

# Australia: Treasury sets austerity agenda for Gillard government

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The Australian parliament meets for the first time today since the August 21 election amid continuing manoeuvring over the nomination of the speaker and deputy speaker. Prime Minister Julia Gillard and her minority Labor government rest on the slenderest of margins, relying on deals with the Greens and two rural “independents”. After providing the parliamentary speaker, the government’s majority will be reduced to just one seat.

From the outset, Gillard is presiding over a government of crisis—not primarily because of the unstable parliamentary arithmetic, but because of the economic agenda that it will be compelled to implement. Even before parliament has convened, big business leaders and the corporate media have been issuing their instructions to Gillard to get on with the job of implementing the next round of pro-market restructuring despite the popular opposition such “reforms” will inevitably generate.

The campaign stepped up last week following the release of the Treasury’s normally confidential, post-election advice to the government and opposition—contained in what are known as the Red and Blue books respectively. In the hands of Murdoch’s *Australian* in particular, these documents have been used to put the Gillard government on notice that it must deliver a budget surplus and sweeping pro-business reforms.

In the first place, Treasury spelled out the real state of the Australian economy amid the ongoing international economic crisis—a subject that was blacked out by the media and political parties throughout the election campaign. Despite continued economic growth driven by huge mineral exports to China, the Red Book warned that the international risks were “real and ongoing”. The government “may have to respond quickly to large negative shocks from a volatile global economy in what looks like being an extended period of heightened uncertainty,” it stated.

Treasury highlighted “the sovereign debt problems in Europe” as “a source of volatility in global financial markets, with a risk of damaging contagion”; the dangers of a slowing US economy and a possible “double dip” recession; and the “challenge” facing China of “withdrawing stimulus to avoid overheating and a proliferation of non-performing loans, while avoiding sapping too much momentum from the economy”.

The Red Book drew particular attention to the vulnerability of the Australian economy to financial instability due to its reliance on short-term external debt via the country’s banking system. “The global financial crisis highlighted the potential for global financial markets to fail and for access to finance to be disrupted,” it explained. Such was the impact of the international credit crunch in 2008 that the Labor government had to issue a blanket guarantee for international loans to prevent a banking collapse. As a result, the Red Book stated, it was essential for the government to maintain “policy credibility” to ensure the confidence of global capital markets.

In this context, Treasury set out a list of pro-market reforms that the government should implement to strengthen the position of Australian capitalism against global economic shocks. First and foremost, the Labor government had to end the stimulus measures implemented at the height of the 2008/09 financial crisis and return the budget to surplus. The Red Book explained: “Continued delivery of your deficit exit strategy will be a key, but very difficult, priority.”

Treasury’s advice simply reflects the demands of international finance capital. In the midst of the global financial crisis, governments around the world spent trillions of dollars bailing out banks, finance houses and major corporations—in effect, taking huge quantities of private bad debt that resulted from an orgy of speculation onto government books. Now international financial institutions are insisting that governments impose this debt burden onto working people through draconian austerity measures—higher taxes and huge cutbacks to wages, jobs and essential social services.

The *Australian* immediately seized on the Treasury’s advice to insist that the Labor government had to press ahead with pro-market reforms. An editorial in Saturday’s edition berated Gillard for “playing party politics over the speaker” then insisted: “The case for hard thinking on structural reform is urgent. The Treasury yesterday called for extensive tax reform; earlier in the week Reserve Bank governor Glenn Stevens warned of the challenges created by a runaway mining boom; and today business leaders spell out in our pages their frustration with the government’s policy black hole.”

In a separate article, key corporate leaders made clear that they

intended to wage a public campaign to ensure that the Labor government implemented their demands. What started with a call last week by BHP Billiton chief executive Marius Kloppers for a carbon tax to ensure a degree of economic certainty (see “New Labor government changes tune on carbon tax after BHP chief intervenes”) has become a barrage, as business figures made clear they felt “a basic responsibility to step up to fill the policy vacuum left by the unstable political situation”.

National Australia Bank and Woodside Petroleum chairman Michael Chaney, for instance, bluntly told the *Australian* that what was good for business was good for everyone. “A healthy business sector means a healthy economy and a health economy produces a bigger pie for everyone. Business leaders thus have a responsibility, not only to their shareholders, but to the public, to speak out where they believe business interests and the national interest is [sic] threatened.”

The *Australian* followed up on Monday with a further editorial entitled “Red book sets out an ideal economic reform agenda” and a lengthy article by economics editor Michael Stutchbury who emphasised that the Labor government had to implement what would be unpopular measures. To underline the point, he cited the Red Book, which declared: “It is clear that reforms will have to be largely ‘budget neutral’. Budget-neutral reform is never easy, in large part because it more obviously involves winners and losers.”

As well as returning the budget to surplus, the priorities include a carbon tax, better infrastructure, charges on road use, the partial privatisation of urban water supplies, as well as extensive tax reforms. As Stutchbury put it, the Red Book called for “a shift from the existing ‘mess’ of taxes on business investment and domestic saving in favour of broad-based taxes on ‘less mobile’ land, resources and consumption”. In other words, what is needed is a lowering of corporate and income taxes for the wealthy in favour of heftier taxes, especially on consumption such as a higher Goods and Services Tax or its extension to include food items.

The *Australian Financial Review* joined the fray with an editorial yesterday calling for the federal budget to be returned to surplus ahead of time. “The budget is replete with wasteful spending on industry subsidies, surplus public servants and the like, which could be wound back without any harm to the wider economy,” it declared. A further editorial today insisted that the Labor government and the opposition Coalition had to heed Treasury’s advice.

A report from Access Economics published in today’s *Sydney Morning Herald* continued the theme, warning that after achieving a surplus in 2012-13, the budget would lurch back into deficit as the resources boom fizzled out. “Australia’s fiscal finances, both short term and long term, are hostage to the fate of commodity prices, and hence to China’s strength,” Access Economics director Chris Richardson warned. The budget, he declared, was a “house of cards, an accident waiting to happen”.

The release of Treasury’s advice and the subsequent avalanche

of commentary and demands provide a revealing insight into the inner workings of parliamentary democracy. The notion that people elect their representatives who then form government and tell the state machinery what to do is pure fiction. What the release of the Red Book disclosed is that it is the state bureaucracy, acting on behalf of the corporate and financial elites, that dictates the agenda.

Treasury was openly contemptuous of the needs of ordinary people. “Inevitably, there will be increasing pressure on the government to respond to peoples’ concerns over economic and social change, and to meet their growing expectations of government with various ‘protective initiatives’”, the Red Book declared. The challenge, however, was not to meet these concerns, but “to put in place the policy settings needed to respond to major long-term trends, and maintain a capacity to respond to emerging shocks”.

It is a measure of the depth of the present economic and political crisis that processes normally carried on behind closed doors are being conducted openly and publicly. The aim of the ruling elite throughout the political upheavals of the past four months—from the ousting of the Rudd Labor government in June to the August snap election and the wrangling to form a government in a hung parliament—has been to shift the political agenda sharply to the right and to create the conditions for imposing drastic austerity measures.

There is no doubt that Gillard understands the message. If she fails to deliver, the *Australian* has already made clear that her government faces the same fate as Rudd—a campaign of destabilisation leading to new government or fresh elections. In case the warning was not clear enough, the newspaper’s contributing editor Peter van Onselen underscored the point in the weekend issue declaring that “the recently elected prime minister has started poorly and shown no sign of improving”. The headline said it all: “Gillard must get her act together or lose power.”



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