

Workers to pay the price as Australia joins global slide into recession

Mike Head
5 March 2020

Significant outbreaks of the coronavirus epidemic in Europe, South Korea, Japan and the Middle East, on top of its prolonged impact in China, have further exposed the vulnerability of Australian capitalism to the shockwaves being delivered to the world economy.

Despite the Reserve Bank of Australia (RBA) cutting interest rates by another 0.25 points to the unprecedented low of 0.5 percent this week—and declaring it was ready to go lower—economists are predicting a recession. According to gross domestic product (GDP) data released yesterday, the economy barely grew in the December quarter of 2019 and was mainly propped up by government spending. That was before the blows delivered by the summer's bushfire catastrophe and the Covid-19 crisis.

Once again, as in the global financial crisis of 2008–09, the government and the central bank are pouring cash into the pockets of the corporate elite and the wealthy via record low interest rates and ramped-up investment incentives. The working class is being made to pay the price through austerity measures, job losses and wage cuts.

The Covid-19 disaster has not yet resulted in large-scale sickness in Australia, though that remains likely. Already, however, major companies are starting to unveil job cuts due to the global impact on production, trade and travel.

Qantas, the country's largest domestic and international airline, has reduced its flights by up to 15 percent, eliminating the equivalent of 700 jobs. For now, the company has asked its workers to bear the brunt by taking leave. Universities are slashing jobs, mostly of casual staff, because thousands of international students, especially from China, cannot enter Australia. The University of Sydney this week announced a \$200 million budget cut.

This is on top of the destruction of thousands of jobs, and cuts to working hours, throughout the tourism, rural, retail, hospitality and education sectors due to the double impact of the fires and Covid-19. Another indicator of the underlying slump came when AAP, the Australian Associated Press, the newswire service owned by the media conglomerates, announced its closure, axing 500 jobs. This includes 180 journalists, another blow to news reporting.

Even before the fallout from the fires and Covid-19, the official unemployment rate rose from 5.1 to 5.3 percent in January, and the under-employment rate jumped to 13.9 percent. By this measure, more than 1.9 million workers were jobless or seeking more hours. Other surveys suggest that these statistics underestimate the true toll.

Wages, which have been falling in real terms for about six years for lower-paid and casualised workers, are set to drop further. In its statement announcing the latest rate cut, the RBA said: "Wages growth remains subdued and is not expected to pick up for some time." Household income, an average figure that also covers high-income households, increased by just 0.1 percent during the December quarter, less than the inflation rate.

The RBA statement pointed to the concern in ruling circles about the unknown economic impact of Covid-19. "The coronavirus outbreak overseas is having a significant effect on the Australian economy at present, particularly in the education and travel sectors," the central bank said. "The uncertainty that it is creating is also likely to affect domestic spending."

The RBA has now cut rates four times since last June, down to just one-sixth of the 3 percent "emergency" rate it set in 2009. Yet the resulting supply of cheap money has failed to lift corporate investment or

consumer spending.

Thursday's GDP figures showed that non-mining business investment fell 3.6 percent in the three months to December, especially in road, renewables and building projects, contributing to an overall 1.7 percent drop in corporate investment. Most sharply, investment in new and used dwellings fell 4.1 percent in the quarter and 12.2 percent through the year.

Despite government tax handouts to wealthier families, household final consumption expenditure increased by just 0.4 percent in the quarter. Due to falling export commodity prices, real net national disposable income declined 0.9 percent in the December quarter, even though mining profits rose.

Overall GDP rose by 0.5 percent from October to December, but government spending rose by 0.7 percent, artificially boosting the result. Economists are predicting negative growth in the current March quarter and possibly the June quarter, which would officially signal Australia's first recession since 1991.

Other data shows that the non-government economy was effectively in recession by late last year. Private domestic demand contracted in the year ended September 30, the RBA showed in a chart published in a Statement on Monetary Policy. Combined business capital expenditure, housing investment and consumer spending fell over the 12 months, despite strong population growth.

In another economic barometer, February's new car sales were down 8.2 percent on the same time in 2019—the 23rd consecutive month of lower sales compared to the prior year.

Corporate economists had speculated that the RBA might cut rates by 0.5 percent this week, but there was concern that such a large cut in one hit would exacerbate the nervousness on the financial markets and within the population. It “would have revived memories of the global financial crisis for many market participants,” Karen Maley commented in the *Australian Financial Review*.

As always, the central bank's preoccupation is with pumping funds into the money markets in order to satisfy the demands of global corporations and speculators, not to alleviate the conditions facing the working class. RBA governor Philip Lowe stated: “In most economies, including the United States, there is an expectation of further monetary stimulus over

coming months. Financial markets have been volatile as market participants assess the risks associated with the coronavirus.”

US President Donald Trump quickly hailed the RBA's cut and successfully demanded that the US Federal Reserve follow suit. “Australia's central bank cut interest rates and stated it will most likely further ease in order to make up for China's coronavirus situation and slowdown,” the US President tweeted on Tuesday night. “Our Federal Reserve has us paying higher rates than many others, when we should be paying less.”

If the coronavirus becomes a global pandemic, the situation will worsen. Modelling by Australian National University Professor Warwick McKibbin suggests that the loss to Australia's economic output could be as high as \$156 billion, or nearly 8 percent of GDP, in the first year.

Prime Minister Scott Morrison and his Liberal-National government, already discredited by the bushfire crisis, are scrambling to contain public concern, while preparing further tax concessions for business. After weeks of denying any need for a stimulus package, Morrison indicated he will soon accede to big business demands for new investment incentives.

The government's “back in black” promise of a \$5 billion fiscal surplus for 2019–20, proclaimed in last year's pre-election budget, has almost certainly disappeared. That will not stop the government handing billions of dollars to companies, while cutting social spending.

Displaying its own pro-business character, the Labor Party criticised the government for not moving more quickly to meet the corporate demands. Shadow Treasurer Jim Chalmers said Morrison should quickly introduce a version of Labor's multi-billion dollar scheme, which it offered big business during last year's federal election, for accelerated depreciation for investments.



To contact the WSWs and the
Socialist Equality Party visit:

wsws.org/contact