

Deepening global crisis shatters consensus over Australian stimulus package

Mike Head
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A sharp conflict has erupted within Australia's political establishment over the Rudd government's latest \$42 billion economic rescue package. The bipartisan consensus on the government's previous six bailout packages has collapsed in the face of the rapid deepening of the global meltdown, and the dawning realisation that Australia's ruling elite is powerless to prevent a severe and protracted downturn.

Within certain ruling circles, growing doubts are developing about the Labor government's desperate turn to Keynesian-style pump-priming in the hope of averting, or at least delaying, a recession. That became apparent last Wednesday, when the Liberal-National Party opposition announced it would vote against the required legislation. The package now depends on the votes of the four Greens and two Independents in the Senate, where a one-week inquiry is now underway, accompanied by all sorts of negotiations and horse-trading.

The government, and those in the financial and business elite who are backing its package, are anxious to head off mass unemployment and rapidly deepening social discontent. Their fears were summed up by ANZ bank chief economist Saul Eastlake, who told the *Sydney Morning Herald* that the government's latest cash handouts to families and schools had to be accepted. "Imagine what kind of policies would be proposed in an environment of rising unemployment and mounting social unrest?" he asked, citing the street protests that have already broken out in Europe.

But others, including Rupert Murdoch's editorial writers, are concerned that no matter how much the government spends, its efforts will be dwarfed by the worldwide crash, leaving huge budget deficits and debts. Warning against the government's series of attempted quick-fixes, which has seen it stagger from one multi-billion dollar rescue package to another, the *Australian* warned today: "Nothing Australia can do will end the global financial disaster."

Both sides of the debate appear to be shell-shocked by the continuing deterioration of Australia's major export markets, including China, Japan, South Korea and the US. After 15 years of super-profits and hundreds of billions of dollars in windfall government revenue, the mining boom has turned into bust in just a few months. It is now clear that the crash will last far longer than anyone in corporate circles previously imagined.

Month after month, official estimates have had to be revised. In its

latest forecast, issued yesterday, the Reserve Bank of Australia slashed its growth estimate for this year from 2 percent to 0.25 percent, and zero in non-farm output, despite the \$42 billion package and its own cut in the benchmark interest rate to 3.25 percent, a drop of 400 basis points since September. In effect, this means that the economy is already in recession and still contracting.

The central bank warned that because of the global financial crisis, credit had dried up for small and medium-sized business, threatening a new wave of bankruptcies. According to Dun and Bradstreet, 100,000 companies could fail this year.

The Labor government's \$42 billion package has nothing to do with assisting the millions of working people whose jobs and lives are about to be shattered. There was not a cent for the jobless, whose numbers the government admits will double to nearly a million by next year, in spite of the package.

Like the pre-Christmas \$10 billion package, the latest one contains a slew of one-off cash payments, which the government hopes will be spent quickly and resuscitate consumer demand. But the \$950 handouts are more likely to be spent by cash-strapped families on lowering the historically unprecedented levels of home mortgage and personal credit card debt.

The other main element of the package—infrastructure funding, mainly for schools, community facilities, roads and housing—is primarily designed to prevent a looming collapse of the construction industry. The Housing Industry Association is warning that companies will crash and 85,000 jobs will be destroyed if the package is not passed.

At the same time, by distributing money to families and schools, the government is seeking to head off growing discontent over its allocation, since October 2008, of billions of dollars to underwrite or subsidise the big banks, property developers and major auto companies.

Many business groups—notably those whose members face oblivion—have backed the government, calling for the package to be implemented as soon as possible. Representing manufacturers, Australian Industry Group chief executive Heather Ridout told the *Australian Financial Review* that "aggressively targeting consumer spending is absolutely critical to our near-term economic prospects". Peter Anderson, the chief executive of the Australian Chamber of

Commerce and Industry, which covers large and medium-sized businesses, said the government had "ticked the boxes business has advocated as a response to the economic downturn".

Others throwing their weight behind the government included Westfield shopping empire boss Frank Lowy, the Institute of Chartered Accountants, and the Australian Trucking Industry. Economists at Westpac, one of the country's four big banks, warned that without the immediate cash handouts, the economy would contract by 0.7 percent this year. The government also claimed the backing of the International Monetary Fund and the Organisation for Economic Co-operation and Development. Even the Liberals' only state premier, Colin Barnett of Western Australia, praised the package as "fantastic" and generally well-targeted.

Why then, in the face of this tide of approval, has Opposition leader Malcolm Turnbull, after a series of Coalition party room and shadow cabinet meetings, nevertheless decided to go out on a political limb by refusing to provide bipartisan support?

Prime Minister Kevin Rudd and his front bench claim that the Liberal leader is simply fighting for his political survival in the face of a possible leadership challenge by former Howard government treasurer Peter Costello, who reportedly led a party room push for rejection of the package.

Whatever Turnbull's immediate political calculations, however, the Coalition's stand reveals anxieties in ruling circles about the economic and political risks of the government's actions. In the first place, these relate to the sheer scale of the debt the government is racking up.

Turnbull told parliament: "The government is looking increasingly like a frightened soldier who fires off all his ammunition in a panic in the first minutes of an engagement. This downturn may be very long lasting and we cannot possibly spend larger and larger sums like this every quarter."

Defending Turnbull, Friday's editorial in the *Australian Financial Review* warned that while the government's plans to go into debt were currently manageable, "if the economic recovery is slower and more protracted that could change".

The \$42 billion package allows for four years of budget deficits totaling \$118 billion, but the government effectively conceded that the situation could get far worse when one of its bills sought to increase from \$75 billion to \$200 billion the limit the government can borrow to service debt.

Murdoch's *Australian* also came to Turnbull's defence, pointing to financial and ideological concerns with Rudd's abandonment of his previous commitment to "fiscal conservatism" and his adoption of Keynesian measures laced with populist attacks on "the forces of neo-liberalism", "unrestrained greed", "under-regulated markets" and "unprincipled merchant bankers" whose "entire ideology" had produced the financial crisis.

The *Australian's* Thursday editorial declared that while the government was right to take emergency measures, "we need a discussion of its intellectual underpinnings, of the idea Mr Rudd is

pushing that the global financial crisis must change the market economy".

Rudd's claims to oppose "market fundamentalism" are absurd. He took office pledging to big business that Labor would carry through the next "wave" of the market restructuring pioneered by the Hawke and Keating governments from 1983 to 1996. All his measures, including the latest package, are oriented to bailing out the finance houses and other corporate giants that have benefited from the "free market" over the past quarter century.

Nevertheless, alarm is being expressed by some that any public questioning of the logic of the market could exacerbate what has already become a major ideological crisis for the capitalist system. There is also concern that any return to national regulation and protectionism could cut across the operations of international capital and severely harm Australia's export-oriented economy.

The turn in the latest package towards protectionism became apparent yesterday when Rudd warned of a "limited tolerance threshold for imports" in relation to supplies needed to meet the government's subsidy for the installation of ceiling insulation in around two million homes.

For their part, the Greens have rushed to assure the business elite that, unlike the Coalition, they will be "constructive" and not block the stimulus package. Greens leader Senator Bob Brown said that while his party would suggest improvements to "enhance" the package, "the government needs maximum flexibility to deal with the financial crisis"—in effect, a pledge to support the Labor government.

The trade unions also seized upon the Coalition's stance to reinforce their commitment to cooperating with the government and employers. ACTU president Sharan Burrow accused the Opposition of "jeopardising Australian jobs with its short-sighted political grandstanding". ACTU secretary Jeff Lawrence called for "all parts of the Australian community—business, unions, government and community groups" to "work together". The ACTU, which has already called for workers to make wage sacrifices in the name of "saving jobs," is doing everything it can to prevent them from developing any independent challenge to the Labor government's pro-capitalist policies.



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