Soaring dollar adds to Australian Labor government crisis

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The minority Labor government of Prime Minister Julia Gillard is being buffeted by a storm of economic and political crises. On the eve of its first budget, it faces a soaring Australian dollar, corporate dissatisfaction with its policy agenda and early signs that bitter class conflict is about to erupt.

Since the beginning of the year, the government has been under siege from sections of big business over its proposal to impose a tax on the carbon emissions of the largest corporate emitters from July 2012.

The Labor government has presented the tax as a crucial first step in restructuring industry to compete in a “clean energy” global market, in which high carbon emitters like Australia will face the risk of international sanctions. Major companies are denouncing Gillard’s plan as an unnecessary burden on their competitiveness and profitability under conditions where the United States and China have not accepted any binding agreement to reduce emissions.

Coal-based energy generators are demanding near full compensation and have made clear they will pass on any costs in the form of higher power prices. Steel producers have demanded special exemptions, with an implicit threat they will shut their Australian operations if these are not forthcoming. Manufacturing exporters such as CSR have insisted on assistance to ensure they are not put at a “competitive disadvantage” on world markets. Major retail companies have complained that passing on the tax to consumers will depress sales and affect profit margins.

The Australian dollar’s rapid rise over the past weeks has intensified corporate recriminations against the prospect of a carbon tax. The currency has soared 13 percent since March to record highs, due to several factors: the deliberate devaluing of the American dollar by the US Federal Reserve, comparatively high domestic interest rates and international speculation in commodity-based currencies. The Australian dollar is currently gyrating between $US1.05 and $1.10 in volatile global trading, compared with an average of 78 US cents before the 2008 global financial crisis.

Already struggling manufacturing exporters, tourism companies and overseas student providers have plunged even deeper into recession. Manufacturing has contracted for seven of the past eight months, with the textiles and transport industries particularly hard-hit last month. Overseas student enrolments at Australian universities and private colleges have fallen sharply, and analysts are predicting significant job losses.

The high dollar has also affected government tax receipts from the booming mining and energy sectors, despite record exports. As commodities are generally sold on the world market in US dollars, corporate revenue, and therefore tax liability, falls once sales are converted into Australian currency. At the same time, major corporations are making huge investments into new mines and gas fields and writing off the cost against their tax bills.

Treasurer Wayne Swan was forced to admit late last month that the government’s budget deficit for 2010-2011 was likely to blow out from the projected $41.5 billion to over $50 billion as a result of declining tax revenue and unexpected spending to repair infrastructure damaged by flooding earlier this year.

Over the past period, the Labor government, along with numerous economic commentators, repeatedly claimed that the “mining boom” in exports of coal, iron ore and natural gas to Asia, and China in particular, had immunised Australia from the global economic crisis. In reality, the boom has become the mechanism, via the soaring dollar and burgeoning budget deficits, for global financial markets to dictate a renewed assault on wages, working conditions and social spending, commensurate with that being implemented in Europe and the US.

Investment and production in non-mining sectors is threatening to shift to lower cost areas. Coca Cola Amatil announced this week it would seriously examine relocating its Australian food manufacturing to South East Asia. Company spokesman Terry Davis told journalists on Wednesday: “If the dollar continues at this rate, then I think there will be many companies like us that will say, ‘What are the other products that can be manufactured overseas and sold in Australia?'"

Throughout the car and car components industries, the trade unions are already collaborating with cuts to jobs, wages and working hours on the grounds of preventing wholesale closures and maintaining competitiveness. Confrontations over pay and conditions are brewing in the airline industry, the ports and construction. Across the board, corporate financial commentators are demanding "wage restraint" and greater "flexibility" for employers.

Stressing the financial markets' insistence on far-reaching restructuring, ANZ Bank CEO Mike Smith declared on Tuesday that Australian corporations were "facing a new reality" because of the rising dollar, in which "certain sectors of the economy have suddenly become globally uncompetitive and the models they had operated with are no longer sustainable." Smith noted a growth of business failures and falling property prices.

The next day, Westpac Bank CEO Gail Kelly endorsed Smith's comments, telling journalists: "There are clearly different dynamics at play for different industry sectors—the so-called multi-speed economy—and I think that's something we just need to get used to."

Over the past two weeks, 45 different industry groups and companies have notified Gillard of their opposition to any move toward a carbon tax under deteriorating economic conditions.

At the same time, the opposition Liberal and National parties are waging a populist campaign against the tax, assisted by the fact that Gillard promised during last year's election that she would not introduce one. Liberal leader Tony Abbott has conducted a series of tours around the country, seeking to identify himself with concerns among workers over the prospect of rising prices.

Opinion polls on Wednesday produced by the Murdoch-owned *Australian* reported 60 percent of respondents opposed a carbon tax compared with 30 percent in favour. Gillard's personal approval rating was the lowest so far, at 38 percent, and Labor registered just 33 percent support.

The opinion polls reflect not only suspicion of carbon taxing, but the general collapse of support for the Australian Labor Party. The 120-year-old organisation is no longer viewed by ordinary people as a "workers party", but as a corrupt big business apparatus that is indifferent to the growing hardship and insecurities that increasingly dominate their lives.

In every recent state and federal election, Labor has lost government or been forced into coalition arrangements with the Greens and independents. In the March 2011 state election in New South Wales, a particularly despised Labor government received barely 25 percent of the vote, suffering one of the largest defeats in Australian history. A federal election would almost certainly see Gillard thrown out of office in a similar fashion.

The financial and corporate elite views next week's budget as a test of the Gillard government's preparedness to shift its focus from the carbon tax to spearheading an assault on the social position of the working class. Typical of the commentary in the establishment media, Friday's *Australian* warned in an editorial that "Gillard should be in no doubt about how crucial it is in her quest to forge a sense of hope for her floundering team."

In response to financial and corporate demands, the government has pledged to return the budget to surplus by 2013. Both Gillard and Swan have repeatedly stressed they will deliver a "tough budget", that inflicts "pain." They have already publicly committed to a harsher welfare eligibility regime that compels hundreds of thousands of disabled, unemployed and single parents to enter the workforce. The aim is to provide business with a pool of cheap labour that will put downward pressure on wages throughout the economy.

Labor has also pledged to work with state governments to carry through a historic restructuring of public health and education, aimed at permanently cutting the cost of two of the largest areas of public spending. The savings will ultimately be handed over to business in the form of corporate tax cuts.

Gillard is now expected to deliver. That includes facing down opposition and using the full draconian powers of her Fair Work Australia industrial laws to suppress working class resistance to the government's looming offensive.

On the one hand, if the Labor minority government baulks at imposing its class war agenda, it will face a sustained big-business campaign over the deficit, the carbon tax or some other issue. On the other, if it proceeds, it will confront a growing oppositional movement among wide sections of the population.

Less than a year after the political coup that ousted former Prime Minister Kevin Rudd, and barely nine months after the federal election resulted in the first hung parliament in 70 years, Australian politics is heading toward new shocks and social conflict.