The “exceptional” economics of the Australian budget

Nick Beams
1 April 2022

Exceptionalism has long been a stock-in-trade of the Australian ruling class, its state and ideological agencies, promoting the myth that the country and its economic system is in some way insulated from global storms and stresses.

This myth has suffered hammer blows because of the experience of the Omicron variant which, since December last year, has been ripping through the population, heavily impacting children as well as the ongoing floods and other extreme weather events, which, whatever their proximate causes, are a rooted in global warming.

But in the sphere of the economy the exceptionalism myth continues to be promoted. It forms the foundation of the economic analysis prepared by the Treasury Department for the Morrison government’s pre-election budget brought down on Tuesday.

Statement 2 of the Budget Papers presents a picture of the Australian economy experiencing increased growth over the next period and once again offers a forecast—made many times before but never realised—that there will be a rise in real wages, ending the stagnation and cuts over the past decade.

Significantly the document begins with an overview which focuses almost entirely on the domestic economy, followed by a brief résumé of international conditions, as if the world situation was just some kind of add-on, perhaps interesting but not significant, before returning to the national economy.

The opening sentence of the analysis encapsulates the method throughout. Australian capitalism is going to plough through the storms of global turbulence virtually unscathed.

“The Australian economy,” it begins, “has proved to be remarkably resilient to the ongoing impacts of the pandemic, consistently outperforming expectations and all major advanced economies.”

It acknowledges some problems, but the conclusion is the same. “The ongoing pandemic, strained supply chains and rising inflationary pressures all present risks to the global and domestic outlooks. Nonetheless, the resilience of the Australian economy throughout the pandemic demonstrates that the economy is well placed to adapt to these new developments.”

The statement says that the private sector is expected to be the main driver of growth and points to a “record pipeline of work in the residential construction sector,” without so much as mentioning the string of bankruptcies of construction companies in recent weeks.

The Treasury warns that the pandemic will continue to pose a risk, with the potential for emergence of “new more virulent or vaccine-resistant variants of COVID.”

But nothing will be allowed to stand in the way of the accumulation of profit because any public health measures “are not expected to materially affect the economic forecasts.”

The increasingly fraught international economic situation is presented as a kind of background to events in Australia, rather than as a determining factor, and consequently receives scant attention. The basic position is that the global recovery has gained traction and is expected to continue through 2022 and 2023.

This is despite warnings from international bodies such as the OECD that the disruption to energy and commodity markets resulting from the US-NATO war against Russia, following the invasion of Ukraine, will slice 1 percent from global GDP growth and add 1.5 percentage points to the overall inflation level.

Here again global events are viewed through the national prism.

“As an energy and food exporter with very limited direct exposure to Russia, Australia is better placed than most countries to absorb the economic effects of the conflict and associated disruptions,” the Treasury document said.

In developing its analysis, it seems that the Treasury has its eye fixed on the stock markets, which have yet to exhibit a significant response, at least so far, to the mounting global financial crisis.

However, as the *Financial Times* (FT) noted in an article this week on the apparent market calm “commodity markets are chaotic, stoking uncomfortably high inflation, and global economic forecasts have been marked down as a result."

It went on to list a series of factors, including soaring inflation, rising interest rates, technology stocks under pressure, debt problems in the developing world and the coronavirus, which could interact with each other "in dangerous and unpredictable ways to create unanticipated problems."

The chief economist at the World Bank, Carmen Reinhardt, who has studied financial crises, has warned that the financial ripple effects from the Russian invasion could be huge.

She has noted that the share of advanced economies with inflation levels at 5 percent or higher has risen from zero a year ago to almost 60 percent by February 2022, even before the Russia-Ukraine disruptions make their full impact.

However, for the Treasury such escalation appears to be of little concern as it predicts that inflation in Australia is likely to hit 4.25 percent to the June quarter of this year but will remain "well below that in most other advanced economies."

The Budget has been touted by the government as showing how its policies are leading a surge in growth. Yet, as financial journalist Michael Pascoe pointed out, the growth of 4.75 percent this calendar year, supposedly "leading the world," will drop to 2 percent in 2023.

He cited other data pointing in the same direction. Growth in dwelling investment is predicted to rise from 3.5 percent this financial year to 5.75 percent in 2022–23 before falling to negative 0.5 percent in 2023–24. Business investment is forecast to rise by 9 percent in 2022–23 but then fall to just 1 percent in 2023–24.

Given its importance to the Australian economy, one might have expected some analysis of the Chinese economy in the Treasury document. But it rates just one paragraph where it is noted that its growth is expected to be around 5 percent for the next three years—well below previous levels.

This is under conditions where China's economic and financial problems are worsening. As a comment by economic analyst Ruchir Sharma published in the FT noted, "no other major country is showing deeper sinkholes of economics trouble."

As a result of the financial crisis surrounding the giant property developer Evergrande and other companies, property developers are illiquid, short of cash, or unlikely to survive, and big Chinese lenders are wary of making new loans. The result is that developers are having to go offshore to seek cash at very high interest rates.

Sharma warned that China is looking increasingly like Japan in the 1990s where no amount of stimulus by the central bank will encourage an increase in credit and economic activity.

The China slowdown, already reflected in the falling GDP growth estimates, has major implications for the Australian economy.

In the aftermath of the 2008 global financial crisis Australian capitalism was able to escape its worst effects not because of any inherent "resilience" but because of a minerals export boom fuelled by the massive infrastructure and housing programs carried out by the Chinese government. That is not going to be repeated.

According to the Treasury, emerging markets are expected to grow more rapidly than advanced economies in 2022. However, it then adds that they are vulnerable to the effects of Ukraine crisis because of their exposure to rising fuel and agricultural prices as well as being hit by any tightening in global financial conditions.

A recent blog by economists at the World Bank reported that emerging markets and developing economies, which make up about 40 percent of global GDP, were extremely vulnerable because of their high debt levels. In the next 12 months, it said, as many as a dozen could prove unable to service their debt.

Already the social consequences of this situation are to be seen in the rising class struggles in India, Sri Lanka and in North Africa. In the US workers are engaged in a series of battles as inflation surges. In the UK, workers are confronting what the governor of the Bank of England, Andrew Bailey, has said will be "an historic shock to real incomes."

Contrary to the prevailing nostrums of the Treasury, Australian capitalism and consequently the working class are not isolated or insulated from these processes because of some "exceptional" economic resilience, but are firmly caught in the coils of these global developments.

This poses the necessity for workers to view their struggles, whether they be over wages, jobs cuts or attacks on conditions, as part of a growing international upsurge of the working class. Australian workers need to reach out to develop the global struggle against the capitalist system as it inflicts death and disease, due to the refusal to take action against COVID, and toboggans to war and economic crisis.