Australian government claims “good news” despite soaring unemployment

Mike Head
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Prime Minister Kevin Rudd hailed as “good news” last week’s release of the latest national economic statistics even though the data point to a further rapid rise in unemployment over coming months.

At a joint media conference, Rudd and Treasurer Wayne Swan could hardly contain their glee at the surprise news that gross domestic product (GDP) grew by 0.4 percent in the March quarter, following a revised 0.6 percent decline in the December quarter.

There was only “growth” in the March quarter because of a record trade surplus that added 2.2 percent to GDP. The largest component in this surplus, however, was a sharp 8.5 percent fall in the volume of imports, primarily driven by a dramatic reversal in business investment. The growth therefore masked an underlying deepening of recession.

Steel imports plunged 34.2 percent due to the cancellation of investment projects, particularly in the mining and commercial building industries. These figures point to a deep-going downturn, which economic analysts warned was likely to send the joblessness rate soaring to 9 percent next year, meaning more than a million unemployed.

While celebrating the outcome, Rudd and Swan pointedly declined to alter the government’s own forecast that the official unemployment rate will rise from 5.4 percent to 8.5 percent by the middle of next year. The Labor government is preparing, in collaboration with big business and the trade unions, to use the increase in joblessness, as a battering ram to slash wages and conditions.

Rudd specifically paid tribute to the trade unions for showing “restraint” on wages and singled out their close collaboration with General Motors-Holden and the government in placing car workers on half-time working—a 50 percent pay cut—in return for the company receiving billions of dollars in government subsidies.

The prime minister called for the imposition of further such sacrifices. “So, there’s been great examples of restraint, but we must continue to see restraint as well in what’s going to be a difficult period ahead. We are all in this together, and that involves the unions as well, and we are working closely, of course, with the business organisations.”

Like the Obama administration, the Labor government is intent on using the global financial crisis to carry through a far-reaching economic restructuring at the expense of the working class, in order to restore the profitability of the very institutions responsible for the meltdown.

Most economic analysts rejected the government’s boast that it had avoided a “technical” recession, with even the official data showing that output fell over the past six months overall. BT Financial Group chief economist Chris Caton commented: “The so-called ‘technical’ definition of a recession—two successive quarters of declining GDP—is nonsense; we know we're in a recession because of what has already happened to unemployment!”

Nevertheless, Rudd continued to insist that Australia could avoid any major impact from the greatest global economic breakdown since the 1930s, portraying the country as the fastest (and only) growing economy “in the developed world”, while the US, Japan, Britain, Germany and Canada had all contracted in the March quarter.

As the GDP data itself underscored, Australian capitalism is highly dependent on exporting commodities to China. A factor in the trade result was a 6.7 percent jump in the volume of iron ore exports to China, which was driven by speculation and stockpiling, rather than any surge in Chinese demand or growth. About 100 million tonnes of iron ore is reportedly sitting, unused, in Chinese ports, steel mills and warehouses.

For all the media claims of “green shoots” re-emerging in China, its electricity consumption—regarded as a more accurate measure of economic activity—fell 3.6 percent year-on-year in April, a larger drop than in March, the latest sign that growth

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remains stalled.

The volatility of the Australian trade figures was demonstrated by the results for April, released just a day after the March quarter GDP data. They showed a $91 million trade deficit, reversing the revised $2.3 billion trade surplus in March. Sales revenues for the country's two largest exports, coal and iron ore, fell 18 and 21 percent respectively.

These figures are set to worsen as annual contracts for iron ore and coal are finalised over coming weeks, with Chinese importers demanding price cuts of even more than the 33 percent agreed to by their Japanese and Korean competitors.

Together with Australia's other main export markets, Japan and South Korea, which are both mired in recession, China's production depends in turn on exporting to US and European markets. Last week the UN forecasted a 3.9 percent contraction in developed countries, 2.6 percent negative world growth and an 11.1 percent fall in world trade this year.

During the March quarter, the Labor government's so-called stimulus packages—worth $90 billion so far, not counting the deposit and borrowing guarantees to the banks--also helped avert a GDP decline. Combined with a 4 percent cut in official interest rates since last year, they boosted household disposable income, producing higher retail spending. At the same time, however, more fundamental processes were already hitting households—total wage income dropped 1.2 percent, due to falling employment (down 0.5 percent) and cuts to working hours (down 0.4 percent).

Domestic final demand, a measure of the internal economy, dropped by a full 1 percent, and every state and territory experienced two consecutive quarters of falling final demand, except for South Australia, which rose 0.2 percent on the back of lagging mining resources investment.

Statistics released last week showed that new private capital expenditure fell by a seasonally adjusted 8.9 percent in the March quarter, driven by a 10.8 percent plunge in equipment, plant and machinery. Investment by manufacturing companies dropped 12.2 percent.

JP Morgan chief economist Stephen Walters said there were "serious negative implications for employment, which is driven by changes in investment spending, not changes in GDP". The unemployment rate would climb toward 9 percent, he said, making "a long process of household de-leveraging even more painful". In other words, many more financially-stressed households will be forced to default on their mortgages and/or slash their overall living standards.

Australian Financial Review economics correspondent Adrian Rollins warned that the latest $22 billion infrastructure spending program outlined in last month's federal budget would "fall well short of offsetting the massive black hole in demand and output being left by the rapid decline in private investment."

The vast bulk of the government's bailouts are directed at propping up the finance houses, retail chains, large construction contractors and housing developers, which are taking the lion's share of the proceeds at the expense of the households and local schools that the government claims to be helping. By the government's own estimates, this largesse will produce a $315 billion public debt by 2013-14, even if the economy "recovers" to produce record growth rates. This debt will be paid off through a decade of deep cuts in social spending, jobs and living standards.

Even before last year's financial crash, increasing numbers of working people were being forced to turn to charities. Buried away in the media on the same day that the GDP statistics were published was a report by the Australian Council of Social Services saying that in 2007-08 welfare and community organisations provided services to 3.1 million people, up by 19 percent from 2.6 million in 2006-07.

Unable to cope with the increased demand, agencies turned away nearly 280,000 eligible people, up 17 percent from the previous year. The list of services most needed by people provides an indication of the human toll already being exacted by the crisis. Long term housing topped the list, followed by crisis accommodation, health care, income support, aged and disability services and employment programs. 48,000, or one in four, youth were turned away—the largest percentage of any group.

Last month's budget ignored pleas from the charities for emergency extra funding. At the same time it stripped jobless youth of welfare benefits unless they enrolled in vocational training or education courses. With few training options available, this is designed to force youth into cheap labour—another element of the Labor government's pro-business restructuring agenda.

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