Australian budget report points to impact of globally-driven slump

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17 December 2019

Australian capitalism's exposure to the recessionary slide, trade war tensions and political upheaval sweeping the globe was underscored by yesterday's release of the government's Mid-Year Economic and Fiscal Outlook (MYEFO).

Despite record low interest rates and large tax handouts, mostly to companies and the wealthy, the deepening economic slump forced the Liberal-National Coalition government to drastically cut its forecasts for economic growth and tax revenues. Predictions made in the last official forecast, issued during the May 18 federal election campaign, have been shattered.

Almost $22 billion has been wiped from the forecast budget surpluses for this and the next three financial years, due to revenues plummeting by almost $33 billion. Forecast household consumption growth of 1.75 percent in 2019-20 is a full one percentage point below the 2.75 percent tipped in May.

The fall in retail consumption spending is so steep that goods and services tax (GST) revenue, which is directed to the state governments, will fall by $9.9 billion over four years, including $1.8 billion this year.

As a result, there will be sharper cuts to both federal and state government social spending and public services, on top of a $1.4 billion reduction already made in federal spending this financial year, largely through cuts to welfare and public service staff levels.

This means an intensified assault on the living standards and social conditions of the working class, which have already suffered from years of stagnant or lower real wages, sending household debt levels to among the highest in the world.

Even according to the latest, equally unreliable, predictions in the MYEFO report, average wages growth will continue to stall at 2.25 to 2.5 percent—not enough to cover the real cost of living rises for working class households—for the next four years at least. This is a far cry from the pre-election claims of wages rising by 3.25 percent by 2020-21.

The government remains determined to produce a budget surplus this year, for the first time since the 2008-09 global financial crisis, in order to meet the demands of the money markets. But the MYEFO update halves the $45.1 billion in cumulative surpluses over four years predicted in the pre-election update.

The MYEFO downgrades gross domestic product (GDP) growth for this year from 2.75 percent to 2.25 percent, which indicates near-contraction compared to population growth. Unemployment forecast for this year and next has risen from 5 percent to 5.25 percent. That figure is a vast underestimate of the real levels of joblessness and casualised "under-employment."

A revealing indicator of a worsening downturn is that the forecast for business investment growth was slashed from 5 percent to 1.5 percent this year. Corporate investment is drying up, with dire implications for the future, even though the Reserve Bank of Australia (RBA) has cut its official interest rates three times since the election, to an historic low of 0.75 percent—far below the "emergency" level of 3 percent in 2009.

The MYEFO says global economic momentum has weakened since the election, with the US-China trade war, Brexit and financial instability in Italy, Turkey and South America major factors. "This continued uncertainty has weighed on business confidence and investment intentions, particularly in manufacturing," the budget papers say.

Treasurer Josh Frydenberg attempted to put a positive spin on the result, saying it still showed the economy was expected to grow faster than any nation in the G7—as if that were a comfort. "The Australian economy's remarkable resilience has occurred in the face of strong global and domestic economic headwinds," he said. While a severe drought and huge bushfires have reduced output, it is the global slump that is predominantly driving the "headwinds."

Frydenberg rejected calls by sections of business for increased government spending to try to stimulate the economy. Instead, he expressed the hope that an end to the US-China trade war and the Brexit impasse would lift business and consumer sentiment. "Let's just wait and see what happens from here," Frydenberg said. In reality, the aggressive US drive to counter the rise of China, or any other perceived rival, will only deepen, while the fallout from Brexit is unlikely to ease, compounded by uncertainty over UK-European Union economic arrangements.

Corporate leaders are frustrated that the government's pre-election pledge to eradicate net debt by the end of next decade has been abandoned. Since the 2008-09 breakdown, governments have accumulated $329 billion of net debt—nearly 20 percent of GDP.

Prime Minister Scott Morrison recently said the government would not be "panicked" into bringing forward stimulus measures. This reflects the dictates of the financial markets. S&P Global Ratings warned that "spending restraint by the government" was important to maintain its AAA credit rating.

In a statement, Frydenberg and Finance Minister Mathias Cormann pointed to the perilous reliance of the economy on foreign funds. They said: "We consider strong fiscal outcomes to be important for our 'AAA' rating on Australia because of the economy's high level of external liabilities compared with its 'AAA' rated peers."

The pair vowed that government spending would be restricted, to grow by just 1.3 percent annually in real terms over four years. This is less than the population growth of around 1.6 percent, so the deterioration of public services and infrastructure will worsen, especially in the large cities.

Perversely, the Australian share market rose to a near-record high after the MYEFO release. This was partly due to hopes of a boost from the global market reaction to the Conservative government's election victory in Britain and Washington's claims of a deal with China. But it was fuelled by expectations that the RBA would have to cut interest rates further in the new year, possibly to 0.25 percent, and resort to pumping money into the economy via "quantitative easing." Lower interest rates already have channelled money into the stock exchange, chasing higher speculative returns.

Frydenberg said lower rates had helped stop a slide in property prices. This was "good for the economy because it plays into households' confidence." For millions of people, however, a renewed bubble in house prices means higher mortgages and rents.

While slashing social spending, the government is continuing to pour billions of dollars into war preparations. The latest auditor-general's report, also released yesterday, shows that the cost of 26 military projects has risen by a total of $24 billion compared to what was originally announced, taking their bill up by nearly 60 percent to $64.1 billion.

The response of the Labor Party and the Australian Council of Trade Unions to the MYEFO was to back business calls for measures to stimulate spending and boost productivity. This is in line with Labor's further lurch to the right since its election debacle, to openly advocate pro-business and "wealth creation" policies.

Corporate figures and media platforms urged the government to further gut spending and cut corporate taxes to drive up profits. The Murdoch empire's *Australian* editorial today declared: "The Coalition must turn the screws on a heaving social welfare bureaucracy." The *Australian Financial Review* demanded "supply-side reforms" to "make workplaces flexible" and a "pro-growth business investment allowance."