Paltry GDP growth promoted as proof of Australian “recovery”

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The announcement on September 2 that Australia’s GDP might have grown a meagre 0.6 percent in the April-June quarter has been the signal for a new round of applause for Australia’s so-called miracle recovery. The story promoted by the federal Labor government and accepted without qualification by most economics commentators is that Labor’s massive $53 billion stimulus package (calculated from December 2008) has snatched the country, practically alone among developed nations, from the jaws of economic disaster. As economics commentator, Adam Carr, put it within hours of the release of the GDP figures, “All that worry for nothing—this economy is running hot!”

It is not only in Australia that the economy’s narrow and singular escape from two quarters of negative GDP growth (January quarter GDP growth was 0.4 percent) is being sold as a success story. According to the *Wall Street Journal*, the latest GDP data shows Australia is “growing strongly” and that “the global meltdown slowed Australia’s economy only momentarily”. The *New York Times* has described the GDP figures as “robust”. Meanwhile, London’s *Financial Times* reported approvingly the Australian treasurer Wayne Swan’s boast that “we have been going forward while so many other countries have been going backwards.” Taking Swan’s comments at face value, the FT commented on the “strength of the Australian economy” and “robust contributions from the household sector and business spending on machinery equipment.”

The willingness of leading media outlets to accept uncritically the tale of a ‘wonder down under’ is more than just lazy reporting. Rather, Australia will in coming months serve an important propaganda role for those who assert that capitalism still has a viable future and that governments can manufacture local solutions to the global crisis. The message is that under certain conditions—huge and well-timed stimulus, a stable banking system and a heavily-stimulated export market, in this case China—governments can quickly turn national fortunes around. Of particular significance to this version of events is that Australia’s stimulus package, at 4.2 percent of GDP, is the second largest in the OECD.

And what of the fact that such stimulus is, by definition, only temporary? The corporate press and the markets remain untroubled. This is because, according to the official line, when business confidence, buoyed by the good economic news, duly returns, growth will become sustainable. Sure enough, and right on cue, the September 2 release was followed by reports that Australian business confidence had hit a six-year high, that shares had reached an 11-month peak and that the Australian dollar was trading at its highest level against the US dollar since September 1, 2008. Claims of a resurrection in commercial optimism have a self-fulfilling quality, albeit only in the very near term.

GDP growth? Production versus income

Closer scrutiny of Australia’s GDP figures reveals a different story, one that does not support a claim that in the coming period ‘strategically positioned’ economies with stable banking systems can, through major and judicious spending, achieve lively growth.

The 0.6 percent growth figure for the April-June quarter is the ‘chain-weighted’ measure of GDP, that is, an adjustment to the ‘raw’ GDP figure. That adjustment is intended to take into account the effect of price changes. This is achieved by factoring in a quarterly ‘price deflator’.

However, the Australian Bureau of Statistics (ABS) also publishes the unadjusted GDP figure, which in the June quarter was a seasonally adjusted *negative* 1.5 percent. The adjustment from negative 1.5 percent to positive 0.4 percent growth is because the price deflator had been set at negative 2.3 percent. The key reason for this negative setting of the price deflator (in effect, an inflation of quarterly GDP) was that Australia’s terms of trade—the price the country fetches for its exports relative to the price of its imports— fell by 7.4 percent. The terms of trade had already fallen 7.7 percent in the previous quarter, despite a concurrent 0.4 percent growth in GDP.

When one looks closely at the income figures, they paint, in fact, a dire picture. Gross domestic income—the market value of Australia’s product—fell by 1.1 percent over the June quarter, finishing off a year in which that income figure fell 3.8 percent overall. According to the ABS, when national disposable income is adjusted for terms of trade and other factors, income still fell 2.2 percent over the last quarter and 3.2 percent over the year. Domestic and household incomes fell for the third straight quarter.

In substance then, the positive GDP figures conceal a sustained ‘income recession’, and, in particular, a recession in terms of Australia’s trade with the rest of the world. Even if Australian production is growing on some measures, the income that Australian households and companies will receive from that production has suffered a sudden decline. Most importantly, that decline has occurred in a period when East Asian demand for Australian commodities has been kept aflame from the Chinese side by a stimulus expenditure program which, at $US586 billion, is the largest ever such program as a portion of the size of the stimulated economy. Unless the terms of trade recover, there is little prospect of sustained GDP growth.

Labor’s stimulus: what’s behind the hype?

What explains the difference between production and income in the Australian economy? The clearest answer is domestic demand and, in particular, the Rudd Labor government’s stimulus package. However, the fact that Labor’s unprecedented spending (and its counterpart—unprecedented borrowing) has managed to drag adjusted GDP growth into positive territory, is not an indication that the government has saved the economy. In fact, the reverse is true.

Even if Australia managed to maintain for the rest of 2009 the rate of chain-weighted GDP growth achieved, on average, during the first half of the year (that is, 0.5 percent, which is by no means assured) then by January 2010 the country’s annual growth rate would be a little over 2.0 percent. This means that, calculated roughly, every dollar of stimulus would have resulted in 47 cents of positive, price-adjusted growth. On any measure, this makes the stimulus package a stunningly ineffective spray of debt. The working class will pay for this act of desperation with increasingly deep cuts to government services, including health, education and welfare. Labor is already preparing for several federal government budgets of unprecedented austerity.

If the promoters of Australian economic recovery refuse to accept that the stimulus package has been woefully ineffective, then they must acknowledge that the underlying, ‘unstimulated’ economy is in such deep recession that only with gargantuan government borrowings was it possible to produce even negligible GDP growth rates in the first six months of 2009.

What then can be expected of the Australian economy once stimulus spending begins to be phased out over coming months?

With miserable and worsening terms of trade, stagnant national income and growing uncertainty about the sustainability of Chinese demand, prospects are dim. In particular, China’s ability to sustain rapid growth once the adrenalin rush of an unprecedented $US586 billion in spending and lending winds down, will depend on United States consumer expenditure returning to pre-crisis levels. There is no indication that this will happen. An upward creep in US household expenditure over the past two months (the increase has been about 0.2 percent per month) does not address its 10 percent decline since November 2007. Meanwhile, Chinese stimulus money has largely been invested, or on-lent, into speculation, including property. Consistent with that process, the main visible effect of the stimulus has been to drive up the Shanghai stock index by 30 percent between January and July. Dramatic falls this month indicate that this particular bubble has already begun to burst.

In truth, domestic and international praise for the Australian GDP figures is calculated to distract working people from far important statistics, namely, those that confirm the ongoing crisis in their daily lives. The official unemployment rate is ‘stable’ at 5.8 percent, but 14 percent of the Australian labour force was either unemployed or underemployed (that is, working part-time but looking for more work) in August. ABS figures also indicate that for 13 consecutive months the number of hours worked by the Australian labour force has been in decline. In August alone, Australians worked an astonishing 5.8 million *fewer* hours than they did the month before.

Together with the latest quarterly GDP and national income data, the ABS labour-hour figures speak loudly of the way the Australian ruling elite, like its counterparts internationally, has responded to the financial crisis. Along with a mountain of debt and spending for which the working class will foot the bill, its strategy is to keep costs low and wring more value per hour from those who remain in their jobs.