# Australian economy slides towards recession

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The corporate dissatisfaction with the Abbott Liberal-National government is intensifying following the release of official data this week showing a rapid slide toward recession, plunging national income and living standards and a ballooning trade current account deficit.

This government, and the previous Labor government, incessantly claimed that Australia is an exception to the ongoing world economic breakdown that erupted to the surface in 2008. The truth is that its economy is acutely vulnerable to the renewed global financial fragility, which is bound up with the worsening downturn in China, the contraction in Japan and other major countries, and the precipitous decline in global export commodity prices over the past 18 months.

Other heavily-commodity export dependent economies—notably Canada and Brazil—are already officially in recession, and Australian capitalism is heading over the same way. The *Australian Financial Review* today featured the remarks of economist Stephen Anthony, who declared: “We’re falling off the mining investment cliff and that’s occurring at a time of incredible instability on financial markets.”

According to the Australian Bureau of Statistics data released yesterday, gross domestic product (GDP) grew by just 0.2 percent in the three months to June 30, well below most predictions. Such is the impact of the deepening global slump on the Australian economy that GDP growth would have been negative in the June quarter but for a sharp rise in the government spending, particularly on the military. Total government spending contributed the equivalent of 0.4 percent growth, partly offsetting a 0.7 percent decline due to falling exports. Overall private sector GDP contracted by 0.2 percent.

The increase in government spending was driven largely by military expenditure of more than $2.7 billion over the quarter. As part of its commitment to US war preparations, the Abbott government paid $1 billion to buy two extra C-17 transport aircraft, $900 million on a defence communication system, $400 million on refuelling aircraft and $325 million on an anti-rocket system. It also spent more than $120 million on participating, with troops and air force bombers, in the expanding US-led war in Iraq and Syria.

The slowdown was despite the Reserve Bank of Australia trying to boost investment by keeping official interest rates at 2 percent, the lowest on record, for more than a year. The falling value of the Australian dollar, which dropped below 70 US cents yesterday for the first time since the immediate aftermath of the 2008–09 global crash, has also failed to lift production or exports.

Living standards, as measured by real net national disposable income per person, dropped by another 1.2 percent during the June quarter. This continued a four-year decline, now totalling 5.1 percent, partly reflecting a 30 percent plunge in Australian capitalism’s terms of trade. This historic reversal is already being felt throughout the working class, via declining real wages and an avalanche of cuts to jobs and conditions, from the coal mines to the car and steel plants.

With coal and iron ore prices and export volumes continuing to drop, Australia’s trade position collapsed dramatically in the June quarter. The current account deficit blew out 41 percent from the previous quarter’s $13.5 billion to $19 billion, producing one of the worst results ever recorded. The result lifted Australia’s net foreign debt to just below $1 trillion.

Foreign investment, on which the Australian economy also depends heavily, is drying up. Direct investment recorded a net inflow of $8.6 billion in the June quarter, a decrease of $4.9 billion from the March quarter.

Large parts of the country, particularly the mining-related areas of Western Australia, South Australia, Queensland and the Northern Territory, are already experiencing a recession. In New South Wales and Victoria, the economy is being propped up by a debt-driven residential property bubble in Sydney and Melbourne, which could soon burst.

Treasurer Joe Hockey was mocked in the corporate media for desperately trying to deny the existence of the slump. "Today's national accounts show the Australian economy is growing well," Hockey told a press conference yesterday. "At a time when other commodity-based economies like Canada and Brazil are in recession, the Australian economy is continuing to grow at a rate that meets and sometimes beats our most recent budget forecasts."

Hockey insisted there were some "bright spots" in the global economy, because the US "is coming out of its doldrums." Even as he spoke, global stock markets were hit by yet another selloff following the release of negative economic data in the US and China.

In reality, Australia is caught in the same vortex as Canada and Brazil. This has shattered the budget predictions offered by Hockey in May, when he claimed that GDP growth would rebound to 3.5 percent by next year and continue at that booming pace for five years, allowing the government to overcome the budget deficit by about 2020.

Today's *Financial Review* described the June quarter results as a "political blow" to Hockey, noting that just three months ago he ridiculed as "clowns" commentators who warned of weakening economic conditions. It said the "sustained slump in national income" reinforced the message issued by last week's "National Reform Summit" that the business newspaper co-sponsored with the Murdoch media's *Australian*.

That gathering of corporate, media, trade union and welfare chiefs demanded that the government use the "urgency" of the deepening global slump to drive through a new wave of attacks on the jobs, living standards and working conditions of the working class.

Again, in today's editorial, the *Financial Review* denounced both the government and the Labor Party for failing to launch such an offensive. "It is up to government to remove the blockages and incentive-killers in tax, labour laws, and business regulation that hurt economic growth in general," it insisted. "They just have to summon up the energy and commitment…"

Many other corporate commentators today voiced discontent at the seeming incapacity of the Abbott government to fully impose the burden of the worsening economic crisis, globally and in Australia, on working people.

In the *Guardian*, Stephen Koukoulas, a research fellow at Per Capita, outlined a litany of economic reversals since the Abbott government took office, now almost exactly two years ago. "Private sector capital expenditure has fallen by a quite stunning 15 percent," he wrote, warning that business investment would decline by a further 20 percent in 2015–16.

Labor Party leader Bill Shorten and shadow treasurer Chris Bowen responded by underlining their appeals to big business to back the return of a Labor government that could, working closely with the trade unions, more reliably enforce the slashing of working class jobs, wages and living standards. Shorten said the "terrible" economic results "cemented" a national trend of "wallowing in mediocrity." Bowen declared that the Abbott government had "no economic reform agenda" to make the economy "more competitive."

Both the Abbott government and Labor opposition are committed to imposing the burden of the worsening economic crisis onto the working class, but are also fearful that doing so could provoke opposition and resistance under conditions where jobs and living standards have already been savaged over the past three decades.