New Australian PM put "on notice" by global markets

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Little-reported comments by the newly-installed Australian Prime Minister Julia Gillard have revealed more about the driving forces behind the political coup that ousted her predecessor, Kevin Rudd.

Last Friday, after announcing her government's capitulation to the demands of the giant global mining corporations over the Rudd government's now-dumped mining "super profits" tax, Gillard told reporters that she was "on notice" that the world economy had entered a new round of fear and uncertainty.

In her first remarks on the state of the economy, the new prime minister said that Treasurer Wayne Swan—who had just returned from the G20 summit in Toronto—had been briefed on "the fragilities and uncertainties in the international economy".

"So you know, I'm on notice about that, Wayne's on notice about that. At the moment [we're] monitoring to see if the anxieties and uncertainties crystallise into more than that, to see if we see a bigger change in the global economy as a result. There is nervousness around so we are alert to that," Gillard said.

These comments make clear that the Gillard Labor government is preparing to deliver the dictates of global financial markets, which are demanding a worldwide shift from stimulus packages to austerity measures, in order to claw back from the working class the cost of the mountain of toxic debt taken from the banks onto government balance sheets in 2008-09.

Her statement came as global financial and share markets were shaken by sharp falls, amid renewed fears over European government debt, new concerns that China's stimulus package-led growth is stalling and confirmation that the US economy remains mired in recession and mass unemployment.

Each of these developments has dire implications for Australian capitalism, with its heavy dependence on raw materials exports to China. China, in turn, relies on exports to European and US markets.

Gillard's comment underscore how swiftly global economic conditions have worsened in the past two months, since Treasurer Swan handed down the Rudd government's 2010 budget, claiming that Australia's economy had "defied economic gravity" by avoiding recession.

In that budget, the government sought to satisfy mounting demands from financial markets for measures to slash the multi-billion dollar deficit, produced by its own business bailout stimulus packages, by pledging to produce a budget surplus within three years.

The centrepiece of its response was the mining tax, which the government claimed would raise $12 billion in its first two years, rising to $9 billion in 2013-14—the year the budget was meant to return to surplus. That promise has been undermined, however, by Gillard's pact with the big three mining companies to replace the tax with a much lower Mineral Resources Rent Tax.

Over the weekend it was revealed that the headline rate of the new tax, after allowing for deductions, is just 22.5 percent—far below the proposed "super profits" rate of 40 percent. Claims by Gillard and Swan that their deal with the three conglomerates would only reduce the tax revenue by $1.5 billion over the first two years have already proven to be false.

Treasury Secretary Ken Henry, testifying before a Senate committee, yesterday admitted that the government's claims were based on the assumption that a recent surge in world commodity prices would last for the foreseeable future. This morning's *Australian* estimates that in reality the government has surrendered forecast revenues of $4.5 billion over two years—three times Gillard and Swan's $1.5 billion claim. The Melbourne *Age* has calculated that in

2013-14, when the budget is supposed to return to surplus, the tax will yield only $6.5 billion, a far cry from the government's claim of $9 billion.

The government has also pledged to reduce the corporate tax rate to 29 percent, and to maintain the hefty cuts to high income tax rates delivered over the past decade. This means that revenue shortfalls can only be made up by slashing social spending, including on health, education, housing and welfare.

Sections of the financial and media establishment are now openly urging the Gillard government to call an early snap election in order to hold onto office before the true depth of the economic crisis, and the severity of the measures that must be implemented, becomes obvious.

The *Sydney Morning Herald* editorialised yesterday:

"The new financial year has arrived with a thud as global sharemarkets grapple with the possibility of a 'double dip' global recession. Relief at the passing of the worst of the global financial crisis has given way to new concern about its legacy—cripplingly high government debt in parts of Europe, and the United States, too. Policymakers increasingly face calls for austerity measures, such as tax increases and spending cuts, to rein in their gaping budget deficits."

The editorial continued: "Our central economic vulnerability has been exposed: we are completely at the mercy of commodity price swings, in turn dictated by international demand for our mineral wealth."

Gillard, the editorial went on to insist, having "cleared the hurdle" of the mining profits tax, had to call a quick election. "All the hard work of the past week [on the tax] could be undone in one stroke of the Treasury pen if it is forced to factor in the lower commodity prices prevailing on global markets. Gillard should think twice about delaying an election too long and risking such revisions."

Whenever the election is held, it will constitute a conspiracy against the Australian people, designed to bury all discussion of the savage measures to be unveiled by whichever party, Labor or Liberal, wins the poll. As Rudd's removal has already shown, behind the façade of parliament and elections, the policies of the next government will be dictated behind-the-scenes by the corporate elite, and implemented by its agents in parliament.

Precisely such a process has just been carried out in Britain, where the Tory-Liberal Democrat government last week instructed government departments to draw up cuts of up to 40 percent each. The British government is already slashing billions of pounds from social spending and raising the regressive VAT consumption tax to 20 percent, while cutting corporate taxes to 24 percent, one of the lowest rates in the G20. Only two months ago, an election was held in Britain where none of these measures was mentioned.