Economic contraction intensifies pressure on Australian government

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Australian capitalism's poorest economic performance since the 2008-09 global financial breakdown has underscored the economy's fragility and heightened the corporate pressure on the unstable Liberal-National Coalition government.

Seasonally adjusted gross domestic product (GDP) fell by 0.5 percent in the September quarter, driven by a continuing collapse in business investment—down 9.7 percent over the past year. This was accompanied by a reversal in housing construction, cuts in government expenditure and decelerating consumer spending.

This is only the fourth time the economy has shrunk since the last official recession in Australia 25 years ago, before the start of the mining boom. The three previous quarterly falls could be explained by short-term drops in 2000 after the introduction of the goods and services tax, the 2008 crash and devastating floods in Queensland during 2011.

Far from a one-off blip, however, this downturn is part of a longer-term decline in Australia's commodity export-dependent economy. Since June, the annual growth rate has dropped from 3.1 percent to 1.8 percent, despite the Reserve Bank keeping official interest rates at a record low 1.5 percent.

This is the result of ongoing global stagnation, a worldwide investment slump and what CommSec chief economist Craig James described as a "perfect storm" of political uncertainty. He cited June's Brexit vote, the Coalition government's near-defeat in July elections and the US presidential election. Since September, the uncertainty has only been exacerbated by Donald Trump's victory and his threats of trade war, which would have devastating consequences for the Australian and world economy.

The September quarter contraction was considerably greater than market analysts predicted and much worse than the forecasts issued in last May's budget of nominal growth of 4.25 percent this year and 5 percent in 2017-18.

This throws into deeper doubt the capacity of Prime Minister Malcolm Turnbull's government to meet the demands of the financial elite and the global credit ratings agencies to eliminate the annual budget deficit, currently running at about $40 billion, by 2021.

Economists and media pundits rushed to assure the public there was no danger of a recession, which is usually measured by two consecutive quarters of contraction. But the September result has merely brought to the surface the underlying slump, which was hidden by anomalies in previous quarters.

There is no sign of an about-turn ahead. Corporate investment is still plummeting, signalling further serious job losses and cuts to working hours. Slumping private investment in new dwellings also contributed 0.3 percentage points to the GDP decline—an indicator of the end of a housing bubble that has partially offset the mining investment collapse since 2011.

September's result would have been even worse, except for the agricultural sector, which grew by 7.5 percent because of unusually good harvests. Rising global coal and iron ore prices in recent months also increased real net disposable income by 0.8 percent in the quarter, but the prices could quickly fall again.

Analysts warned that the risk of recession increased significantly after further data showed the trade deficit blew out in October by 21 percent, from $1.27 billion to $1.54 billion, primarily because of sharp falls in coal exports.

Treasurer Scott Morrison provided some idea of the perplexity gripping the Turnbull government. "Driving investment is the challenge, getting capital out of its cave," he declared at a media conference. He refused to rule out a recession, saying it would be "unhelpfully speculative" to discuss the prospect.

Morrison flatly repeated the government's discredited

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mantra—maintained throughout the July election campaign—of delivering "jobs and growth" and a "transition" from the mining boom.

The treasurer insisted that the contraction was a "wake-up call" for the need for austerity measures and a proposed cut in the company tax rate from 30 to 25 percent over the next decade. He repeated the government's claims that this would revive investment, which would "drive jobs."

Exactly the opposite is true. The tax bonanza would boost corporate profits at the expense of severe cuts to essential social spending—including health, education and welfare—to cover the $50 billion cost of the tax cuts over 10 years.

Corporate economists said the biggest concern was household consumption, which has slowed sharply since March. Successive governments have relied upon debt-fuelled household expenditure to drive growth. In the eight years before the 2008 crash, consumption grew on average annually by 3.95 percent; since then it has been just 2.5 percent.

This tightening is no mystery. Working class people have already borne the brunt of the post-2008 slump via the destruction of thousands of full-time jobs, imposition of insecure casual or part-time work, reductions to pay levels and cuts in welfare and other social services. By 2014-15, nearly seven million people, or nearly 30 percent of the population, were living in areas experiencing recession.

September's results indicate that the recession is spreading across the country. By far the biggest decline was in the mining state of Western Australia—3.8 percent in the September quarter and a record 9.5 percent over the past year. Business investment in the state has more than halved from its peak in 2012.

But other states and territories also recorded contractions in the three months to September. Victoria, an industrial state hit by heavy job losses, contracted by 0.4 percent, Tasmania, suffering industrial and mining decline, by 0.3 percent and the Australian Capital Territory, which depends heavily on government spending, by 1.3 percent.

"So much for jobs and growth," the Australian Broadcasting Corporation's business editor Ian Verrender commented. "While few economists are forecasting a December quarter disaster to make it two in a row, it's pretty clear that 2017 looms as a difficult year for the Lucky Country."

Some of the impact on the budget may be revealed on December 19, when the government belatedly produces its Mid-year Economic and Fiscal Outlook (MYEFO), which is expected to show another blowout in the deficit.

The corporate media is demanding that the government and the parliamentary establishment take far more ruthless measures to slash social spending, reduce business taxes and drive down workers' wages and conditions.

Wracked by divisions between the Liberals and the rural-based Nationals, and between Turnbull's supporters and his ousted predecessor Tony Abbott, the government only managed to get a few bills through parliament in the final weeks of the year with the help of the right-wing populists in the Senate or the Greens. Earlier, the Labor Party opposition joined hands with the government to pass spending cuts totalling $21 billion over the next four years.

This is nowhere near enough to satisfy the financial elite. Yesterday's *Australian* editorial declared: "The parliament has contorted itself just to deliver $21 billion worth of savings since the election, a mere fraction of the task to return the budget to balance, let alone start to pay down debt. The obstructionist approach is debilitating not only for how it impedes budget repair but also for the way it saps business confidence."

There are signs of a bipartisan front, directed against the working class, in response to the economic and political crisis.

Treasurer Morrison pleaded for the Labor opposition to emulate the Hawke and Keating Labor governments of the 1980s and 1990s by supporting the proposed company tax cuts. Those Labor governments cut the corporate tax rate from 49 to 36 percent as part of their pro-market restructuring of the economy, working in close partnership with the trade unions.

Heeding the call, Labor Treasury spokesman Chris Bowen made it clear that Labor was anxious to work with the government, saying only that its company tax plan would not have any measurable effect on the economy for two decades.

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