

Financial markets intervene in Australia's political turmoil

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With the final outcome of Australia's July 2 double dissolution still unclear, one of the major global ratings agencies has warned it will strip the country of its AAA credit rating unless "more forceful" action is taken to slash the budget deficit.

Standard & Poor's (S&P) decreed that the incoming government must impose severe cuts to social spending and other austerity measures, regardless of the widespread vote of discontent last Saturday, which has left neither the Liberal-National Coalition nor the Labor Party able to form a stable majority.

The agency, which represents the interests and concerns of the global financial markets, yesterday lowered Australia's credit rating outlook from stable to negative, and put the next government on six months' notice. S&P said it would "continue to monitor, over the next six to 12 months, the success or otherwise of the new government's ability to pass revenue and expenditure measures through both Houses of Parliament."

As S&P issued its dictates, Prime Minister Malcolm Turnbull was still engaged in talks with other parties and "independents" to enable the Coalition to cling to office. While the counting of postal ballots has favoured the Coalition in numbers of close seats, the Australian Electoral Commission today only had the government leading in 74 seats, two short of the 76 needed for a majority in the 150-member lower house.

Yesterday, Turnbull secured an agreement from Bob Katter, a rural Queensland-based populist and protectionist, to support a Coalition government in the event of a hung parliament, but only on votes of confidence and financial supply. Katter, concerned for his electoral prospects, said he offered the deal "with no great enthusiasm" to avoid a "very bad situation" of another election having to be called.

In its statement, S&P made clear its disapproval of the election result. "Given the outcome of the July 2, 2016, double-dissolution election, in which neither of the traditional governing parties may command a majority in either house, we believe fiscal consolidation may be further postponed," it said.

S&P did not stop there, however. It drew attention to the protracted political crisis in Australia and cast doubt on the capacity of the parliamentary system to deliver the budget cuts that the financial elite is insisting upon.

"Since the global financial recession of 2008–09 and more recently the end of the mining boom, Australia's fiscal position has continued to weaken with successive governments delaying an eventual return to budget surpluses," S&P said. It noted that the Turnbull government's pledge to wipe out the deficit by 2021 had set a date eight years later than the previous Labor government's 2009 vow to balance the budget by 2013.

S&P's blunt intervention underscores the implications of the remarks earlier in the week by billionaire retailer Gerry Harvey that "democracy was not working" and a dictatorship was needed in order to resolve the political crisis and impose anti-working class economic "reform" measures.

Successive governments since 2007, both Liberal-National and Greens-backed Labor, have failed to sufficiently satisfy the incessant demands of the finance houses and corporate chiefs to drastically cut health and education spending, dismantle welfare entitlements and drive down workers' wages and conditions.

Now Turnbull's bid to break through the political impasse by holding an election for all members of both parliamentary houses has been shipwrecked by the deepening public hostility already produced by decades of economic restructuring which has benefited a tiny super-rich minority at the expense of the working class.

S&P also spelled out the deteriorating and fragile situation facing international and Australian capitalism, which will intensify both the widespread loss of jobs and the corporate insistence on severe austerity measures.

Firstly, S&P indicated a sharp divergence between its forecast for world iron ore prices and the Turnbull government's 2016 budget prediction. The ratings agency expects the price for Australia's biggest export earner to be as much as \$US20 per metric ton lower than the government's forecast of \$55 a tonne. By the government's own calculations, this alone could wipe another \$A10.6 billion from federal revenue in the next two financial years.

Secondly, S&P drew attention to Australia's debt-fuelled housing bubble, which has exposed the country's big four banks to immense risks on global financial markets, where most of the funds are borrowed. It warned of "unproductive household borrowing for housing" and "the country's high external and household indebtedness, as well as vulnerability to weak commodity export demand."

Since Australia's last recession in 1991, household debt has trebled from about 60 percent of household income to 180 percent—the highest level in the world—because of spiralling house prices. This has propelled a rise in foreign liabilities to 67 percent of gross domestic product, well above the 50 percent level that the International Monetary Fund regards as calling into question financial stability.

Both the government and Labor immediately made plain their commitment to deliver the measures required by the money markets, despite the election's overwhelming vote of disaffection. Treasurer Scott Morrison said S&P's move reinforced the need to "stick to the plan" of spending cuts the Coalition set out in its past three budgets, and its message that Australia must "live within its means." Labor leader Bill Shorten blamed the government for the AAA rating threat, accusing it of "decisions of fiscal ineptitude and the tripling of the deficit."

Today's *Australian* editorial demanded a fully bipartisan front. "Given their commitment to serving Australia's interests, Malcolm Turnbull and Bill Shorten should put political point-scoring aside and work co-operatively to restore the health of the federal budget after ratings agency Standard & Poor's placed

our prized AAA sovereign debt rating on 'negative' watch yesterday," it insisted.

Denouncing "a finely balanced parliament with a shambolic Senate," Murdoch's national flagship called for a return to the offensive conducted by the Hawke and Keating Labor governments in the 1980s and 1990s. With all their key measures backed by the Coalition, as well as the trade unions, these Labor governments inflicted severe cuts to wages and working conditions, while slashing corporate and high-income taxes, setting in motion a vast and ongoing redistribution of wealth to the rich.

The editorial noted that during the election campaign Labor had already displayed its readiness to junk its opposition to sweeping social spending cuts, including to family benefits, the "schoolkids bonus" and aged pension assets tests.

Despite their severe impact on families and pensioners, these cuts are only a small downpayment on the social counter-revolution being dictated by the finance and business chiefs. In its editorial today, the *Australian Financial Review* declared that Australia's foreign creditors were nervous about the Australian government's capacity to bail out a big bank in the event of another financial crisis because of the "size and spread of Australia's welfare state."

These statements underline the warning made by the Socialist Equality Party that the ruling capitalist class can only impose its brutal agenda via authoritarian forms of rule and the ruthless suppression of opposition, making it essential to build a new revolutionary socialist leadership in the working class.



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