Western Australian credit downgrade signals greater austerity

By Joe Lopez
5 October 2013

Credit rating agency Standard and Poors (S&P) downgraded Western Australia's credit rating last month, from AAA to AA+, underlining the collapse of the Australian mining boom that has underpinned the state and national economy over the past decade. It is the first time in a decade that the state has not had a AAA rating.

In announcing the decision on September 18, S&P criticised the state Liberal government's fiscal policies, declaring "there is likely to be slippage, reflecting our view of limited political will, as evidenced by the early revision of some budget revenue and expenditure measures."

The downgrade is a warning not only to the Western Australian government, but to governments in other states and at the federal level, to press ahead with the austerity agenda being demanded by finance capital. Currently only the federal government and the states of New South Wales and Victoria have AAA credit ratings.

The *Australian* 's economics editor David Uren underscored the message to the incoming Liberal-National coalition government in Canberra, noting that it had to demonstrate the "political will" to improve "the budget balance and spell out measures for achieving them. So long as the new government sticks to its commitments, its AAA credit rating will be secure."

The reversal of the Western Australian economy, which is heavily dependent on mineral exports, highlights the impact of the slowing Chinese economy amid a worsening global slump. Economic growth in WA has plunged from 14 percent in 2011-12 to 6 percent in 2012-13, and is forecast to decline to about 2.5 percent by 2014-15.

The official unemployment rate has jumped from 3.7 percent to 5 percent over the past year. It is expected to rise to 5.5 percent, but could escalate further as the state government slashes public sector jobs and restructures state assets for privatisation.

Economic forecaster firm BIS Shrapnel has predicted a further decline in the mining sector and weaker growth for the state economy. Chief economist Frank Gelber noted that "the end of the mining investment boom is forcing companies to cut costs and shed staff, creating an oversupply of labour and services into a shrinking pool of work."

According to a recent Australasian Institute of Mining and Metallurgy survey of its members, about 11 percent of geologists, engineers and environmental scientists cannot find work—up from just 2 percent in a similar survey for 2012.

The S&P downgrade will result in a further round of austerity measures in Western Australia. In its August budget, the state government had already planned to slash 1,200 jobs across the public sector and to impose a public sector wage rise cap of 2.5 percent—in effect a real wage cut given the state's high cost of living. Since then, it has confirmed that 500 jobs are to go in public education in 2014, including 350 education assistant jobs and 150 administrative positions in the education department.

The budget will also slash a further $150 million from social programs and impose an across the board cut in the form of a 2 percent "efficiency dividend" on all government departments and agencies.

In response to a public outcry over its plan to impose a huge school fee of $4,000 on the children of skilled migrants, the government delayed its implementation and reduced the amount for families with more than one child. S&P cited the government's back down on this and other issues as signs of a lack of "political will".

Premier Colin Barnett responded to criticism from the state Labor opposition of his government's "reckless spending" by pledging "significant expenditure cuts right across government—every area". He continued: "Labor calls for fiscal responsibility. Well get ready because there's going to be a fair dose of it."

Barnett added: "The most immediate and direct way of reducing debt is to sell something or sell several things. There will be a program of asset sales and that will be introduced very quickly." At the same time, he quickly reassured the mining giants that they would face no increases to taxes and mining royalties as his government sought to garner extra revenue.

WA Treasurer Troy Buswell warned that the government would face opposition. "The reforms we have in line for our workforce, which will deliver the largest pool of savings out of the fiscal action plan are going to be really tough." he declared. "And if we think it's been difficult with education reform, we've got a whole other argument and battle coming around workforce reform. This should steel our resolve."

Buswell's comment about the government's "difficulties with education reform" refers to the widespread hostility among education workers, parents and students to the cuts to jobs and funding and increased fees. Late last month, more than 20,000 public education workers, parents and students attended protests across the state to voice their opposition to the government's plans.

The WA downgrade has broader implications for the working class. Barnett has already called on the federal coalition government to raise the regressive Goods and Services Tax (GST) that impacts most heavily on low income earners. The GST is collected by the federal government and redistributed to the states and territories.

The Liberal Party ruled out any increase in the GST in the course of the campaign for the September 7 federal election. But like the WA government, it could come under pressure from the financial markets to dump its promise. Barnett proposed the tax be lifted from 10 percent to 12.5 percent. He received support from the Labor administration in the Australian Capital Territory, where Chief Minister Katy Gallagher called for a discussion on changing the tax rate or widening its application.

The latest forecast by the Bureau of Resources and Energy downgraded annual growth rates for the Australian economy to just 2.5 percent over the next four years—well below Treasury estimates of 2.75 to 4.25 percent for 2015. The quarterly report pointed in particular to weakening commodity prices—a 19 percent fall in coal prices in 2013-14 while iron ore prices were predicted to remain flat—and the drying up of mining investment.

The *Australian Financial Review* reported yesterday: "Budget experts said if growth is as weak as predicted by the bureau, the federal budget would take a $20 billion revenue hit over the next four years." Slowing growth and revenue will add to the demands of the financial and corporate elite for a sweeping assault by state and federal governments on the social position of the working class.