Corporate elites maintain pressure on Australian prime minister

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Less than a week after the media hailed as a masterstroke Australian Prime Minister Malcolm Turnbull's move to create the conditions for a "double dissolution" election for the House of Representatives and the full Senate, the underlying economic pressures that led to his decision are resurfacing once again.

Turnbull organised the proroguing of parliament and the convening of a special three week-session starting on April 18 in response to mounting criticism from corporate and financial circles that his government had not yet begun to implement their dictates for spending cuts and austerity measures.

In a major interview on the ABC's "7.30 Report" on Monday, in the wake of his decision, Turnbull emphasised that "the key agenda here is how do we successfully continue to manage our transition from an economy that was fuelled by a mining construction boom to a new and more diverse one?"

Virtually alone among all major economies, Australia has not experienced a recession in the past 25 years. Notwithstanding the fact that its financial system was severely shaken by the global financial crisis of 2008—the banks would have been unable to roll over their international borrowings without a guarantee from the Rudd Labor government—it did not fall into negative growth.

The main factor was the investment and construction boom in China. Fuelled by Chinese government stimulus measures and a massive expansion of credit, the boom led to increased demand for Australian mineral exports, especially coal and iron ore. From a level of around 10 percent in 2004-5, the proportion of Australian merchandise exports going to China had risen to 32 percent by 2014-15.

But with the recent slowdown in Chinese economic growth, from more than 10 percent to the official estimate of "around 6.5 percent"—or closer to 4 percent according to some calculations—the mining investment boom has come to a shuddering halt. This is the context of the so-called "transition" touted by Turnbull as the central economic agenda of his government, under conditions where the Australian economy stands directly exposed to the deepening recessionary trends in the global economy as a whole.

In a comment published on Thursday, *Business Spectator* columnist Alan Kohler noted that, "to help the transition from the mining boom into new export industries, Australia needs either a currency devaluation or a big fall in its domestic cost structure."

Kohler went on to point out that a big currency devaluation, which would lower living standards, was not feasible, despite the efforts of the Reserve Bank to engineer one, because the US dollar was falling rather than rising.

"In the absence of an external devaluation," he continued, "a high-cost country must undergo an internal devaluation in order to succeed in a world of free(ish) trade and globalisation."

In other words, at the centre of the "transition" agenda is a massive reduction in wages and living standards, going far beyond the stagnation of wages and cuts in social spending over the past four years.

Such an "internal devaluation," however, has major implications for the stability of the banks and the financial system. Over the past decade, the chief source of revenue and profits for the country's four major banks has become home mortgages. Money made available at relatively low interest rates to fuel speculative investments has seen the escalation of house prices to historically unprecedented levels, with the median price for a home in Sydney, the nation's largest city, around $1 million dollars. In the outer suburban areas, working class families are under continuous and intense pressure to pay off loans as high as half a million dollars and more, and face economic disaster in the event of a recession.

Household debt as a percentage of gross domestic product has risen to around 140 percent compared to a global average of nearly 80 percent. Last month, an investigation by UK-based economist Johnathan Tepper concluded that Australia was in "one of the biggest housing bubbles in history."

Over the past four years, he noted, more than 40 percent of all new mortgages had been interest-only; in other words, the house was purchased solely as an investment, to be resold when the price rose. This system of "Ponzi financing" was, Tepper said, a "disaster waiting to happen."

In the lead up to the election, which could come as early as July 2 if a double dissolution takes place, the government is seeking to keep its real agenda hidden, instead creating a set of economic fictions about a new boost to prosperity.

Delivering a major lecture to the Lowy Institute on Wednesday, Turnbull presented a rosy scenario for Australia's economic prospects, claiming the expansion of the Chinese middle class, the economic rise of India and the transformation of economies such as Indonesia's offered "enormous opportunities" for Australian businesses. In reality, economies across the region are being directly impacted by the slowdown in China, amid warnings that the rapid rise of indebtedness in "emerging markets" has the potential to set off a major financial crisis.

The business and corporate elites, however, are demanding that the time for further windy rhetoric has passed and that their long-demanded assault on wages and social conditions be initiated.

Their views were echoed in an editorial in the *Australian Financial Review* on Thursday. Pointing to conflicts with his predecessor Tony Abbott, whom Turnbull ousted in a coup last September, and his Treasurer Scott Morrison, who was kept out of the loop on the decision to prorogue parliament, the editorial declared that these irritations "speak to a harder-to-reach itch on the prime ministerial body: a lack of a credible policy agenda to secure and advance Australian prosperity."

It concluded that while Turnbull had been right to "embrace a framework of innovation and disruption," because this was the "hallmark of today's global economy," his agenda had to be "hitched to hard policy decisions."

Those decisions are not expected to be contained in the budget to be brought down on May 3. Instead, the budget will be pitched towards the forthcoming election. While its centrepiece, at this stage, appears to be cuts in the corporate tax rate, it is likely to fall short of the demands of the ruling elites.

Their agenda is, nevertheless, being prepared behind the scenes. It is significant that if Turnbull's double dissolution move is successful, the trigger will be the Senate's rejection of legislation to re-establish the Howard-era Australian Building and Construction Commission (ABCC), a draconian industrial police force that will preside over the building and construction industry, with sweeping powers to initiate criminal charges against any workers involved in industrial action.

While the ABCC is being revived under the banner of stamping out corruption in the trade unions, its real purpose is to establish mechanisms for forcibly suppressing the opposition that will develop throughout the working class to the impact of the "internal devaluation" of the economy—i.e., to the imposition of austerity.