party. Soon after the fuel announcement he pointedly declared that the May Budget would need to be far tighter, and that he expected support from all ministers, including the Prime Minister. Later he sheeted home responsibility for the policy reversals directly at Howard's door.

A by-election in the federal electorate of Ryan on March 17, caused by the resignation of former Defence Minister John Moore, could become the springboard for business discontent and Costello's leadership aspirations to come together. If opinion polls are anything to go by, the formerly safe, blue-ribbon Liberal seat, which the Liberal Party holds by a margin of 9.5 percent, could well fall to Labor. A national poll released on Wednesday shows support for the Coalition at 30 percent, the lowest since polling began just after World War Two.

Howard's predicament arises from the impossibility of maintaining a stable electoral base for free-market policies—policies that have created mass unemployment and the destruction of living standards for the majority of the population and a deepening social divide. These policies have not only hit the working class, but small business people, farmers and other middle class layers upon whom the Coalition parties have traditionally rested.

At the same time, global economic processes have shattered the basis of national economic regulation and control. Whereas the different interests of big business, manufacturing, the mining conglomerates, farmers and small business could once be regulated under the umbrella of the Liberal-National partnership, they are now colliding in uncontrollable conflict.

#### **An emerging realignment**

A recent comment in the *Financial Review* points to the extent of the crisis. Written by Tony Walker, it warns that "signs of political instability

on many fronts, and particularly among non-Labor ranks, might come to be seen as another important indicator of an emerging realignment in Australian politics whose eventual outcome is unclear..."

"Thoughtful politicians have been sounding warnings for some time about the dangers of disillusionment and disaffection with existing parties, exemplified by the narrowing of membership."

Walker points to the 90 percent decline in the membership of the Liberal Party from 1949, when it boasted 200,000 members or 2.6 percent of the population, to 2001, where membership hovers around 50,000 or 0.26 percent of the population.

"What this tells us is that we are entering uncharted waters. The survival cannot be taken for granted any more of the political alignment that has underpinned relative Australian political stability since 1909 when the conservative mainstream, previously riven by differences over protection and free trade, coalesced into one."

Walker concludes: "The point about all this is that the Australian system has entered a new period where old certainties are fraying and it would be a brave commentator who would be prepared to forecast how the system might appear 100 years from now. What is fairly safe to predict is that the relative stability of the past century is unlikely to be repeated—unless the mainstream finds a way to reinvent itself to reconnect with a jaded electorate, and fairly soon."

But the problem for the ruling elite is that the means of "reconnecting with a jaded electorate" have already been largely exhausted. The Howard government, in fact, only came to power in 1996 after mass disaffection in the working and middle classes swept five state Labor governments from office in the late 80s and early 90s. This movement against the pro-market policies of the Australian Labor Party culminated in the landslide defeat of the federal Labor government, after 13 years in office.

On the fifth anniversary of Howard's victory, the Coalition parties are now suffering the same fate. Whatever the outcome of the next federal election, due by the end of this year, it is absolutely excluded that the same process will be endlessly repeated. The growing class divide between a tiny wealthy elite and the masses of ordinary people, combined with mounting tensions within the ruling class itself, portend a turbulent future of political shocks and social upheaval.



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