

Financial warnings point to Australia's economic and political instability

By Mike Head
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Two warnings by global financial firms about the precarious state of the Australian economy in the face of the US-China trade war and global financial turmoil have underscored the ruling elite's deepening economic and political predicaments.

This week's reports, one by the Fitch ratings company and the other by Morgan Stanley, the American multinational investment bank, raise the spectre of a financial crisis that would blow up the pre-election claims of both the Liberal-National Coalition government and the Labor Party opposition.

They also point to the possibility of Prime Minister Scott Morrison, who was installed via a backroom Liberal Party coup in August, calling a snap election to try to scrape back into office before the economic storm fully hits.

Last November, with the government wracked by electoral defeats and ongoing factional warfare, Morrison sought to hold it together for a few more months. He announced that Treasurer Josh Frydenberg would produce an early "surplus" budget in April, effectively paving the way for a federal election in May, which is the latest possible month.

However, this week's reports expose the unreal assumptions behind the government's claim to be ready to produce the first budget surplus since the 2008 global financial breakdown. They also indicate deep concerns in the ruling capitalist class that a sharp deterioration in economic conditions will intensify the discontent in the working class over decades of worsening social inequality and declining living standards, particularly since the last global crash in 2008.

According to Fitch, a slowdown in the world economy will cut anticipated government revenues, stopping the Coalition from reaching a budget surplus.

Fitch forecast a relatively small budget deficit of 0.1 percent of gross domestic product (GDP) for 2019–20,

doubting Frydenberg's December mid-year budget update, which predicted a surplus of \$4.1 billion (0.2 percent of GDP) in 2019–20.

Fitch expected Australia's economic growth to slow to 2.5 percent in 2019 from 3 percent in 2018, due to weaker corporate investment and exports. It said the Chinese government's bid to diversify its economy away from heavy industries, combined with China's "ongoing economic growth deceleration" would "bode poorly for Australia's mining exports."

"Gloomier economic growth prospects" would also "slow hiring and wage growth," undercutting the government's extraordinary "revenue growth projection of 8.1 percent in fiscal year 2019."

Fitch's predictions themselves understate Australian capitalism's exposure to the fallout from the Trump administration's economic confrontation with China. The Australian corporate elite is becoming "collateral damage" in the offensive launched by the US ruling class, its largest source of foreign investment, to assert America's post-World War II global supremacy. Signs are emerging already of the impact on China, which has become Australia's largest export market over the past 15 years.

The Fitch warning ignited speculation of a possible early election. "As the economy slows in certain respects and global headwinds grow stronger, the option of a March election remains open to Scott Morrison," the Australian Broadcasting Corporation (ABC) reported.

Interviewed on ABC radio on January 10, Frydenberg played down talk of an early poll. Nevertheless, he acknowledged "some cold headwinds in the global economy, particularly some of the trade tensions we've seen." He also admitted that rising US and global interest rates could affect "the credit dynamic in the domestic economy."

This was a veiled reference to rising mortgage interest

rates and falling real estate prices, which are threatening to cause widespread mortgage defaults. Already an estimated one million households are suffering mortgage stress, with their household income insufficient to cover living expenses.

Asked again on ABC television's "7.30" program that night whether he could guarantee there would be no election before April, Frydenberg was evasive. "Well, the prime minister has been very clear that I'll be delivering a budget on April the 2nd, this will be an important economic document," he replied.

On the same day, the London-based *Financial Times*, a voice of global capital, published an article headlined: "Australia's house price slide prompts worries about economy." It reported the latest warning, issued by Morgan Stanley, of an accelerating reversal in the housing market bubble that largely underpinned Australian capitalism after a decades-long mining boom began to implode in 2012.

"National house prices fell 1.3 percent in December, the largest monthly fall since 1983, which resulted in an annual decline of 6.1 percent last year," the newspaper reported. "Prices in Sydney, the country's biggest property market, are down 11.1 percent from their peak, according to Morgan Stanley, which warned this week the slump could torpedo Australia's run of 27 years without a recession—a modern global record."

Daniel Blake, lead author of the Morgan Stanley report, told the *Financial Times*: "Our models show that Australian households are most exposed of any G10 country to a housing slump and face a period of deleveraging, leaving growth heavily reliant on public spending on health, education and infrastructure."

After years of sky-rocketing dwelling prices, which have enriched a host of billionaire developers and speculators, total Australian household liabilities have increased to more than \$2.5 trillion, according to the Australian Bureau of Statistics. Household debt has burgeoned from about 60 percent of disposable income in 1998 to around 200 percent—one of the highest levels in the world.

Morgan Stanley's report followed a similar warning by Core Logic, which tracks property prices. A wider financial crisis could result because mortgage debt accounts for over 60 percent of the assets of most major Australian banks.

The Labor Party's response to Fitch's report was just as duplicitous as the government's. Labor's shadow treasurer Chris Bowen said the report was concerning, but

made no mention of how the economic reversal would affect his party's own pledges to the financial markets to produce bigger budget surpluses than the Coalition.

If Labor were to regain office by exploiting the widespread hostility to the unravelling Coalition, it would again form a pro-business government, as it did from 1983 to 1996 and 2007 to 2013, working closely with the trade unions to suppress workers' opposition.

Sections of big business are looking to Labor to protect their interests as the Coalition's most right-wing elements, orbiting around Home Affairs Minister Peter Dutton and ex-Prime Minister Tony Abbott, strive to refashion the Liberal and National parties into a Trump-style populist and semi-fascistic movement to divert the social discontent in nationalist directions.

At Labor's national conference last month, the Labor and union leaders warned repeatedly of rising working-class unrest. They said a Labor-led government was essential to prevent the disaffection with the parliamentary order from boiling over.

Labor leader Bill Shorten warned of mounting "distrust and disengagement, scepticism and cynicism" toward the entire political system, while Australian Council of Trade Unions secretary Sally McManus warned of a tidal wave of discontent over casualised employment and falling wages.

The truth is that whichever party heads the next government, it will seek to make the working class pay for the emerging crisis by further gutting social spending, driving down real wages and breaking up working conditions. At the same time, it will boost military spending to meet Washington's demand for Australia to remain unconditionally behind the aggressive US offensive against China.

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