Australian economy in income recession

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The Australian economy has not experienced a recession for the past 24 years, including during the global financial crisis of 2008–2009. However, the latest statistics, released yesterday, show that it is firmly in the grip of the recessionary trends that increasingly dominate the world economy.

Australian Bureau of Statistics data showed that gross domestic product (GDP) grew by only 0.3 percent in the three months to the end of September, well below the 0.7 percent figure predicted by economists in a survey conducted by Bloomberg.

Even more significant was the data on national income, which measure the effect of falling terms of trade as a result of the decline in export prices, particularly for iron ore and coal. The iron ore price is down 60 percent from its peak in 2011. Prices fell 11 percent in the September quarter.

The terms of trade index was down 3.5 percent for the three-month period, bringing the total decline for the year to 8.9 percent.

As a result, national income fell by 0.4 percent during the September quarter, following a drop of 0.3 percent in the previous three-month period. With two consecutive quarters of negative growth, Australia has entered an income recession.

Once the population increase is taken into account, the decline is even more marked. Per capita gross domestic income was down 0.9 percent in the September quarter, following a 0.8 percent decline for June.

Another indication of the worsening conditions was that New South Wales (NSW) was the only state to grow domestically in the quarter. Western Australia, which was at the centre of the so-called resources boom, led the contraction. The NSW result was due largely to a surge in construction brought about by escalating housing prices, mostly fuelled by financial speculation.

The underlying state of the economy was indicated by business investment, which declined by 2.5 percent and is expected to fall further in the months ahead. Government spending also fell 0.3 percent. A small increase in government consumption spending was more than offset by an 8.4 percent drop in government investment, mainly at the state and local level.

Commenting on the results, Joe Hockey, the treasurer in Prime Minister Tony Abbott's Liberal-National government, cut a somewhat ridiculous figure. Against all the data pointing to the contrary, he said 2015 would be better than 2014, and 2016 would be better again.

"We want Christmas to be good for Australia, we want Australians to go out there and spend—not just for Santa Claus but for Australia, because increasing household consumption is good for the economy and that in turn will help create jobs for other Australians," Hockey said.

This plea prompted a scathing comment from *Australian Financial Review* columnist Laura Tingle, citing Hockey's identification of a possible pick-up in consumer and business confidence as a spark for short-term growth.

"That would be a pick-up in confidence when things are clearly not going well, when unemployment is rising, when most people know that a fall in commodity prices cannot be good news, and when the government seems determined to prove to people that it has no idea what it is doing," she wrote.

Hockey has claimed that unless "reforms" are implemented, starting with the passage of key cuts of around $28 billion contained in the May budget, which are being blocked in the Senate, Australians could face falling living standards.

This theme was also at the centre of an address by outgoing Treasury secretary Martin Parkinson yesterday. Speaking to a conference in Melbourne, he said: "Unless we tackle structural reform, including fixing our fundamental budget problem, we will not be able to guarantee rising income and living standards for Australians."

These assertions stand reality on its head. So-called structural reforms, starting with the cutting of government spending, are the means through which living standards are being attacked. Independent data on the government's budget showed that its impact was directed overwhelmingly at lower-income earners, with those at higher levels virtually unaffected.

The "structural reform" program, which has become the mantra of governments around the world, goes well beyond spending cuts. It is aimed at worsening wages and employment conditions, via labour market "flexibility."

Maurice Newman, the head of the Abbott government's Business Advisory Council, set out the agenda demanded by the financial and corporate elites more than a year ago in a major speech effectively calling for a halving of the real wage rate. Noting that the minimum wage in Australia was $US33,500, compared to $15,800 in the US, he said wages were "very high by international standards." The country had "breached its salary cap," not just in comparison to low-wage countries but in relation to its peers.

The end of the parliamentary year this week, amid worsening economic data, has been accompanied by a rising tide of denunciations of the government throughout the media. This has become a veritable flood from the Murdoch press. Not a day has gone by in the past two weeks without some critical comment on the Abbott government's inability to advance a viable "narrative" to implement the "reform" agenda.

Today, the *Australian* turned its fire on Labor Party leader Bill Shorten, declaring that his opposition to the government's measures amounted to a declaration never to fix the budget, thereby disqualifying him as a "national leader." The previous evening, on the ABC's news program "7.30," interviewer Leigh Sales insistently demanded that Shorten specify where Labor would cut spending.

In fact, Labor members of parliament passed the budget's main bills in June, leading to major cutbacks in state spending, above all in hospitals and health. However, the Labor Party fears that if it openly supports other measures, such as the lifting of university fees and $7 co-payments for visits to the doctor, the popular alienation from the party will only increase and possibly assume more overt forms.

Notwithstanding the criticisms of Shorten, all sections of the financial, political and media establishment are acutely aware that the Labor Party has always been the linchpin in implementing any "reform" agenda.

Today's editorial in the *Australian Financial Review* (AFR) pointed to the warning in 1986 by Paul Keating, then Labor treasurer, and later prime minister, that Australia could become a "banana republic" unless action were taken to counter the decline in the price of commodities that Australia exported. Keating's comments launched a series of measures over the next few years that led to a major "restructuring" of industrial relations, coupled with increased financialisation and growing social inequality.

Now an even deeper attack is being prepared. According to the AFR editorial, "lagging productivity growth" must be ratcheted up to compensate for falling export prices, requiring a "return to the sort of economic reform agenda kicked off by Paul Keating's banana republic warning."