

Australia: Financial ratings agency cracks the whip on budget

By Mike Head
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Global ratings agency Standard & Poor's has warned that Australia's AAA credit rating could be reviewed if the Abbott government fails to carry through its budget assault in the face of widespread popular opposition.

Summing up the dictates of the international financial markets, the threat provided the headline—"AAA credit rating at risk"—in today's *Australian Financial Review*. An accompanying front-page editorial demanded the dismantling of the welfare state erected since World War II.

Removing the triple-A credit rating would make it more expensive for Australian governments to borrow on the money markets, and place a question mark over the country's financial and banking system, which depends heavily on foreign capital inflows.

In what amounts to an intervention into Australian politics, S&P declared that it would have "some pause for concern" if the government proved unable to deliver its vow to eliminate the \$48 billion budget deficit within a decade, because of the deep public hostility that has erupted to last Tuesday's budget.

Interviewed by the *Australian Financial Review*, S&P sovereign risk analyst Craig Michaels said there was no "immediate" risk to the AAA rating, but he put the government on notice. He expressed concern that the backlash against the budget could mark a "fundamental shift in the community's attitude to what they expect from government."

The opposition to the budget is not a "shift" in attitude, but a strongly-felt resistance to the slashing of welfare entitlements, and the other budget imposts, that will mean destitution for wide layers of the working class, and the erosion of public health, education and social programs.

The more detail that has emerged from the budget, the more the hostility has grown. It is now clear that, in

addition to the \$80 billion to be stripped from health and education funds to the states over the next 10 years, immediate cuts to hospital, dental and other medical grants of about \$3 billion could see hundreds of hospital beds shut down and other critical services terminated as soon as July 1.

Detailed modelling has also shown that families in the poorest 20 percent of the population will experience an average 5 percent cut in disposable income, with some welfare recipients losing up to 15 percent, and the unemployed under 30 losing *all* income support for six months at a time, while those in the wealthiest 20 percent will suffer a cut of just 0.3 percent.

S&P's intervention exposes the fraud of the claims by Labor and the Greens that this offensive is driven by an "ideological" obsession on the part of Prime Minister Tony Abbott and Treasurer Joe Hockey. S&P's warning is the voice of global finance capital speaking: Australian capitalism is no exception to the social counter-revolution of welfare and wage cutting that has been unleashed in Europe, America and worldwide since the economic breakdown of 2008.

"We're looking for action," S&P's Michaels insisted. "We're looking to see government improve budget performance over the next few years." If "sizeable budget deficits were considered acceptable at the political and community level, then we might reassess, certainly, government commitment."

Labor and the Greens claim that there is no budget crisis, simply a phony "emergency" concocted by the Liberal-National government. However, Michaels emphasised that although Australia's deficit and debt levels are lower than other countries with a AAA rating, the Australian economy is peculiarly vulnerable because of its reliance on foreign markets and international investors, including for its major banks,

Westpac, Commonwealth Bank, National Australia Bank and ANZ Bank.

“Australia is fairly unique among AAA-rated sovereigns in that its external position is very weak,” he said. “What that means is that to retain the AAA rating, everything else needs to remain very strong, including public finances.”

This is no idle threat. Since 2008, the ratings agencies have already removed AAA ratings from nearly all the Australian states, including, most recently, Western Australia (WA), formerly the biggest “mining boom” state. S&P cited a lack of “political will” to rein in government spending when it cut WA’s rating.

In 2008, overseas funding rapidly dried up for the big Australian banks, effectively making them insolvent and forcing the Rudd Labor government to prop them up by guaranteeing their borrowing and lending. Such a crisis could rapidly erupt again in the event of another global crash.

Moreover, export commodity prices are dropping due to falling demand, particularly in China, and this is further undercutting federal and state government revenues. Iron ore prices, one of the mainstays of the mining boom, are expected to soon go below \$US100 a tonne, down from their height of \$180.

S&P was not alone in its threat. Bank of America Merrill Lynch Australia chief economist Saul Eslake said it would be “unhelpful” if the Abbott government’s budget measures were blocked in the Senate. “Our banks have lots of liabilities which ratings agencies now recognise could become government liabilities in the wrong circumstances,” he noted.

In its editorial, the *Australian Financial Review* denounced the “cacophony of protest from any part of the community that feels aggrieved it is losing something” and complained that the Abbott government had not “properly prepared the ground” for the “budget Australia had to have.” Such is the contempt of the wealthy elite for the needs and sentiments of the vast majority of the population.

The editorial declared that the “lessons from the global financial crisis”—which Australia “largely dodged thanks to the luck of our China boom”—were that “layer upon layer of middle class welfare” is now “unaffordable given the competitive challenge from emerging market producers.” It demanded that the welfare state be “refashioned back to its original

concept as a genuine safety net as a springboard for enterprise and self-reliance.”

This means stripping away every social concession made to the working class over the past century, so that corporate and income taxes can be reduced to the much lower levels offered in Hong Kong and other Asian financial centres.

Labor and the Greens, led by Bill Shorten and Christine Milne, are currently posturing as opponents of budget austerity, in order to provide a parliamentary safety valve for the hostility to the budget and prevent it getting out of the control of the political establishment. But the previous Labor-Greens government did everything it could to implement the dictates of finance capital.

In fact, according to calculations by Deloitte Access Economics, Labor’s plans to eliminate the budget deficit would have led to spending cuts reaching \$100 billion a year over the next decade—almost double those in the Liberal-National government’s budget.

The minority Greens-backed Gillard Labor government, backed to the hilt by the trade unions, cut public spending in real terms during 2012-13, for the first time in recorded post-World War II history. It also imposed an ongoing 2 percent cap on spending—that is, a continuing drop compared to inflation. Under the Abbott government’s budget, spending will keep falling in real terms, but rise in nominal terms by an average of 2.75 percent during the next 10 years.

Beneath all the confected outrage by Labor and Greens leaders about the budget, and the Abbott government’s broken election promises not to cut health and education, the last Labor government was just as committed to meeting the demands of the ruling financial elite, as would be any future Labor government.

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