THE COALITION ECONOMIC REFORM AGENDA IN THE AFTERMATH OF THE MINING BOOM

Tom Bramble

Between 2005 and 2012 Australia underwent the most dramatic mining boom since the Victorian gold rush. Investment in the sector, broadly defined, quadrupled (ABS, 2012). The boom also fuelled growth in a wide range of industries servicing the sector, in particular engineering construction and business services. And when coal and iron ore came off the boil, construction of LNG projects helped to take up some of the slack. The mining boom was an important factor in boosting the economy in the years after the global financial crisis, helping to extend the long period - now approaching a quarter century – since Australia last experienced a recession, an achievement unique in the country's history.

The mining investment boom has now come to an end as construction of mines and related infrastructure is progressively completed. At the same time, commodity prices have dropped sharply as supply on world markets has surged, reducing the country's terms of trade (Figures 1 and 2). The combination of a fall in investment in the mining and engineering sector along with declining terms of trade has produced an income recession, with no growth in net national disposable income for four years (ABS, 2016a).

Although the mining 'bust' is by no means as severe yet as others in Australia's history, with export volumes still climbing three years after the investment boom peaked, the bust has nonetheless been the most important economic development in recent years. In particular, it has formed the context or, more accurately perhaps, the pretext for the emergence of a revived push for 'economic reform' by the Australian ruling class. This article offers a critical assessment of this process.

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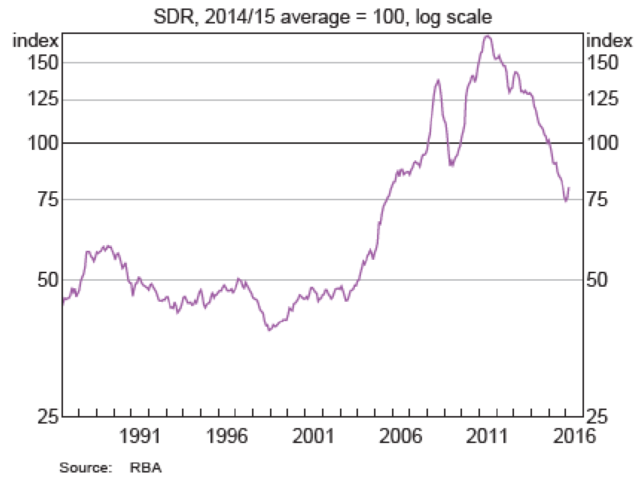
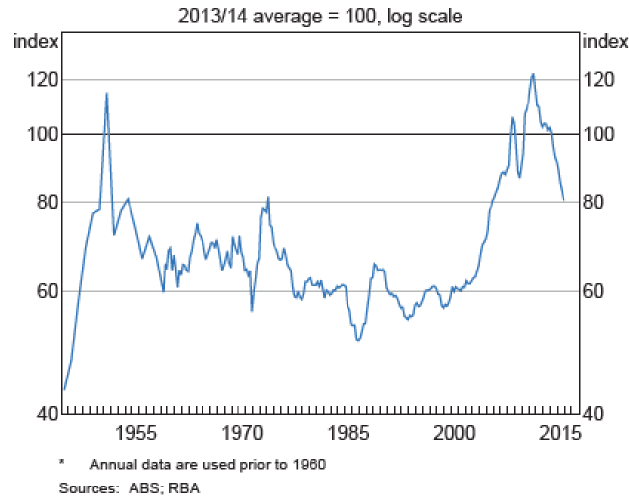
Figure 1: RBA Index of Commodity Prices



Source: RBA, *The Australian economy and financial markets chart pack, May 2016*, p. 15

Figure 2: Terms of Trade



Source: RBA, *The Australian economy and financial markets chart pack, May 2016*, p. 15

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The Economic Reform Project

The agenda for 'economic reform' by the Australian ruling class[1] has been spelled out in a series of important policy documents, including a major report by the Business Council of Australia in 2013 (Business Council of Australia, 2013) and the Commission of Audit report in May 2014, and embodied in the federal government's budgets of 2014, 2015 and 2016. The agenda is also reflected in a series of inquiries into taxation, superannuation and workplace relations and the launching of the Royal Commission into Trade Union Corruption.

The reform project is driven primarily by the need to revive business profitability in Australia while protecting the interests of the wealthy in the context of the income recession. To this end, proponents of the agenda seek to reduce the cost base for Australian capitalism and to integrate business more effectively in international flows of trade and investment in order to access new sources of investment, cheaper labour power and extended markets.

Reducing the cost base for Australian capitalism involves three main components: lowering company taxation, reducing the cost of labour and paring back cross-subsidisation of weaker areas of Australian business. Reducing the burden of company tax includes cutting income tax on companies and high income individuals and shifting the onus of taxation onto low to middle income owners.

Lowering the cost of labour involves both direct and indirect measures. The former include undermining unions, reducing penalty rates and minimum wages and expanding the pool of labour lacking in basic labour rights of Australian citizens, that is, increasing the rate of exploitation at the point of production. Indirect measures include winding back the provision of public health, education and social security (age pensions, unemployment benefits, single parents' allowances, etc.) and shifting the cost of service provision from the government to the 'user', as in Medicare services and vocational and higher education. These latter can be understood as reducing the rate of growth, if not the dollar amount, in public outlays on the reproduction of labour power, thereby creating the

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1 Henceforth, inverted commas will not be used for the term 'economic reform', but it is understood that the use of this term is a corruption of the historic meaning of the term 'reform'.

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budgetary wherewithal to cut company tax. As well as minimising the absolute cost of labour power, the reform agenda also involves an attempt to cut *unit* labour costs by increasing productivity through various measures such as greater expenditure on R&D and enhancing workforce skills. Tackling cross-subsidisation of inefficient capital - the third aspect of reducing the cost base - involves winding back subsidies and assistance to industries held responsible for draining surplus value from more efficient uses of capital, with manufacturing in particular being targeted.

The promotion of more rapid international integration of Australian capitalism - the second major part of strategy that emerges from the reform agenda - has involved maintaining the content of the Rudd government's 'Australia in the Asian Century' program, even while abandoning its form. To compensate for reduced rate of growth in demand for Australian resources and energy, the Coalition government is urging business to orient to the rapidly growing middle classes of rising middle-income countries of East and South East Asia, with a focus on education, tourism, foodstuffs and professional services. To this end, the signing of free trade agreements with China, Japan and Korea, and Australia's promotion of the Trans Pacific Partnership Agreement, involve not just a commitment to reduce *ad valorem* tariffs but also to eliminate a series of 'behind the border' barriers to investors and protections for local industry and public services. Tighter integration into international capital markets offers overseas investment opportunities for Australian companies and capital for investment in Australia. Greater access to international supply chains in Asia gives opportunities for Australian businesses to supply components. The expansion of visa programs to attract business investors stimulates the domestic property market and in some cases provides new business prospects for local companies.

Closer integration into international capital, product and labour markets is closely tied to the policy goal of lowering business costs. Lower tariffs reduce the cost of inputs for Australian business. The creation or extension of specific visa classes for recently graduated international students or 'foreign labour' - for example the provision in the Chinese free trade agreement for the tourism and hospitality industry to employ 5,000 Chinese workers without full labour rights - lifts the supply of relatively cheap and intimidated labour available to Australian capital and helps to push down wages across the board. Integration into

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international supply chains and throwing open public services to private operators, both local and overseas, helps to reinforce the operation of the law of value for Australian labour power, reducing the 'historical and moral component' in its determination (Marx, 1867).

The public rationale for advancing these policy prescriptions has included curbing the 'unsustainable' rise in public debt, reversing the slowdown in productivity that has occurred since the 1990s and helping the economy transition from the mining investment boom. Its chief element, however, has been to shift the burden of readjustment of the Australian economy during the transition from the capitalists to the working class. This is something that is widely understood and the government has not made much effort to disguise this fact, appointing the head of the Business Council of Australia to chair the 2014 Commission of Audit for example. Greens' leader Richard di Natale's description of the 2014 Budget as 'a blueprint for the bosses' was in tune with its (un)popular reception.

Assessing the Australian Economy in Transition

From the perspective of the ruling class, the economic transition since the end of the mining investment boom has gone better than might have been expected, even if outcomes can only be judged as modest by most objective criteria and bearing in mind that the downswing in the mining industry may still have some way to go, which could suggest a more tempered assessment of the transition may be warranted in coming years. The *relative* success of the transition at the time of writing can be assessed in terms of GDP, company performance and the labour market.

While national income may be depressed because of the collapse in commodity prices, growth in GDP, registering 3.0 percent in 2015, is significantly higher than the G7 average of 1.5 percent and six times the rate of growth in Canada, another advanced resource economy undergoing a similar transition as Australia (OECD, 2016). Australia's relative success has come because, just as private investment swung from promoting GDP between 2010-12 to becoming a significant drag in 2013-16, consumption has held up and net trade (exports minus imports) has moved from being a brake on growth to a stimulant.

There are some important sectoral differences in Australia's recent growth record. Since commodity prices peaked in mid-2011, the mining

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sector has seen income from sales of goods and services and profits slump, as was expected. Manufacturing, too, has seen the continuation of its long term decline. But, outside these two areas, corporate Australia has fared relatively well, with income and profits up by 16 percent and 12 percent respectively since 2011 (see Table 1). In terms of income, stand-outs include real estate (up by 32.2%), construction (26.0%) and electricity, gas and water (22.9%). In terms of profits, 'other services' (down 34.8 percent) and arts and recreation (down 7.3%) joined mining and manufacturing in experiencing poorer results, but every other sector enjoyed rising profits, including real estate (up 39.4%), administration and support services (34.5%), accommodation and food services (28.7%), finance and insurance (24.9%), electricity, gas and water (24.0%), retail (15.5%) and construction (15.0%) (ABS, 2016b). Company half-yearly reports covering the second half of 2015 show a similar buoyancy: outside the mining sector, half of all those reporting results came in higher than analysts' expectations (Smith, 2016).

Table 1: Performance of Australian Incorporated Companies, June quarter 2011 to Dec quarter 2015, Current Prices, Trend Figures.

	Income From Sales of Goods & Services ($Bn/ % Change)	Profits ($Bn/ % Change)
Mining Industry	-$7.4bn/ -14.1%	-$8.6bn/ -35.0%
Manufacturing Industry	-$8.0bn/ -8.6%	-$0.39bn/ -5.2%
Industries Other Than Mining & Manufacturing	+$68.4bn/ +16.2%	+$4.4bn/ +12.2%
ALL INDUSTRIES	+$53.0bn/ +9.3%	-$4.6bn/ -6.8%

Source: ABS, *Business Indicators, Australia*, December 2015, cat. no. 5676.0

Differential sectoral growth has also had a regional element. Just as the mining boom helped to drive faster growth in the resource-intensive states and territories, WA, Queensland and Northern Territory, so the decline in commodity prices has seen these states hit hard and the focus for growth shift to the south-east corner (see Figure 3). There have also been different outcomes between the capital city and other regions within individual states. Wihin NSW, for example, the shutting in April 2016 of the Electrolux factory - the country's last whitegoods plant – in Orange,

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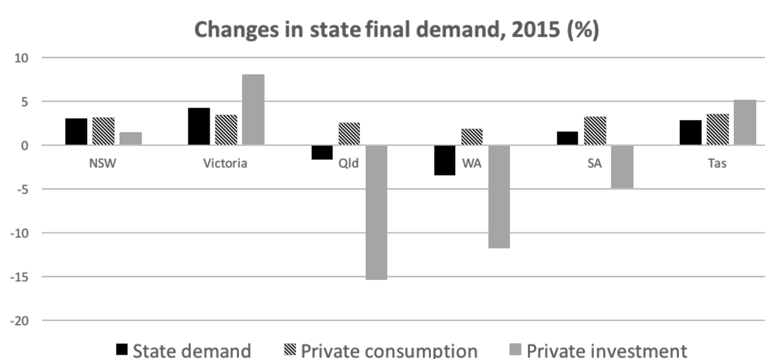
the ongoing rationalisation of Bluescope Steel production in Port Kembla, and the shut-downs in the Hunter Valley coal industry have all served to depress regional economies.

Figure 3: Performance of Australian States, 2015.



Source: ABS, *Australian National Accounts: National Income, Expenditure and Product*, December quarter 2015, cat. no. 5206.0.

Economic growth in 2015 improved the jobs market. While the unemployment rate rose and the participation rate fell in the period from the global financial crisis through to 2014, both trends have now reversed, albeit slowly and tentatively, with unemployment back below 6 percent and the participation rate at an historically high level of 65 percent.[2] Job vacancies in early 2016 were at their highest level since 2012.

The property boom in Sydney and Melbourne has been an important feature of the transition period, with prices rising in Sydney by 49 percent and in Melbourne by 21 percent between 2012 and 2015 (ABS, 2015a). In 2015, the median price for Sydney houses rose to $1 million and in Melbourne to more than $700,000. Property developers jumped in

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2 Assessing the true state of the labour market has become more difficult in recent years because of concerns about the reliability of Australian Bureau of Statistics labour force surveys.

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to take advantage of the higher prices. Between 2011 and 2015, monthly housing approvals rose from 11,500 to 19,000 a month, with apartments leading the surge (Parliamentary Library, 2015: 22). Investment in dwellings rose by 8.8 percent in 2015, as against contraction of 12 percent in both non-dwelling construction and machinery and equipment (ABS, 2016a).

Property investors have played a big part in the boom. By 2014, investment loans accounted for nearly half of all new housing loans in Sydney (IMF, 2015a) The share of new loans to first home buyers, by contrast, fell to only one in seven (Commonwealth Bank, 2015). Foreign investors in particular have become an increasing presence in the construction of new inner city apartments in Sydney and Melbourne (Gauder, Houssard and Orsmond, 2014).

The property boom has helped to stimulate the economy. Employment in the construction industry has risen more than sufficiently to compensate for the loss of jobs in mining. The boom has encouraged consumer spending which has underpinned economic growth, with increased outlays on furniture, floor coverings, housewares, hardware, building and garden supplies and electrical goods for the new units and houses[3]. It has also fuelled increased spending on renovations, both by homeowners looking to sell and investors wanting to flip their properties. While most of the whitegoods, tiles and other fittings are imported, the labour involved and the retail trade generated have helped to stimulate the domestic economy.

Australia’s finance and insurance sector has also done well from the property boom. Loans for housing accounted for 60 percent of the lending book of the big four banks in 2014, up from 50 percent in 2008 (IMF, 2015a: 13). With a surge in lending to property, the finance and insurance sector has earned handsome profits - $29 billion in 2014 and $30 billion in 2015 (ABS, 2016b). The housing boom has also been a boon to state governments in NSW and Victoria as stamp duty receipts have risen sharply (Edwards, 2015; Nicholls, 2015).

Fearing a glut in investment-driven property development and a rise in repayment difficulties in coming years, the Australian Prudential Regulation Authority in 2015 encouraged the banks to rein in loans to

3 In the three years to June 2015, the volume of retail turnover in household goods rose by 17.4 percent, compared to an overall rise of 8.5 percent (ABS, 2015b)

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property investors. So far, this has worked, with the share of investment loans and the number of new approvals for apartment building falling back in the second half of 2015 and into 2016 but without causing a significant drop in prices.

Rising property prices have had a broader stimulatory effect on the economy via the 'wealth effect' – the total value of dwelling stock in Australia rose by 30 percent between 2012 and 2015 (ABS, 2015a). Retail turnover increased at an annual rate of 5 percent in 2014-15 (Parliamentary Library, 2015: 20). Bankruptcies, both personal and business, fell steadily over the past four years, helped by record low interest rates (Parliamentary Library, 2015: 24-25).

The end of the mining bust has, therefore, not seen a sharp retreat in the broader economy.

What of the two priorities for the reform agenda in this period – reducing the cost base and promoting international integration? In relation to labour costs, the news is unambiguously positive for the capitalist class. The cost of labour, as measured by the wage price index, is now rising at its lowest level since the index was first calculated in 1997 (see Figure 4). Likewise, average hourly earnings have now stopped increasing, a situation last experienced at the tail end of the last recession in 1993 (Figure 5). The overall effect is that unit labour costs have now been flat for four years (Figure 5) and real wages have stagnated, falling in 2013-14 but with very modest increases thereafter. While wages growth may have been lifted during the mining investment boom because of strong increases in remuneration for workers in mining and construction, the end of the boom has seen wages growth in these sectors fall sharply, contributing to the overall trend of wages stagnation.

The inverse relationship that once existed between the unemployment rate and the rate of money wage increases (the Phillips curve) appears to have broken down with recent improvements in the jobs market not matched by higher wages. A range of factors may be responsible, including lower inflation expectations and declining terms of trade (Jacobs and Rush, 2015), but undoubtedly the defeats suffered by the working class since the 1980s, indicated in part by the dramatic decline in union coverage and strikes and the rise in individual contracts, have also played a part. With real wages lagging productivity improvements in recent years, real unit labour costs have fallen and the capitalists have raised their share of national income (Mitchell, 2015).

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In terms of the class struggle at the point of production, therefore, capitalists in Australia have done well.

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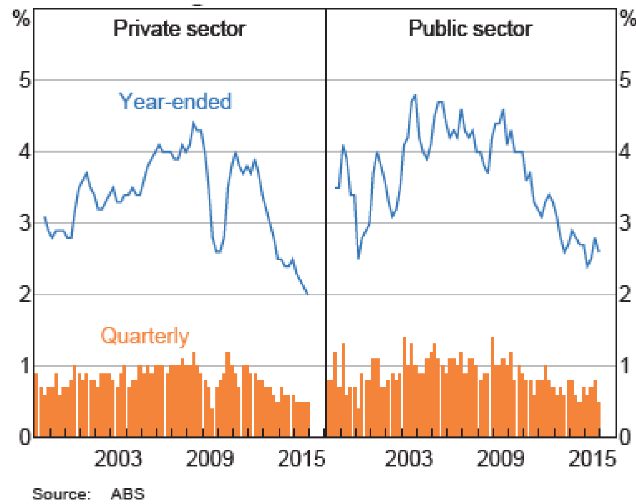
Figure 4: Wage Price Index Growth



Source: RBA, *The Australian economy and financial markets chart pack, May 2016, p. 10.*

While labour costs have been relatively easy to track (Figures 3 and 4), this is not the case with subsidies to inefficient capitalists.

First, it is important to note that this process has been selective in its application, with favoured recipients of public funding, including military contractors, private schools, vocational education providers, mining companies, 'security contractors' for refugee detention centres and private health insurers exempted from the stringency applied elsewhere.

Similarly, the rhetoric of 'competition' embedded in the neoliberal reform agenda has by-passed media owners, where the government is weakening barriers to cross-ownership, and the big four banks, which continue to enjoy government-mandated barriers to entry and a $300 billion government guarantee against insolvency. Former Treasurer Joe Hockey's 'age of entitlement' continues for some sections of Australian business.

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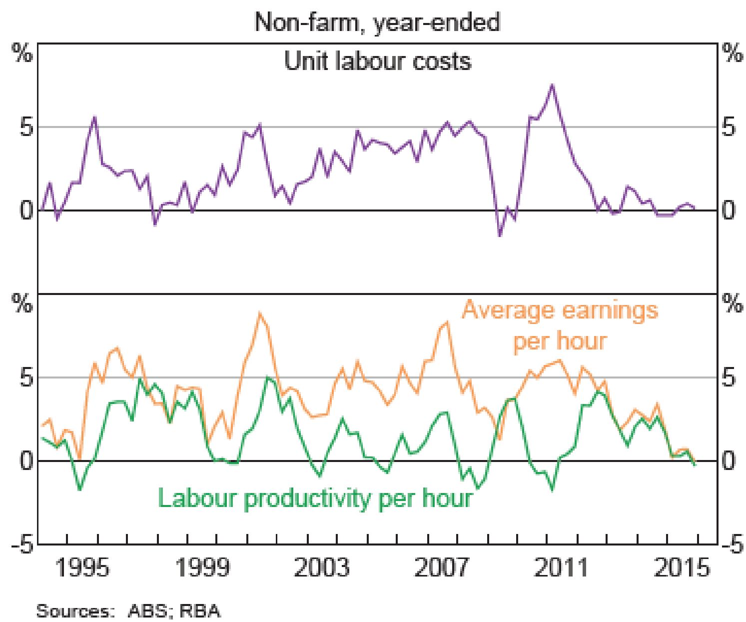
Figure 5: Unit Labour Costs Growth



Source: RBA, *The Australian economy and financial markets chart pack, May 2016*.

Nonetheless, the government has, in certain areas, pulled back from using surpluses generated elsewhere to cross-subsidise sectors that, from the point of view of the Australian state, are not carrying their weight. This is evident with subsidies to manufacturing, with the ending of subsidies to passenger vehicle assembly being the most obvious. This has had important regional implications. While the cessation of subsidies to automotive assembly has brought forward plans to close car plants in Melbourne, other areas of the Victorian economy have compensated, ensuring that overall state economic growth has not been damaged. In

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South Australia, however, where subsidies and government assistance to secondary industry played such an important role in fostering manufacturing in the 1960s, the withdrawal of government assistance is having a much more severe effect. The closure of Holden's assembly plant in Elizabeth, coming on top of the 2008 closure of the Mitsubishi plant at Tonsley Park, will bring vehicle assembly to an end while also having a big impact on component manufacturers in South Australia. The state is also facing the prospect that the Arrium steel plant in Whyalla will be closed. The only currently bright spot for the state's manufacturers is the decision by the federal government to support the state's shipbuilding industry through big military outlays, including the $25 billion program to build 12 submarines.

The final element of the cost-cutting agenda for business - reducing taxation on the corporate sector - has, by comparison with reducing labour costs and shifting resources out of declining industries, not advanced very far. I return to this point below.

What of the second major element of the reform agenda: faster international integration? In 2015, exports grew in value by 4.9 percent, while imports fell by 0.7 percent (ABS, 2016a). The resources sector is still by far the biggest contributor to export revenue, with volumes rising steadily as new mines have come on-stream (RBA, 2016). BHP and Rio Tinto have been the biggest contributors to this new supply, as they capitalise on their low production costs by flooding the market in an effort to drive out their higher cost competitors. Earnings for the big miners have dropped as a result, but the impact of falling US dollar prices of iron ore and coal has been partly offset by the lower Australian dollar and declining freight rates which have cut the industry's break-even costs (Ingram, 2016). Nonetheless, it is important to register a very important limitation concerning the benefits of rising mining export volumes. Given the high rates of foreign ownership prevailing in the sector, the profits arising from healthy mining exports are disproportionately repatriated to overseas head offices (or a suitable tax haven) even if the mining industry is still generating royalties for state governments. Further, the export boom is far less labour-intensive than the construction phase. The mining export surge therefore has less traction than the preceding mining investment boom, so far as incomes and employment in the Australian economy is concerned.

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The depreciation in the Australian dollar as measured by the trade weighted index, from 80 in 2012 to 60 in 2015 (May 1970 = 100) (RBA, 2016), helped to stimulate exports outside the resources sector. Tourism, hit hard by the high dollar in the latter stages of the mining investment boom, is now flourishing, with a surge in Chinese tourists – now Australia's largest tourist market - and more Australians holidaying at home. High occupancy rates at Sydney and Melbourne hotels have encouraged investors to pour money into new hotel development (Schlesinger, 2016a). The fact that labour costs have not risen despite relatively low unemployment means that Australian capitalists can enjoy the international cost advantage of a cheaper currency without seeing it eaten away by wage rises.

International education, which, like tourism, dipped in 2009-2012 when the dollar was high, has also strongly recovered as the lower dollar makes Australia a more attractive destination for international students. The cheaper dollar has also made online shopping at international outlets less attractive, helping to boost domestic retail as well. A lower dollar also benefits rural exporters, driving up farm incomes. Commercial loans to agriculture have grown strongly since 2013 in response to low interest rates, the weak dollar and rising prices for some foodstuffs (but not wheat) (Schlesinger, 2016b).

As for the new free trade agreements, it is too early to tell how these will affect flows of trade and investment since they only came into effect during 2015, but it is notable that some capitalists, including Andrew Forrest and Gina Rinehart, have begun to invest in foodstuffs in anticipation of growing markets for Australian food in East Asia. Similarly, companies offering personal and professional services, such as healthcare and wealth management, are looking keenly at expanding their operations in Asia.

To summarise, the Australian economy has held up better than might have been expected once commodity prices and investment in the mining and ancillary industries began to retreat in 2011-12. Company incomes and profits outside mining and manufacturing have risen. Consumer spending has been stimulated by the property boom, particularly in Sydney and Melbourne. After a period of retrenchment, employment has grown and unemployment has fallen. In terms of the reform agenda, the capitalists have clearly succeeded in suppressing labour costs. Some of the long-term subsidies to manufacturing have been wound back and the

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ongoing run-down of manufacturing operations appears to be accepted by the broader capitalist class as part of the process under way since the early 1980s even if it is causing pain for particular sections of the class[4]. As for international integration, the lower dollar has lifted the fortunes of several export sectors and cushioned the impact of falling commodity prices on the earnings of the mining companies.

Obstacles and Problems for the Post-Boom Transition and the Reform Agenda

There are, however, some important problems during the post-boom transition and obstacles to the reform agenda that must also be considered. The first problem is that the uptick in investment outside the mining and manufacturing sectors has not been nearly enough to compensate for the collapse of investment in these sectors since mid-2012 (Table 2). Higher profits have not been recycled into significantly increased investment because company boards appear to be setting high hurdle rates of return for new investments, well above the actual cost of capital, and also to be requiring quite short payback periods in which investment outlays are recouped (Lane and Rosewall, 2015). As a result there has been a tendency for boards to pay out higher dividends to shareholders or to engage in share buy-backs rather than invest in their own enterprises (Lannin, 2014; Smith, 2016). Profits have also gone into higher executive salaries and investments in financial markets in the hope of capitalising on the Wall Street bull market run of 2009-15.

Table 2: Private Investment Expenditure, Current Prices, Trend Figures, Sept Qtr 2012 to Dec Qtr 2015

	Mining	Manufacturing	Other Industries	TOTAL
Change ($m)	-9671	-419	+1651	-8440
Change (%)	-39.8	-15.9	+11.6	-20.5

Source: ABS, *Private new capital expenditure and expected expenditure, Australia, December 2015*, cat. no. 5625.0

4 I consider the political consequences of the rise and fall of particular sectors of the Australian capitalist class in Bramble (2015 & 2016).

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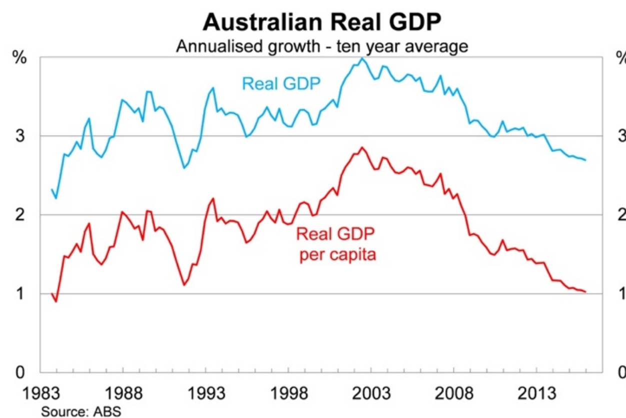
The second evident problem for the Australian capitalist class is that, even though growth of GDP has held up, it has not been sufficient to reverse the long term trend towards secular slow-down (Figure 6). This slowdown is even more obvious once population growth is factored in (as shown in the lower line in Figure 6). Growth may look positive in comparison with other advanced economies but, given the sluggish state of the latter, this is no indication of rude health. The Reserve Bank of Australia's decision in May 2016 to lower the cash rate by 25 basis points after the consumer price index fell in the first quarter of the year is a signal that the central bank is concerned that growth is not stronger. Low economic growth has a series of negative effects, not least its impact on government revenues, to which I return later.

Figure 6: Real Gross Domestic Production



Source: Callam Pickering, CP Economics, http://www.cpeconomics.com/

While real unit labour costs may have fallen, this has been primarily because of wage suppression, not improved productivity (Figure 7). A host of factors are responsible for Australia's poor productivity record in the 2000s, but inadequate infrastructure investment, reluctance by business to invest in R&D, the run-down of publicly funded apprentice training and massive (initially non-productive) investments in the construction of mines and associated infrastructure are important contributors.

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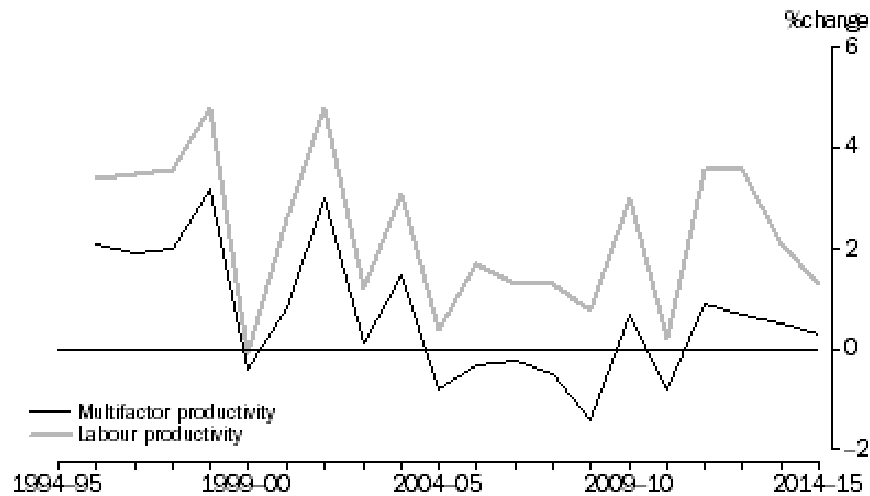
Figure 7: Market Sector Productivity, Hours Worked Basis



Source: Australian Bureau of Statistics (2016), *Estimates of Industry Multifactor Productivity, 2014-15*, cat no. 5260.0.55.002.

Another problem confronting the Australian economy is the sustained growth of household debt, now measuring 180 percent of household disposable income. Even if low interest rates have reduced the burden of interest repayments over the past decade (Figure 8), the level of debt makes consumer spending a hostage to fortune.

A significant factor raising household debt in recent years has been the steady increase in the price of housing relative to personal incomes. Median dwelling prices in Sydney have risen from six times average annual incomes in 1996 to twelve times (Irvine, 2015). Simply to own a house as a place of residence now creates a much greater debt obligation. Household debt has also grown because more people on middle and higher incomes have bought investment properties (Kohler and van der Merwe, 2015: 24, 28; IMF, 2015a: 3, 6, 11-12). A further contributing factor in recent years has been stagnation in wage incomes, encouraging greater reliance on loans and mortgage redraws to sustain consumer spending.

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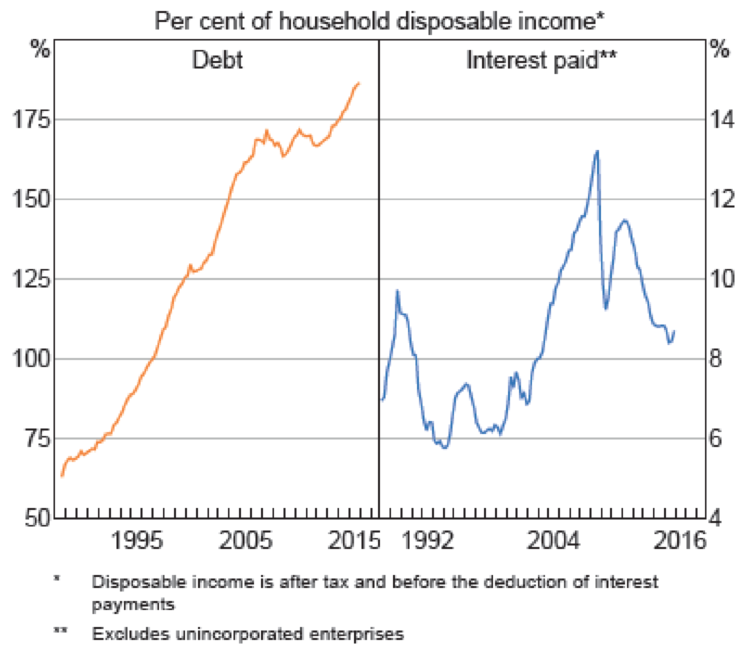
Figure 8: Household Finances



Source: RBA, *The Australian economy and financial markets chart pack, May 2016*.

Rising household indebtedness does not present a problem so long as unemployment and interest rates do not rise sharply and property prices do not drop. There is no indication of any imminent sharp rise in unemployment and the prospect for interest rates is for further cuts, but the future of the property market is more uncertain. Whether and by how much Australian property is over-valued is the subject of much speculation, but the IMF estimated in 2015 that housing prices in Australia at that time were anything from 4 to 19 percent overvalued (IMF, 2015a: 8, 16). In some sectors – most obviously housing in mining towns but also inner city apartments in Melbourne and Brisbane – there is serious oversupply and thus downward pressure on prices. More and more investors in 'off the plan' apartments are now selling at a loss or are finding that they have to personally make up the shortfall as banks refuse to lend to fund the

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difference between the buyer's initial deposit and the agreed purchase price payable on completion of the property (Bleby, 2015). The fact that many investors are buying their properties on interest-only loans (IMF, 2015a: 13) is a further point of weakness: in a rising market, investors can prosper, but in circumstances of over-supply and difficulties in finding tenants, the outcome can be a serious financial loss.

If a significant downturn in house prices were to eventuate, those holding large mortgages would immediately face a problem of negative equity. This may not be a problem for most residential owners of property so long as they are not forced to sell. But for investors, the investment calculus, with losses on rental compensated by capital gain, becomes much more problematic. For both owner occupiers and investors, a drop in house prices will depress consumer spending, as the wealth effect associated with rising prices goes into reverse. Household debts accumulated on buying property will become more onerous. Lower prices would also sharply curtail employment and investment in construction and real estate.

A fall in house prices would also impact on banks who have extensive housing loans on their books. The vulnerability of the banks to problems in the housing sector can be exaggerated. Australia is not facing the same situation as US banks in the run-up to the sub-prime crisis in 2007. Low-doc loans, never as significant as in the US, have virtually vanished from the Australian housing market; non-performing loans are low; and the loan to value ratios for both owner occupiers and investors are currently stable. Few households have debts larger than assets and most investment loans are taken out by middle to higher income earners with greater capacity to weather any downturn (IMF, 2015a: 15). Nonetheless, the banks will not be immune to any serious deterioration in the housing market if it eventuates. The IMF predicts that a significant fall in house prices in Australia in the context of international financial volatility may cause serious damage (IMF, 2015a: 18). The interaction flows the other way as well. Foreign funding now represents 27 percent of total Australian bank liabilities. Any return to conditions of financial crisis in overseas capital markets may see international lenders pull money out of Australia, pushing up domestic interest rates, precipitating a downturn in housing.

Much of the apartment building in recent years has been driven by an expectation of increasing population. During the 2000s, immigration to

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Australia grew rapidly, adding to government revenues, expanding the economically active sector of the population (migrants tend to be prime working age) and driving demand for housing. Since 2009, however, net annual immigration has fallen from 300,000 to 168,000 in 2015 and this in turn has had an impact on annual population growth which has dropped by nearly 30 per cent from 443,000 to 317,000 (ABS, 2016c). While lower population growth reduces outlays on social spending, it also slows the rate of growth of consumer spending and puts downward pressure on the housing market. And, because migrants tend to be younger than the population at large, a fall in net migration reduces the economically active sector of the population.

A further factor impinging on the relative success of Australian capitalism is the international context. The Australian government is trying to pursue its reform agenda at a time when underlying problems in the international economy have resurfaced after a period of relative calm following the Eurozone crisis of 2011. The stimulus to the world economy provided by massive fiscal stimulus packages during the global financial crisis, followed by successive rounds of quantitative easing which pushed interest rates to (in the case of the US) just 0.25 percent, were sufficient to prevent the world economy slipping into a deep depression. But the biggest beneficiary of these measures were the banks that were bailed out and shareholders, with the Dow Jones industrials index rising by 130 percent between February 2009 and May 2015.

Since the second quarter of 2015, the cautious optimism of the earlier period has given way to fear that the recovery may go into reverse. Repeated shocks to the stock markets are one indication of nervousness as are regular downgrades to predicted growth of the world economy. There is now a growing realisation that the recovery since the global financial crisis has been weak and partial. While the mass of corporate profits has rebounded strongly since the global financial crisis and the share of profits in global GDP has recently been close to post-war highs, the global non-financial rate of profit has been declining on a secular basis since the late 1990s and the level of corporate debt relative to GDP is at record levels (Roberts, 2016). The lower rate of profit and the amassing of high levels of corporate debt, combined now with recent declines in the mass of profits and the share of profits in GDP, are reducing the dynamism of the system as they curb capitalists' willingness to invest (Roberts, 2016).

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The result is that the US recovery following the global financial crisis was the weakest since 1945 and in the first quarter of 2016 annual growth had slowed to less than 2 percent, with investment falling for the third successive quarter. Britain, another supposed success story, is not faring any better, while much of the EU is stagnant or growing annually at barely 1 percent. In Japan, Abenomics has failed to lift growth beyond its trend rate of just 0.5 percent and the steadily appreciating yen poses a further threat to growth. The advanced economies, in other words, have not broken out of what Roberts (2016) calls its 'long depression'.

The retreat of China indicates that this country too is now feeling the effects of the slowdown in the world system. The rate of annual economic growth has slumped from 12 percent in 2010 to just 6.5 percent in early 2016, reducing the rate of growth of imports of commodities from other 'emerging market economies', encouraging capital flight and exacerbating currency volatility. But it is not just the commodity exporters who have been affected: slackening activity in China is also weakening demand for machine tools, and thus the export trade of Germany, the US and Japan. It is reducing demand for components produced in China's Asian neighbours, now heavily integrated into regional supply chains oriented to the Chinese market. Slower income growth, along with a crackdown on corruption, is also cutting sales growth of Western luxury cars and prestige fashion and consumer brands in local markets.

The risk to the world economy is that it may be heading for a deflationary cycle of falling prices of commodities and finished goods, falling sales, falling stock markets and declining world trade, all of which will serve to discourage investment, thereby intensifying the problems. There are counter-tendencies, of course. After falling by two thirds during 2014 and 2015, the price of iron ore began to lift in the northern spring of 2016, helping to stabilise the major commodity exporters. The trade weighted US dollar index, which was rising strongly through 2015, contributing to deflationary pressures in world markets, retreated for several months in the first half of 2016. The Chinese government embarked on another round of stimulus spending in early 2016, reviving markets for 'old' industries like steel, glass and cement (Murray, 2016). World stock markets have continued to be volatile, but severe falls in the major indices early in 2016 were reversed by April. Regardless of these fluctuations, what does not seem in doubt is that nowhere is growth reviving on a sustained basis. The Chinese government may, for

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example, be able to promote higher fixed investment in real estate and manufacturing but only by exacerbating the problems of excess capacity in these sectors, with both local and global consequences. In the United States, falling investment, a rapid decline in industrial capacity utilisation and high rates of corporate defaults are a better indication of the health of the economy than the stock market cycle. Outside the US, the introduction of negative interest rates by several central banks, a highly unorthodox move, betrays deep anxieties about prolonged economic stagnation.

It is also important to note that the governments of the OECD are in a weaker position to deal with a future external shock than they were during the global financial crisis when they used fiscal stimulus and lower interest rates to improve business and consumer confidence and domestic spending. Few governments have accumulated surpluses to pay for a future stimulus package, jeopardising any quick recovery. This is not to say that further deficit spending could not be used in such circumstances, but such a measure would involve challenging the shibboleth of prudent fiscal control advocated by monetary authorities and governments since 2010.

With central bank interest rates so low, now even negative, there is only modest scope for monetary policy to be eased to encourage business investment and domestic consumption. Further, the experience of the past few years is that low interest rates do little to promote economic activity. As an alternative, central banks could in theory engage in 'helicopter money' – the direct transfer of money to private households without the mediation of government - but many central bank governors and governments are opposed to this, most importantly the German government. All told, there is much less prospect that the world economy will bounce back as quickly from a future crisis in the way that it did in 2009-10.

A slowing world economy affecting some of Australia's top export markets and sources of financial investment will be a drag on growth at home. The IMF estimated in 2015 that the Chinese slowdown alone could take a full percentage point off Australia's annual growth over the next five years (IMF, 2015b; Greber, 2015). Trends in commodity prices, by influencing government revenue streams, will have a major impact on the potential for a return to budget surplus, as they have already (more on this below). Whether the price of iron ore returns to its low of US$38

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recorded in January 2016 or stabilises at close to US$60, where it stood by May 2016, will be very significant for government finances. Exchange rate volatility will also have a significant effect on net exports and thus GDP outcomes. Further, Australia, like many other governments, will find it difficult to use fiscal and monetary policy to reinvigorate the economy if the international situation experiences another shock.

In summary, while there are several positive elements in the current economic scenario facing the Australian ruling class, there are also significant problems in relation to investment, productivity growth, economic growth, household debt, declining immigration and the broader world economy.

The Coalition Governments led by Abbott and Turnbull

The preceding factors impact on the effectiveness of the Coalition government's reform agenda because they hamstring government efforts to wind back public debt. In September 2013, when the Abbott government took office, net government debt was $280 billion. Two years later, in September 2015, the figure had risen to $399 billion (Australian Office of Financial Management, 2016).

Two factors were responsible for the failure to curb the rise in public debt. First, the growth of tax revenues projected in the Coalition government's 2014 budget did not eventuate because GDP growth did not live up to the budget's extremely optimistic projections. Further, commodity prices fell further than anticipated, while slow wage growth, a benefit to individual capitalists, reduced the rate of growth of PAYE income tax receipts. These factors ensured that tax revenue as a percentage of GDP consistently lagged the optimistic projections in budget papers (ABS, 2015c).

On the other side of the ledger, the Coalition was blocked from carrying out major cuts in spending because of Senate opposition, itself a reflection of widespread opposition in the community at large. Although some cuts to the Budget were passed by the Senate over the course of 2014-15, the larger cuts, in particular the proposal to cut $80 billion in outlays to the states for spending on health and education or to cut spending on universities by 20 percent, were held up in part or full. So

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were some of the cuts to Centrelink allowances for the unemployed and age pensions.

The Abbott government had enjoyed one of the briefest honeymoons on record for a new government even before it released the 2014 budget. Once the budget came out, its polling fell further and for several months popular discontent with the budget shaped the national political narrative. The government therefore had no alternative but to soft-pedal its ideological agenda in the 2015 budget, even if it maintained a commitment to much of the substance of the earlier budget. By mid-2015, the Abbott government had become a lame duck, losing support both among the electorate and among the Coalition's traditional business base which had become frustrated that the high ambitions set out in the early months of the new government had not been realised.

Facing a significant electoral reverse and the loss of many seats, Coalition backbenchers turned in September 2015 to Malcolm Turnbull to try to revive the government's reform agenda. Turnbull's ascension to leadership of the Coalition was greeted enthusiastically by the capitalist class who hoped that the new prime minister would be able to win public and cross bench support for the kind of cuts and changes to workplace relations and tax policy it favoured (Hannan, 2015; Potter, 2015). The new prime minister quickly announced his plans to turn around Australia's poor productivity record by launching an 'ideas boom' powered by start-up companies.

Business hopes were soon dashed as the new prime minister proved no more capable of pushing through major reforms than his predecessor. The proposal to raise the GST to 15 percent was withdrawn, measures to cut penalty rates were pushed back, a suggestion to allow the states to levy their own income tax lasted 48 hours, as did the proposal that the federal government cease funding state schools. Before long the *Financial Review*, which had hailed Turnbull as Abbott's replacement, had turned on him, with one article pithily headlined 'What is the point of Malcolm Turnbull?' (Tingle, 2016a). In an editorial in March 2016 the newspaper pronounced that 'Mr Turnbull has to stop faffing around' and complained that he 'lacked resolve'. While Turnbull had had 'a healthy deposit of political goodwill' on taking the leadership from Abbott, the *Financial Review* explained, the prime minister had retreated on tax reform and 'The heavy lifting of reform in budget repair and industrial relations remain in retreat or undone' (*Australian Financial Review*,

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2016a). The 2016 budget contained some important business-friendly measures, including tax concessions to the Coalition's small business electoral base, graduated cuts to company tax and a modest reduction in marginal income tax rates for high income earners, along with cuts to social security, higher education and aged care and a continuation of the freeze on Medicare rebates. However, the budget's relative gradualism, when compared to the 2014 budget, irked some business commentators (*Australian Financial Review,* 2016b).

Simply put, the new prime minister faced the same problem that had weighed on Mr Abbott – he could not win a popular mandate for the rapid implementation of the government's aggressive reform program. Social democratic instincts among the mass of the population – the belief in 'a fair go', support for public health and education and opposition to a world in which the demands of the wealthy are prioritised – proved to be a continuing brake on the implementation of major pro-business reforms (Sheppard, Phillips and Taylor, 2016). There is not much support in the electorate at large for lower corporate tax, higher GST or cuts to university spending, while the Labor party has been able to mine a rich seam as defenders of Medicare and public education and opponents of tax evasion by big Australian and multinational business and unethical practices by the banks and insurance companies.

With revenue not rising as much as earlier predicted by the Abbott government, and with big cuts in spending stymied, public debt continued to rise under the Turnbull government. By the end of March 2016, net debt had grown an additional $20 billion to $419 billion, 50 percent higher than when the Coalition had taken office (Australian Office of Financial Management, 2016). Such an increase ran directly against predictions in the 2014 and 2015 budgets. While the latter budget reduced some of the estimates for forward growth, and thus revenues, contained in its predecessor, it too proved too sanguine. Growth did not reach trend growth of 3.5 percent, and nor is it likely to do so in the near future. As a result, predictions in both the 2015 and 2016 budgets for a return of the budget to surplus in 2021 are unlikely to be met. Indications in early 2016 of price deflation make this even less of a prospect since low inflation reduces the rate of growth of government revenues. Short of the federal government mounting a savage cut in expenditure - and the relative gradualism of the 2015 and 2016 budgets indicates that the Coalition's political leaders had come to understand the political risk in doing this - public debt looks to be around for many years to come. On

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any objective basis, such debt is not a serious economic problem for the Australian capitalist class, certainly when compared to the record of many other OECD member states where debt to GDP ratios are much higher, but from the perspective of the economic reformers, it remains a problem to be tackled (Joye, 2016).

The Coalition faced similar obstacles when it came to attacking workplace rights and trade unions. The government had no mandate to move quickly on this front because, as with aggressive budget cuts, it had not featured in its 2013 election manifesto. While the Coalition pushed where it could, it failed to win support for many of its preferred changes either in the Senate or the public at large. The 2015 Productivity Commission report on workplace relations did not advocate the kind of sweeping changes the government's more ardent workplace reformers hoped it might, and nor did the government get much traction on the one major change it did consider seriously – reducing penalty rates for weekend work. The Trade Union Royal Commission, established as a means to link the ALP to union corruption, also failed to gain much headway. The discrediting of its sole Commissioner, Justice Dyson Heydon, as a partisan supporter of the Liberal party, and the inability of the Commissioner, despite his extensive powers, to unearth what he alleged to be widespread corruption in the unions made the Commission ineffective in its purpose and its report was buried over the Christmas 2015 holidays. The attempt to re-establish the Australian Building and Construction Commission, a priority item for the government, was blocked in the Senate in April 2016 and the Turnbull government's attempt to force it through only led it into an election earlier than it might have wished. In two important areas of policy – shifting the burden of 'fiscal repair' to the working class and attacking workplace rights - the Coalition's reform agenda was stymied, undermining its credibility among its business supporters.

Summary

The end of the mining investment boom and the commodity prices bust have been significant shocks to the Australian economy, reducing an important source of aggregate demand, sharply lowering the terms of trade and cutting national income. In this context, the Australian economy has fared relatively well, with the sharp drop in investment

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compensated for by rising consumption and net exports switching from a drag to a stimulant. Outside mining and manufacturing, business outcomes have been generally positive in terms of income and profits. The situation varies by state, with Victoria and NSW running ahead of WA and Queensland, and within each state, with regional NSW suffering some economic blows, but an aggregate growth rate of 3 percent in 2015 places Australia ahead of most other advanced economies.

The Coalition government's reform agenda, designed to help Australian capitalism transition during the mining investment bust, has met some of its targets. Labour costs have been cut, helping to put a floor under the profit share in national income, at least outside the mining industry. Industry restructuring, given a nudge by cuts to government assistance, has seen resources flow out of manufacturing into other sectors, continuing a trend apparent since the early 1980s. In terms of international integration, after several years of suffering under the burden of a high dollar, some of Australia's trade-exposed sectors are recovering and net exports are positive.

Nonetheless, Australian capitalism is still plagued by structural problems. Investment overall is down by 20 percent since mining investment peaked in 2012. Labour productivity is sluggish. Although the property sector helped to sustain growth in the domestic economy in 2014-16, the rise in household debt presents a structural weakness and portends significant problems in the event of a housing bust with flow-on effects to the banking sector. Slow growth and weak commodity prices in turn have hindered the federal government's efforts to restore the budget to surplus.

The economic reform agenda is also undermined by deep-seated popular opposition. The Coalition government has been hamstrung by opposition in the Senate which has blocked budget measures that were designed to cut spending on the social reproduction of the working class. It has not created popular support for a significant shift in the burden of taxation from labour and those on lower incomes to capital and high wealth individuals. Nor has the government been able to win support for attacking workers' rights at the workplace or to make 'union corruption' a major electoral issue. Meanwhile, the international economy is in poor shape, limiting economic prospects for Australia in the medium term.

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