Australian Treasury warns of economic volatility

Mike Head
5 January 2012

A New Year attempt by Australian Treasurer Wayne Swan to inflate the country's economic prospects received short shrift this week. Swan gave an interview published by the *Australian* newspaper on the front page of its December 31-January 1 edition, in which he claimed that the national economy would withstand the looming credit crisis and recession centred in Europe, primarily because the Chinese regime would do "whatever it takes" to keep its economy growing rapidly.

Swan declared that he believed Beijing would ensure its economy continued to grow at its long-term trend. In reality, low growth and recession in Europe as well as the US and Japan is already impacting on Chinese exports. In addition, China's massive real estate bubble is showing signs of bursting. While conceding that there were concerns about "particular vulnerabilities in the Chinese economy," the treasurer voiced confidence that the authorities would "continue to manage whatever domestic challenges they have in a prudent way."

Swan's faith in the Chinese government is not shared by the financial markets. As the *Australian*'s business pages reminded its readers, the local share market had just closed down 14.5 percent for the year, the worst performance since its 41 percent loss in 2008. The stock market decline—which was greater than the 2011 international average of 13 percent—was led by the mining sector, which plunged by 25 percent because of declining commodity prices, driven by fears of a Chinese slowdown.

On January 2, the *Australian*'s front page highlighted a warning, issued by the Treasury in an end-of-year strategic review, that the global economic volatility experienced since 2008 would continue for the foreseeable future. The Treasury declared that the growth of China, India and other "emerging" economies would not offset the "structural weakness" in the world's "major developed economies"—the US, Japan and Europe. "The next five years are therefore likely to be characterised by slow rates of growth in the key developed economies, with additional macroeconomic volatility," it stated.

Although muted in its tone, the Treasury report drew attention to the increasingly pressing contradiction confronting Australian capitalism. China, on which it has become heavily dependent for mineral and energy exports, is reliant on markets in the US and Europe. At the same time, Beijing is coming under escalating strategic, military and economic pressure from the United States, to which the Gillard government has tied Australia militarily. "Australia will need to manage the opportunities and challenges associated with the historic situation whereby Australia's primary strategic and economic relationships are with different major countries (the US and China respectively)," the report commented.

Based on these warnings, the Treasury sent the government of Prime Minister Julia Gillard some unmistakable messages. One was that Australian living standards would depend on "our capacity to innovate, to improve productivity and competitiveness," in order to compete in Asian markets. The report reflected a growing barrage of demands by the financial and corporate elite for an accelerated assault to drive down production cost structures, and the pay and conditions of the working class, to levels rivalling Asia's cheap labour platforms.

An associated message was the need to more closely attend to every requirement of big business. According to the report, "better engagement with business" was essential. There was a "clear expectation from business" for "greater and more meaningful input to policy development and implementation."

Over the past year, the Labor government has already worked hand in glove with the corporate elite to unleash a series of attacks on workers, featuring mass retrenchments in the steel industry, offshore restructuring by Qantas and, following Qantas's lead, aggressive lockouts by employers on the waterfront and at the Schweppes plant in Melbourne to demand more "flexible" shifts and other productivity measures. In addition, there have been deepening cuts to public sector services, jobs and conditions, both at the federal and state level.

These measures are part of the intensifying assault on the social position of the working class in Europe, the US and internationally, as governments and corporations seek to impose the burden of the global economic crisis onto working people.

The economic restructuring agenda advanced by Gillard so far has clearly failed to satisfy the financial markets.

The message from the Treasury was taken up in the January 2 editorials in the *Australian* and the *Australian Financial Review*. Warning of the potentially "devastating consequences," both short-term and long-term, of the eurozone crisis, the *Australian* said it hoped Swan was right that Beijing could maintain its trajectory, regardless of the world shocks. But it emphasised that, "our nation has relied too heavily on our good fortune through the China-induced resources boom," adding, "Mr Swan's pre-eminent ambition for 2012 must be to outline an economic reform program through which Australia makes its own luck, by improving our efficiency, flexibility and productivity."

Likewise, the *Financial Review* hailed the Treasury's denunciation of "Australia's extended period of poor productivity performance." It bluntly declared that Treasury needed to "get back to deflating, rather than inflating, expectations of what governments can deliver and help to educate the policy debate about the virtues of an open and flexible business economy."

These remarks provide some indication of the class war measures being prepared by the Australian ruling elite for 2012. They presage a year of social and political conflicts, with the minority Gillard government under intensifying pressure to demonstrate that it can implement the "reform program" needed to impose severe cuts to living standards. If Gillard fails to deliver, she faces the prospect of being removed from office.

At the end of last year, Gillard reshuffled her cabinet in a bid to prove that her Greens-backed government was up to the task. Most significantly, two former trade union leaders, Bill Shorten and Greg Combet, were handed "super-ministries", covering workplace relations and industry—the two most critical areas on the corporate agenda. These developments underline the government's dependence on the trade union apparatuses, which have been centrally involved in enforcing the escalating assault on the working class.

The author recommends:

Australian PM reshuffles ministry to deepen corporate assault
[15 December 2011]