FROM ONE CRISIS TO ANOTHER: THE UNDERLYING MALAISE IN THE AUSTRALIAN ECONOMY

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Despite the Treasurer's repeated reassurances that Australia has been unique among OECD countries in avoiding an economic recession and that the economy is in a 'strong position', various economic data suggests otherwise. The dramatic and sudden shuttering of businesses following the imposition of coronavirus social-distancing suggests that the business community was in a somewhat fragile state prior to the pandemic. Gross operating profits actually declined in the last quarter of 2019 (ABS 2019b).

It is apparent that recession clouds have been overshadowing the Australian economy for some time and that there was a dramatic slowdown in the second half of 2019. Were it not for the economic expansion associated with population growth from immigration, the Australian economy would have recorded a recession in per capita terms over the last two years (Letts 2019a; Scutt 2019). Even then, increasing public sector expenditure, which has proved an important salve to recession, growing by between 3 and 6 per cent over the last two years, did not prevent the decline in GDP in current prices (ABS 2019). In real terms, taking inflation into account, the Australian economy was slipping into recession in 2018.

One can thus better understand why the employment crash with the COVID-19 shut down of the economy has been so remarkably dramatic. Understanding some of the critical factors that that have framed the flatlining of the economy also exposes shortcomings in the Coalition government's proposed policy to engineer a quick 'snapback'.

Rosewarne, S. (2020)
'From One Crisis to Another: The Underlying Malaise in the Australian Economy'
Journal of Australian Political Economy
No. 85, pp. 29-38.

Drawing on ABS, we can gain a better sense of the folly in this strategy and the devastating impact it could have on a large proportion of the Australian population, not to mention the millions of temporary visa holders who are already deleteriously affected by being denied access to the JobKeeper and JobSeeker schemes.

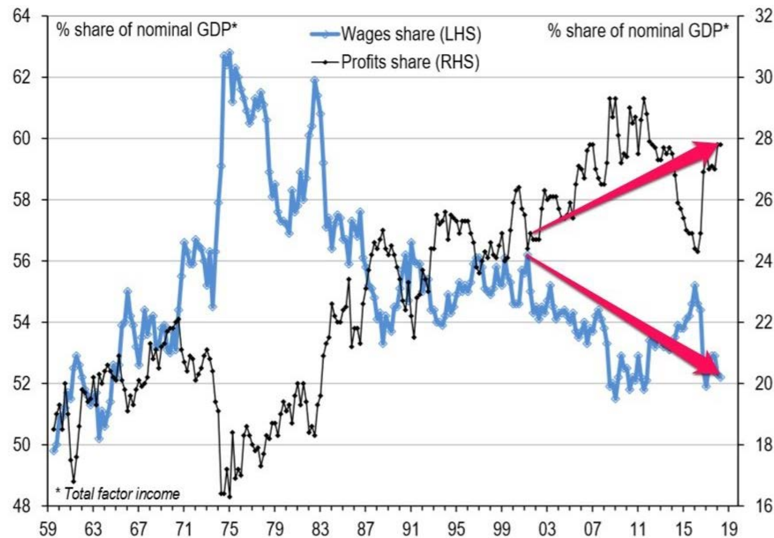
A crisis long in the making

A starting point is to acknowledge the initiatives of the Reserve Bank to reinvigorate economic activity through successive reductions in the interest rate and the Bank's unsuccessful appeals to the government to employ fiscal measures to underwrite a stimulus. Uppermost in the concerns being regularly expressed were the flow-on effects of subdued wages growth.

While the government was praising its economic record of keeping the Australian economy on track and maintaining the momentum of growth, for over three years the Governor of the Reserve Bank repeatedly raised the spectre of an imminent crisis linked to the suppression of wages. Fairly early in his taking on the role, Philip Lowe observed that 'The crisis is really in wage growth'. In urging workers to take action to demand higher wages, he advocated a prescription that was completely at odds with the Coalition's industrial relations agenda (Long 2017; Lowe 2018; Hutchens 2017).

Lowe's concern was that the falling share of wages in national income was having a depressing effect on aggregate national demand. The trend in the wages share of GDP, charted in Figure 1, was downward, as the profit share grew. With wages the principal source of household consumption expenditure and household expenditure accounting for over half of GDP, Lowe could see that wage stagnation would likely have adverse consequences for the level of economic activity.

Figure 1: Wages and Profits (% Share of Nominal GDP)

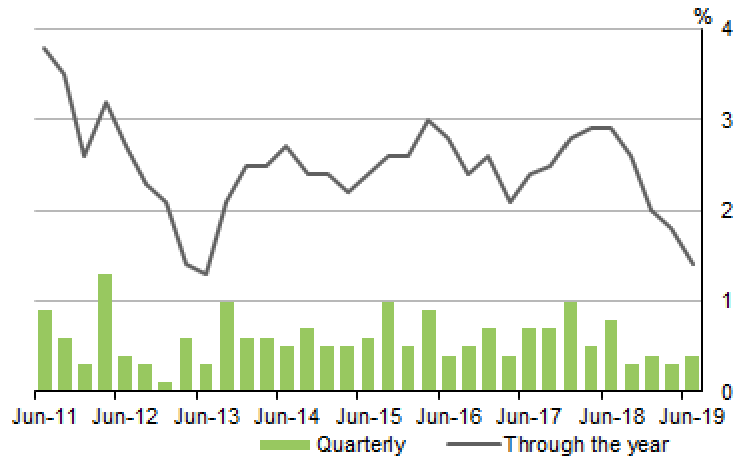


Source: ABS, UBS.

The link between wages and household expenditure is affected by households' ability to borrow to maintain consumption standards, and there has been an extraordinary increase in borrowing. Australia now has the second highest household debt/GDP ratio in the world and debt continues to grow 'outpacing household disposable income' (RBA 2020, 7; ABS 2019a). The Bank's concern is that this cannot be sustained, and the time will come when the debt has to be reined in, creating yet more adverse impacts on household spending with flow-on effects for the economy (Lowe 2017; Bullock 2018; Janda 2019).

There was a marked downturn in consumer confidence and household consumption expenditure over 2018 into 2020 (Figure 2). Consumer confidence and spending had plummeted before the onset of the pandemic (Letts 2019b; Roy Morgan 2020). The unfolding scenario had all the hallmarks of an emerging underconsumption crisis, and there were some obvious signs of the effects of wage suppression in the boarded-up shopfronts on the high streets of cities throughout the country, the shuttering of Myer, and in Harvey Norman's capital raising and withholding of dividends in its endeavour to boost liquidity (Carter 2019; Powell 2019).

Figure 2: Household Final Consumption Expenditure



Source: ABS 5206.0: Household final consumption expenditure.

Note: Chain volume measures are easonally adjusted.

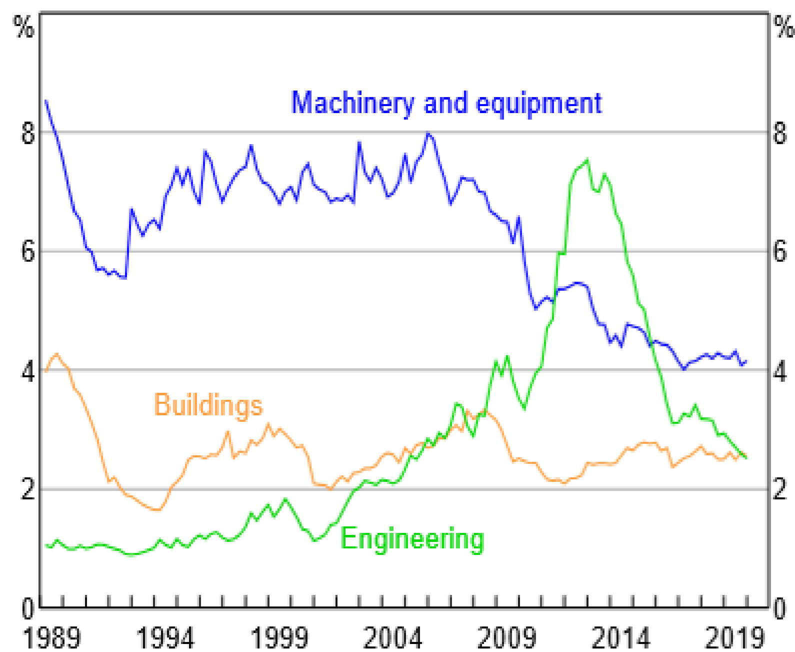
Wage suppression has been the pivot upon which the economy turned. As Lowe frequently advised, recovery in wage growth was contingent on increasing productivity. Notwithstanding capital capturing an increasing share of GDP as profits, the impetus to invest profits to increase productivity had been trending down for some time.

Evidence of an imminent economic crisis was not restricted to the depressing effects of wage stagnation on consumption expenditure. Business confidence began to wilt in mid-2018, dropping alarmingly in the final quarter of 2019. (NAB Quarterly Survey 2019; RBA 2020: 9). The reasons were evident. Corporate profitability was declining, falling across most sectors and culminating in a sharp 3.5 per cent decrease in profit rates in the last quarter of 2019 (ABS 2019b). Banking and finance was the notable exception, capturing an ever-larger share of the profit pie.

Figure 3, charting key Business Investment Components published in the Reserve Bank's *2020 Chart Pack*, highlights businesses' diminishing investment in new capital formation. In 2018-2019, as a share of GDP, new business investment actually declined by 1.3 per cent, its lowest level

in over a quarter of a century (Bell and Keating 2019). This rang alarm bells in the Business Council of Australia (Boyton 2019). An accumulation crisis could be seen to be unfolding; and, instead of addressing this, business focused on the short-run horizon, borrowing funds which were mostly used to maintain dividend payments and shareholder confidence and to meet the inflated cost of executive remuneration packages (Robertson 2019; Roddan 2020; Wright 2020; RBA 2020: 10).

Figure 3: Business Investment Components (Share of Nominal GDP)



Source: ABS.

Note: Adjusted for second-hand asset transfers between the private and other sectors.

Poor policies: Continuing malaise

What is intriguing, given the weak state of business confidence and capital formation, has been the Coalition government's canvassing of potential policy options for progressing a post-COVID-19 recovery. None is new. One is cutting corporate taxes to ignite renewed investment momentum, but this has been predictably unsuccessful. As has been the case in the United States, most of the extra profits retained following tax cuts in Australia have ended up financing the costs of share buy-backs and maintaining dividends (Gray *et.al*., 2019). The tax savings have been diverted to enhancing the accumulation of wealth rather than investing in new capital formation (Lucy 2019; Wright 2020). The Treasurer had previously expressed his disdain for such practices (Shield 2019), to no effect, yet in the current context the Coalition has not resiled from its determination to cut corporate taxes.

A second option on the Coalition's policy agenda is cutting public expenditure. The RBA maintains the immediate challenge to a post-COVID-19 recovery is the shortfall in demand. Correcting this requires fiscal stimulus, as the Bank Governor has argued for the last couple of years. The Coalition is ideologically opposed to this, despite public investment in infrastructure having been the one demand stimulus that provided a counter to declining aggregate demand. The Coalition cannot see beyond the coupling of austerity and corporate tax relief as the means for stopping public expenditure crowding out private investment. But there is no evidence that cutting corporate tax cuts will drive appropriate investment. Reducing corporate tax rates will simply result in cutting public expenditure and shifting the tax burden to wage and salary earners.

The cost of austerity has been exposed by the pandemic in the impoverished aged care facilities that do not provide safe residence or sufficient staff and the inadequately funded hospitals that cannot guarantee the supply of basic and personal protection equipment. Cutting funding and promoting financial self-reliance has undermined the integrity and viability of the not-for profit sectors providing care and health. Similarly, the Coalition's treatment of higher education stands out for its distinctive disregard for the benefits that flow from investing in skill formation. The Coalition's parsimony frames the organisation of employment in technical and further education and universities. Effective teaching and research have become contingent on the institution competing in the market to attract increasing numbers of fee-paying international students to generate

necessary revenue, while cutting costs through increased employment of teaching, research professional staff on fixed-term and casual contracts. Standards heve been compromised, yet the Coalition is doing its damnedest to undermine the sector's reputation, not the least because it is treating international students with contempt.

A third policy position is the 'reform of industrial relations', code for further deregulation of the labour market, wage suppression and the erosion of conditions of employment. Real wages have all-but flatlined for the past decade and labour costs have been trending down since the GFC (RBA 2020: 12). Those sectors that have experienced the strongest employment growth over the last decade or so are where mostly low-wage workers are employed.

These employment-growth sectors and the ones that are most likely to increase employment in the immediate future – such as hospitality and accommodation, arts and recreation, retail and education, including pre-school, health care and social services, including aged care and disability services – are dominated by enterprises that operate on low profit margins or are not-for profits. The for-profit businesses are characteristically low-value adding enterprises operating in intensely competitive environments, whereas the not-for-profits struggle to provide services under severe funding constraints. Many survive in the current economic climate because most occupations in these sectors are regarded as low-skilled, low-valued and characteristically low-paid, disproportionately part-time or casual. Their viability is contingent on the employment of low-paid workers, relying increasingly on labour-hire companies, employing staff through special purpose entities to avoid direct employment relations and employer obligations or on restrictive work visas. As the prevalence of wage theft and underemployment have demonstrated, these employment practices merely institutionalise a 'race to the bottom' that rarely enhances enterprise viability. It detracts from investing in innovative ways to increase workplace productivity and serves to intensify competitive pressures and the search for more ways to cut labour costs.

These sectors are also characteristically poorly represented by unions and, in practical effect, have fewer employment protections. Industrial relations reform would further weaken the ability of workers to negotiate industrial instruments that do provide some minimum standards and protections. The exploitative conditions that characterise these sectors are justified by the Coalition's ideological conviction in the logic of the so-called *laissez-faire*

labour market and that it should be unfettered. This is the logic that justifies the increasing disparity in remuneration rates across the spectrum of wage and salary earners. Freeing up the labour market and employment categories has driven a wedge into workforce earnings, with the hourly rate of low-wage worker earnings falling quite substantially relative to higher-salaried cohorts, and increasing income inequality within the workforce. This, needless to say, has had a dampening effect on aggregate consumer demand among those with the highest propensity to consume, while, on the other hand, the disparity in earnings has contributed to the higher income earners increasing their investment in shares and property (ABS 2018; Bell and Keating 2019). Wage suppression has had its greatest impact among the lower-paid and this plays out in terms of gendered and cultural biases.

The current economic crisis has a history rooted in ideology and uneven development. It may be said that the recent past is now catching up with the present. This was most evident in the third quarter of 2019 when the ubiquitous retailer Harvey Norman was exploring how to insure against the potential fall-out from an economy that was tanking but did not give thought to how it could end up. Wary of the prospect that one in five retailers might not survive a depressed retail market, Harvey Norman cashed up through a big share issue in August 2019 (Carter 2019; Powell 2019). This insurance appeared to pay off because, only a few months later, the Chairman was bragging about how well Harvey Norman was doing from COVID-19 panic buying and he was investing in a share buyback (Richards 2020). The 'market' thought otherwise, selling down Harvey Norman shares, directors' salaries were cut and dividends revoked. Wealth accumulation did not win out against wealth generation.

Conclusion

This crisis is not new: it has been long in the making. It has its roots in wage suppression, fiscal austerity and the unfolding capital strike of 2018. It is more than simply the effect of a sudden drop consumer demand consequent upon the COVID-29 shutdown. It has its origins in a more general faltering in accumulation, in the profitability downturn and the mounting reluctance of business to invest in capital formation. In wondering whether those boarded-up windows on the high streets will be dismantled one day soon, the failings of the Coalition on economic

management must be called out. The Coalition has to be called to account to ensure that, at the very least, the post-COVID-19 recovery is built on adequate funding that fosters greater equity and security in the labour market. At the very least, the 'snapback' must guarantee that the labour of those workers who are so crucial to our health, wellbeing and education is recognised, justly remunerated and afforded appropriate employment protections. The calls to extend the reach and duration of the JobKeeper and JobSeeker programs is a step in the right direction, although the bigger challenge of resuscitating the pace of accumulation remains.

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