

Recession warnings fuel political instability in Australia

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Warnings by banks and corporate economists that Australia could fall into recession because of the bushfire and coronavirus disasters are feeding into rising political discontent and the fragility of the Liberal-National Coalition government. By all indicators, the economy is already in reverse, and the damage will only worsen over coming months.

The “back in black” \$5 billion fiscal surplus for 2019–20, proclaimed by Prime Minister Scott Morrison’s government in last year’s budget speech, has almost certainly disappeared as well. This is adding to the pressure on the faction-torn government, already discredited by its contemptuous response to the bushfire catastrophe and ongoing vote-buying slush fund revelations.

According to the *Australian Financial Review*, economists at ANZ and NAB, two of the “big four” local banks, believe that Australian gross domestic product (GDP) will shrink in the first three months of this year because of the coronavirus and the bushfires affecting an already slumping economy.

In the latest development, the government is set to extend its blanket coronavirus travel ban on China, blocking at least 100,000 international students from entering the country in time for the start of tertiary education semesters. Apart from the serious impact on the rights and future of the students, this will deal a hammer blow to Australia’s universities, which depend heavily on Chinese students, as well as related accommodation and service industries.

At \$34 billion annually, revenue from overseas students is Australian capitalism’s second biggest export earner behind iron ore. Starved of government funds, the universities rely on charging exorbitant fees to international students, treating them as cash cows. The ratings agency Moody’s warned last Friday that

Australian universities will be harder hit than those of any other country because of the high proportion of international students, one quarter of whom are from China.

Reserve Bank of Australia (RBA) governor Philip Lowe warned last week that the coronavirus will do more harm to Australia’s economy than the 2003 SARS outbreak, because of the greater reliance on exports to China, and students and tourists from China, than 17 years ago.

Alongside the education sector, the tourism industry is expected to be among the worst hit. Queensland’s Labor Party Premier Annastacia Palaszczuk told state parliament last week the Cairns region had already lost \$200 million in bookings, and Gold Coast operators expected to lose \$400 million. There has been a flow-on effect to tourists from other Asian nations as well, such as South Korea and Japan, and other parts of the world.

Chinese make up around 16 percent of visitors to Australia and they outspend American tourists by a ratio of three to one. Their annual spending of \$12–16 billion is greater than American, British, Japanese and New Zealand tourists combined.

These losses are on top of those inflicted by the bushfire devastation. By the best estimates, the tourism, retail and rural industries will lose around \$100 billion in income from the bushfires. That does not include the effect of injuries and shortened lives due to smoke-related stroke and cardiovascular and lung diseases, or the terrible social costs of mental health problems and unemployment.

The RBA has predicted the bushfires would cut economic growth by 0.2 percentage points through the December and March quarters, while the drought would likely depress GDP by a quarter percentage point

through all of 2020.

The central bank has yet to even determine the financial fallout from the widening coronavirus epidemic in China and internationally. Business economists believe it could further slash economic growth through the first three months of this year by up to half a percentage point. Yet such predictions could be swamped if the epidemic continues to worsen.

Deloitte Access Economics estimates the virus will cut about \$1.8 billion from budget revenues this financial year. Because of the impact on Chinese production, Deloitte partner Chris Richardson also forecast a fall in iron ore prices, which will flow through to the government's company tax revenues.

KPMG chief economist Brendan Rynne said monthly revenue and spending figures from the Finance Department showed the budget was already \$1.1 billion behind expectations and still deep in deficit in December, even before the worst of the bushfires.

Senior ANZ economist Cherelle Murphy said if that trend continued, the \$5 billion surplus would "clearly disappear." This will mean more severe government cuts in social spending to satisfy the dictates of the global financial markets. The credit ratings agencies have warned that any retreat on the surplus could endanger the country's AAA borrowing rating.

Other economic barometers reveal a deepening underlying slump. New car sales in January fell to their lowest level since mid-2012, following the 2008–09 global financial breakdown. Annual new car sales are now running 12.4 percent below their March 2018 peak.

Retail sales grew by just 0.4 percent over the past year, the fourth-worst result since the 1991 recession. They are likely to stagnate for longer because real wage growth is expected to fall from the already weak rate of 0.6 percent to just 0.2 percent in the 12 months to June 2022. Even this average wage statistic hides the reality that low-paid and insecure workers, in particular, have been subjected to real pay declines for at least six years.

Three RBA official interest rate cuts last year, taking them to a record low of 0.75 percent, have failed to reverse the slump in consumer spending. A lack of consumer confidence has been compounded by household debt, which stands at almost 200 percent of disposable income.

A research report published this month by the

Melbourne Institute of Applied Economic and Social Research showed intensifying income inequality, magnified by tax cuts for the wealthy and the stripping away of welfare entitlements. It calculated that income inequality, as measured by the Gini coefficient, increased by almost 10 percent between 1994–95 and 2015–16.

In particular, the income share of the bottom tenth of households decreased from 4.5 percent to 3.6 percent, pushing an additional 3.3 percent of the population (more than 800,000 people) below the poverty line of 50 percent of median income. Two-thirds of the decline stemmed from people being forced off parenting and disability payments and onto sub-poverty Newstart jobless benefits—what the government cynically calls "tax-transfer reforms."

At the expense of the poor, the top decile increased its share from 22.7 percent to 24.2 percent, boosted by cuts in top tax rates and higher tax thresholds by both Coalition and Labor governments.

The looming further decline in living conditions, accentuated by deeper inequality, is generating intense political disaffection, not just directed against the Coalition government but the entire parliamentary establishment, in which public "trust" has already fallen to historic lows.

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