

Despite mining boom, Australian economy in trouble

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On the eve of tomorrow's federal budget, the Labor government confronts an economic landscape that, far from being "miraculous" as it claims, is contradictory and highly unstable. A China-fuelled mining boom may have boosted the super-profits of the mining giants, but most other industries, especially those reliant on exports, are in serious trouble. The soaring Australian dollar, for which the mining boom is partly responsible, threatens to decimate manufacturing, tourism, education and some primary industries.

Treasury figures leaked last week indicate that despite the biggest commodities export boom in Australian history, economic growth this financial year is declining. This translates into an anticipated \$50 billion budget deficit, which, given the demand in financial circles for a quick return to a surplus, sharply increases the pressure for major social spending cuts. Treasurer Wayne Swan has publicly slashed a whole percentage point off the gross domestic product (GDP) growth announced in November, with the annualised figure now running at just 2.25 percent. Treasury is warning that the figure for the March quarter could well be negative.

Although Queensland's January floods and February's Cyclone Yasi played a role in lowering growth, the deeper reason for the stagnancy lies in the continuing global economic crisis. With the exception of the mining sector, other sectors of the economy are being hit by intensifying international competition and an end to the government's stimulus measures that were put in place following the 2008 financial collapse. The high Australian dollar, which was trading at \$US1.10 cents at the beginning of this month, intensifies these pressures, effectively applying a blowtorch to non-mining "export" sectors, including tourism and the international student industry.

Complete aggregate figures are not yet available, but the effective cost of Australian exports has increased by

approximately 25 percent since June 2010 and is likely to have a lasting impact. According to a survey by the Australian Industry Group, 93 percent of manufacturing firms reported that as long as the Australian dollar was above \$US1, there was a significant risk they would not be able to secure overseas orders. The export of services—mainly tourism and education—already declined by 1 percent in 2010, but that decline did not yet reflect the dollar's record-breaking jumps in recent months, nor its impact on the long-term enrolment decisions of overseas students.

Apart from exports, retail sales have contracted by 0.5 percent over the past month and over the past quarter. The effect of such outwardly small changes is enormous. Retail sales currently account for around 18 percent of Australia's \$1.3 trillion GDP.

Business lending, which contracted sharply at the onset of the global financial crisis, declined a further 0.6 percent in the year to March. Significantly, there is stagnation in the construction and property sectors, the mainstay of the non-mining economy. House lending increased in the January-March quarter, but at its slowest pace in 35 years, while capital city house prices posted their largest quarterly drop in 15 years. Only personal credit (that is, unsecured loans, including credit card debt) increased in the past year—by 0.6 percent.

Neither the Australian dollar's new level, nor the boom in coal and metals, are likely to last long-term. They reflect, in fact, the dangerous instability of the global economic environment and the contingent nature of Australian growth. The dollar, for instance, dropped from \$US1.10 to \$US1.05 between May 1 and 6. As currency analyst Clifford Bennett explained to the *Sydney Morning Herald*: "The falls and rises are bigger [for the Australian dollar] because gold and oil have had such big runs. The Australian dollar is to some extent viewed as a commodity currency so that volatility

flows more into the Australian dollar than other markets.”

The global “carry trade” contributes to this volatility. Relatively high Australian interest rates mean huge profits for currency traders who borrow funds from the US (where interest rates are close to zero) and buy (carry) Australian dollars. The bulking-up of hedge fund balance sheets with money siphoned out of the European and US bank bailout programs has vastly increased carry-trade funding. The US Federal Reserve’s program of quantitative easing has also boosted the carry trade, especially in currencies belonging to commodity exporters. The present winding back of US quantitative easing will, over time, reduce the effect of the carry trade in increasing the Australian dollar’s value.

Short-term fluctuations to one side, the dollar’s sharp appreciation in recent months could reverse quickly as global conditions change. Huge Chinese demand for iron ore and coal is largely the product of intense speculation in construction that will inevitably collapse, sooner or later. An end to China’s property bubble—even in the unlikely event that it occurs slowly, not explosively—would send global commodity prices downward, slash Australian government revenues, and impact on Australian house prices.

The Australian banking sector would be badly affected. More than 60 percent of the loan books of Australian banks are residential mortgages. This is a dangerously high figure given that, according to the UK’s *Economist* magazine, Australian house prices are now overvalued by more than 50 percent. The increase in house prices and in the finance sector’s housing dependency are in inverse proportion to the decline of the manufacturing and non-commodity export sectors over the past decade. In 2000, housing loans accounted for only 40 percent of bank loans. In other words, domestic banks have increasingly turned their back on investing in local productive capacity, outside the mining sector. The banks made their own calculations of the difficulties that Australian capitalism confronts in competing with low-wage labour platforms in Asia.

The high dollar, regardless of how long it lasts, simply accelerates these developments. Under conditions of hyper-mobile international capital and intractable global recession, an increase of 20 percent in a currency’s value represents not only a 20 percent rise in the cost of what that economy produces, but a hike in effective wage costs. To sustain production under these conditions, the only solution for the corporate elite is the systematic reduction of wages, working conditions and corporate taxation. “Flexibility”, “competitiveness” and “responsiveness” mean in all cases a

reduction in business costs for the purpose of addressing a new global structure in wages and currencies.

The Labor government and the unions are collaborating with business in a major restructuring of sections of industry to boost international competitiveness at the expense of the jobs and conditions of workers.

The Australian arm of multinational paint manufacturer PPG is currently seeking to impose a two-tier wage system, under which new recruits would be paid 43 percent less than existing workers. During initial negotiations with the unions over a new enterprise bargaining agreement, management tabled labour costs at its Thailand and China plants—making clear that this was the new global benchmark.

Meanwhile, Australian airline company Qantas has engaged a low-wage workforce to staff its various low-cost Asian subsidiaries and undermine the conditions of employees in its mainline Australian-based business. More than 600 jobs were lost in the Australian car industry last month alone, including 240 at Ford, while Toyota announced that until at least June it would reduce hours and pay for its workforce.

These examples are just the most visible expressions of a thoroughgoing crisis in Australian capitalism that will determine the basic parameters of tomorrow night’s 2011-12 federal budget. Treasurer Swan’s promise of “strict discipline” means lower business costs, welfare “reform” to create the conditions for a lower wage economy, and the slashing of essential services for working people.



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