Australian Labor government faces rising discontent as recession looms

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The Albanese government is confronting growing working-class distrust and unrest as the continued aggressive lifting of interest rates by the Reserve Bank of Australia (RBA) raises the danger of a recession.

Gross domestic product (GDP) grew by just 0.2 percent in the first quarter of 2023, the Australian Bureau of Statistics reported last Wednesday, indicating an accelerating slump. The annual rate fell to 2.3 percent from 2.7 percent in October-December.

Rapidly slowing household spending and a sharp fall in dwelling construction were central to the GDP result, confirming that the downturn is already hitting working people hard, on top of a worsening cost-of-living crisis.

In fact, GDP per capita, which measures output per person, fell by 0.2 percent, signalling the onset of a "per capita recession." The Commonwealth Bank of Australia and HSBC economists now both put the odds of an outright recession—two quarters of GDP contraction—at 50 percent.

After a one-month pause, the RBA again raised its cash interest rate this month, to 4.1 percent, inflicting more pain on financially-stressed home mortgage holders. It warned of further increases unless wage rises were kept well below the inflation rate.

Some banks and finance houses are predicting that at least three more rate rises could lie ahead. Both Goldman Sachs and Capital Economics raised their peak cash rate forecast for this year to 4.85 percent.

The 12 rate increases over the past year have already cut more than $1,200 from the monthly disposable income of households holding a $500,000 mortgage, and hundreds of dollars more from the many who have larger debts. Partly due to the rate rises, landlords are also ratcheting up rents, which have soared around 10 percent over the past year in the major cities.

Fearing rising discontent, when asked about the possibility of recession at an *Australian*-Sky News economic outlook conference last Friday, Prime Minister Anthony Albanese insisted he was "very optimistic" about the future.

Asked about his government's May 9 federal budget forecast that the RBA's cash interest rate would peak at 3.85 percent being proven wrong within a month, Albanese sought to falsely distance his government from the central bank. He declared that the budget prediction was not as "incorrect" as statements from RBA governor Philip Lowe, as recently as late 2021, that there would be "no increases till 2024."

Lowe's now notorious "forward guidance" to borrowers in 2021 had come after the RBA cut rates to a record low of 0.1 percent in order to boost big business during the first two years of the COVID-19 pandemic.

In reality, the Labor government has the same underlying policy as the RBA, which is proceeding in sync with the central banks in the financial capitals of the world. That policy is to suppress workers' wage demands, if necessary by crashing the economy and driving up unemployment.

Labor's May 9 budget itself predicted that the unemployment rate would hit 4.5 percent by 2025, meaning the loss of some 150,000 jobs. That figure is likely to grow because of the heavy dependence of Australian capitalism on exports to China, whose economic growth has slowed dramatically, not least because of sanctions and other economic warfare measures by the US.

Real wages in Australia have already fallen by more than 4 percent over the past year—the biggest decline since World War II—exposing the RBA's claims to be fighting inflation by preventing a "wage-price spiral." The real causes of inflation lie in the pumping of trillions of dollars into the money markets since the 2008 global crash, aggravated by the unchecked COVID-19 pandemic and the US-NATO war against Russia in Ukraine.

The suppression of wages is continuing. Consumer prices rose an annualised 7 percent in the March quarter. Wages, on the other hand, rose just 3.7 percent.

This is intensifying a decades-long process. The share of wages in the economy has fallen over the past four decades to record post-World War II lows, while the share of profits has grown to historic heights.

Despite its claims and promises of "getting wages moving again," the Labor government is working closely with the trade union bureaucracy to impose wage agreements far below the inflation rate. That partnership is backed by the government's new laws giving the Fair Work Commission industrial tribunal the power to shut down industrial action in "intractable" disputes.

The GDP figures showed how severely the cost-of-living crisis is inflicting financial stress on working-class households, forcing them to cut spending. "Discretionary" spending declined by 1 percent in the March quarter, while "essential" spending increased by 1.1 percent, reflecting higher food, energy and fuel prices and rents.

Interest rate rises and soaring housing costs saw residential building approvals decline by 24 percent over the year, adding to a worsening housing shortage.

Yet the full impact of the rate rises is still to be felt. The Commonwealth Bank estimates that only about half of the RBA's 4 percentage points of rate increases have hit households so far, largely due to many being on fixed mortgage rates, which will mostly expire this year.

By the RBA's own calculations, in its April Financial Stability Review, more than 40 percent of all mortgage borrowers could be at risk of defaulting on their loans in just three months if they experience "shock" to their income or expenses. That risk is highest among "low-income households."

The central bank is consciously targeting low-paid and poor working-class households. They have "less ability to draw on wealth or cut back on discretionary consumption to free up cash flow for debt servicing," the April review stated.

The RBA, speaking on behalf of the financial and corporate oligarchy, is demanding that the Labor government go far further in ratcheting up "productivity" as measured in output per working hour. That essentially means intensifying workloads at the expense of jobs and conditions.

RBA governor Lowe last week declared that falling productivity was the main risk to the central bank's supposed efforts to combat inflation. The GDP data showed that output per hour worked fell by 4.5 percent over the past year, which was the largest annual decline since at least 1979, when records began.

But the RBA and corporate media commentators have provided no reason for the plunge. That is because it lies, above all, in a drought in new private business investment, which is needed to improve production methods. It fell to 11 percent of GDP in 2022, from 18 percent during the mining boom of the early 2010s, with a particularly steep fall in corporate investment from the US.

Both Albanese and Treasurer Jim Chalmers have responded by pledging to boost productivity. At the *Australian*-Sky News conference, Albanese agreed with RBA governor Lowe that to accommodate wage rises without further interest rate hikes, the nation must increase productivity—"absolutely, we do."

Chalmers told the media: "A big part of our economic agenda is investing in productivity." He claimed that this did not mean "trying to make people work longer for less," but investing in skills and workers' "capacity to adopt and adapt technology."

The truth is that the ruling class is demanding ever-greater speedups and workloads, while denouncing any wage rises above about half the inflation rate. A June 12 *Australian* editorial declared: "Great flexibility in workplace relations is essential to kickstart productivity."

"Flexibility" is a euphemism for removing all obstacles to greater exploitation of workers' labour power, and relying on the union apparatuses to suppress workers' opposition, as they have for the past four decades.

But the rising demands of workers, including health and aged care workers, and educators, across the public sector and many industries, are increasingly coming into collision with the Labor government and its union enforcers. That underscores the necessity for the development of independent rank-and-file committees, as advocated by the Socialist Equality Party, to consciously organise a unified struggle and link up with workers internationally facing similar attacks.