Finance capital pushes for Australian economic "restructuring"

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The ongoing turmoil in Australia's governing Liberal-National Coalition, which ten days ago saw about 40 percent of the Liberal Party's federal MPs vote to end Tony Abbott's prime ministership, was sparked by mass opposition to the currently-stalled spending cuts in the government's budget brought down last May.

Two recent statements by corporate analysts, however, make clear that for the dominant sections of finance capital, the political impasse goes far beyond the government's budgetary measures. They are seeking nothing less than a restructuring of the Australian economy, including a drastic reduction in real wages, in order to make it "internationally competitive."

In a research note issued on Monday, JP Morgan analyst Stephen Walters said Australia was "sliding down the precipice," due to "glacial" reform efforts.

The next day, former Treasury official and now chief economist at the Edinburgh-based global asset manager Standard Life Investments, Jeremy Lawson, told an investment seminar that Australia needed a recession to focus political minds on the growing imbalances in the economy.

In his research note, Walters pointed to a "recession-like" weakness in domestic demand as investment in the mining industry fell away without any replacement. "We knew for some time a plunge of mining investment was fast approaching," he said. "The economy is now sliding down a precipice pretty much as expected, as the sector moves from expansion to production." Investment in areas outside of resources had been "slow to appear."

Walters outlined what he considered to be the main problems holding back investment spending. These included "chronic reform inertia"—with the regressive goods and services tax, introduced in 2000, being the last major and enduring change—as well as lack of spending on infrastructure.

But Walters's main focus was on wage levels and working conditions. "Australia now has, on key measures, more rigid labour markets than many competitors and punishingly high penalty rates," he said, adding that "Australia's minimum wage is double that in the US." In 2013, he noted, average weekly earnings were 70 percent above the global mean.

Picking up on this theme, *Business Spectator* columnist Alan Kohler wrote that while the "circus in Canberra" was no doubt a factor in reduced investor confidence, "for most people the real problem is the cost of doing business in Australia."

"In a globalised world, and open economy, you don't have to look much further than wage levels that are 70 percent above the global mean to discover why businesses aren't feeling that great and are not investing," Kohler wrote.

During his seminar presentation, Lawson recalled the experiences of the 1980s when the Hawke Labor government invoked the worsening economic climate—summed up in Treasurer Paul Keating's phrase in 1986 that Australia was in danger of becoming a banana republic. Labor pushed through major economic restructuring, including the privatisation of major state-owned enterprises and the "restructuring" of wage rates and working conditions.

"If you look at Australia's history, major reform episodes, tended to follow crises," Lawson said. "It's when you have that next recession, when unemployment is not 6.5 percent but 8 or 9 or 10 percent, you'll really concentrate minds."

In other words, only when wide sections of the population are subjected to economic devastation will governments be able to impose the agenda being demanded by finance capital.

Lawson made clear the critical questions went far beyond the budget and said the government had decided to tackle the wrong problems. “It has invested in a lot of capital in some unpopular things that actually aren’t going to be the critical determinants of whether Australia’s potential growth rate and productivity growth ends up being lifted,” he said.

The “critical determinants” are those outlined by Maurice Newman, the head of the Abbott government’s Business Advisory Council, shortly after the government took office. Under conditions of falling national income, due to the sharp downturn in commodity prices, Newman said the Australian minimum wage was far higher than the UK, Canada and New Zealand and more than double US levels, in a system “dogged by rigidities.”

The demands of finance are finding their reflection in the manoeuvring over the Liberal leadership. Amid growing criticism of Abbott’s government in business circles, leadership rival and Communications Minister Malcolm Turnbull made an appearance on the “Q&A” television program on Monday night to outline his agenda, albeit somewhat guardedly because publicly, at least, he is still professing loyalty to Abbott.

In speeches over the past few years Turnbull, who has the closest connections with corporate finance and banking, has emphasised that economic globalisation signifies major changes for the Australian economy. On “Q&A,” he placed the conflict over the budget in that context.

“Everything we do has to be designed to ensure that our prosperity is secure, and that is by being more productive, more innovative, smarter, faster, leaner,” he told the audience. “That is what this budget repair thing is all about.”

These are the same free-market “buzz words” employed during the “restructuring” carried out under the Hawke and Keating governments, which resulted in the redistribution of wealth up the income scale, the closure of large sections of industry and the growth of financial parasitism. Now in worsening global economic conditions, finance is demanding that this program be intensified.

With around a quarter of the last budget’s measures still blocked in the Senate and amid growing concerns in ruling circles about the viability of the present parliamentary system for carrying through major economic changes, Turnbull indicated that he was looking for collaboration with the Labor Party in carrying out his program.

Both sides of politics, he said in the “Q&A” discussion, agreed on the need for changes in government revenue-raising and spending measures. The Liberals should put forward their proposals while Labor set out its alternative and then there should be a discussion. A third set of measures would emerge, possibly better than the two original plans.

The Labor Party has, for electoral reasons, opposed some of the more egregious measures in the May budget, while signing off on cuts worth billions of dollars in funding to the states. It is now increasingly making clear its readiness to carry through the demands of the corporate elites.

Writing in today’s *Australian Financial Review*, shadow treasurer Chris Bowen said the Liberals had not been “honest” either about the economic problems or their solution. Instead, they engaged in “Santa Claus economics,” with Treasurer Joe Hockey suggesting that the return of a Liberal government would boost business confidence and profits. Abbott’s government had not been serious about “ending the age of entitlement” when at the same time it was promoting a paid parental leave scheme.

The Labor Party has yet to announce specific measures but Bowen wrote that it acknowledged economic growth was not enough to return to a budget surplus—a clear indication that it is aligning itself with the demands of finance for major cuts and “restructuring.”