Australian debt ceiling conflict a pretext for "massive cuts"

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The Abbott government, under intense pressure from the corporate elite to move much more quickly to slash public spending, is seeking to use a clash with the Labor and Greens opposition parties over lifting the government's debt ceiling to contrive an immediate fiscal emergency. Treasurer Joe Hockey has warned of "massive cuts" unless the standoff is resolved by December 12, when the current $300 billion limit will be reached.

The purpose of the "fiscal cliff" scenario is to create the political climate for bringing forward sweeping cuts to core social spending, such as health, education and welfare, despite intense public opposition to any such cuts. The three parties of the political establishment—the Liberal-National Coalition, Labor and the Greens—are conspiring to ditch election promises they made to shield these areas from the huge cuts being drawn up because of the collapse of the mining investment boom and the deteriorating world economic situation.

Although it is far from clear yet how the conflict will play out, there are obvious parallels to October's 16-day government shutdown in the United States, which became a vehicle for the Obama administration and the Republican-led Congress to join hands to push through deep and historic cuts to social programs affecting millions of working people.

Labor and the Greens combined in the Senate yesterday to block the government's legislation for a $200 billion increase in the debt ceiling to $500 billion. Instead, Labor and Greens approved a rise to $400 billion, insisting they would go no further unless the Liberal-National Coalition government provided further budgetary information. In response, the government immediately rammed the unamended bill through the House of Representatives for the second time last night, setting the scene for a confrontation with the Senate when it resumes in the first week of December.

Treasurer Hockey, who was in New York at the time of the US government shutdown, had clearly drawn some political lessons. Yesterday he invoked the spectre of a similar paralysis of government functions , a threat that would give Labor and the Greens the pretext they needed to tacitly support devastating cuts to welfare entitlements and other social services. They stand perfectly ready to do so, having already imposed a record reduction in public spending during 2012–13—primarily to welfare benefits, health and education—under the previous Labor government, which was kept in office by the Greens . (See "Revealed: Australian Labor government's record spending cuts")

"If Labor prevents an increase in the debt limit there is no choice but to start having massive cuts to government expenditure," Hockey told ABC radio yesterday. Asked whether he was "seriously threatening to shut down government services," the Treasurer replied: "There is no choice." He told parliament the government might have to stop welfare payments and close Medicare if the debt ceiling were breached.

Both Hockey and Prime Minister Tony Abbott accused Labor of behaving like "Tea Party" Republicans in the US, who blocked President Obama's credit limit increase until a bipartisan agreement was struck with the Democrats. This charge brought protestations from Labor and the Greens that they, unlike the government, were committed to "responsible" debt increases.

What neither side mentioned—and this silence is shared throughout the media—is that the deal struck between the US Republicans and Democrats, via an artificially created budget crisis, entailed drafting reductions in basic entitlement programs such as Social Security, Medicare and Medicaid and deeper cuts in education, housing, nutrition, the environment, health and safety and infrastructure maintenance. (See " US budget deal sets stage for intensified assault on social programs")

Both Labor and the Greens have signaled their readiness to accede to the $500 billion limit if Hockey's Treasury department supports it during Senate estimates hearings next week, or in the Mid-year Economic and Fiscal Outlook, due for release early next month. The most recent Treasury figures, released before the September 7 election, forecast debt peaking at $370 billion in 2015–16, but the economic situation has worsened since then, hitting government revenues.

Anxious to please the financial markets, Greens leader Christine Milne told the *Australian Financial Review* she could change her mind on the $500 billion ceiling if Treasury presented a compelling argument for it. Likewise, Labor shadow treasurer Chris Bowen accused the government of failing to fulfil its election commitment to reduce the budget deficit. "The Australian people are getting a very different government to the one they were promised," he said. In other words, he attacked the government for not cutting spending sufficiently.

In part, the standoff is based on short-term political calculations. Labor wants to delay any rise in the ceiling to $500 billion until next year, so that the government is held responsible for the higher debt, while the government wants to proceed now, so that it can blame the previous Rudd and Gillard Labor governments for the blowout. Behind this row over "who owns the debt" is the real concern: who will bear the political cost, in terms of public outrage and hostility, of the impending onslaught on the social conditions of millions of working people.

There is mounting big business pressure for faster action to impose brutal austerity measures. On Monday, on the eve of parliament resuming after the September 7 election, Abbott's business advisory council chief, former banker Maurice Newman, laid down a far-reaching agenda of budget slashing, wage cutting and de-regulation. In his speech, Newman lamented that the Coalition had limited its political options by promising not to take the budget axe to education, health and pensions. "Balancing the urgency for reform against keeping the people's trust, all the while risking another external shock, is a fine political judgment," he said.

Hockey's political manoeuvres are precisely to create an atmosphere of crisis over the debt ceiling where election promises can be jettisoned. Their urgency is being driven by a real economic crisis confronting Australian capitalism. The Reserve Bank last week reduced its growth forecast for 2014 to as low as 2 percent and predicted higher unemployment, despite record low interest rates. Rapidly falling mining investment, combined with stagnation across Europe and America, and fears of financial bubbles bursting in China and the US, has led to warnings of declining national income throughout the next entire decade.

Financial commentators quoted in today's *Australian Financial Review* backed the $500 billion debt ceiling because of likelihood of further global shocks. Deloitte Access Economics's Chris Richardson said insisting on a $400 billion "line in the sand" was "taking a completely unnecessary punt on the state of the Chinese economy and iron ore prices." Grattan Institute director John Daley said a $400 billion limit would only suffice if the government took "substantial action" and "tough decisions" in the May budget.

Hockey initially announced the higher debt ceiling just after returning from a G20 finance ministers' summit and IMF-World Bank meetings in the US , where he was clearly warned of grave dangers overshadowing world capitalism. He also saw firsthand the US government shutdown and is acutely aware of the threat to Australia's credit ratings if there is any hint of hitting a debt limit . (See "Australian treasurer pledges austerity during US trip ")

Some concerns have been expressed in global markets about the fallout from a political impasse in Australia. Nomura Holdings interest rate strategist Martin Whetton told *Bloomberg*: "It's not a good look for Australia. We've seen with the US example how disruptive these sorts of political disputes over debt can be."

Nevertheless, despite the risks involved, the Abbott government is intent on engaging in political brinkmanship, as a possible diversion for ramming through the corporate elite's demands for unprecedented cuts.