Australian government hands billions to business as coronavirus worsens economic slump

By Mike Head
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In a desperate bid to halt the slide into recession, the Liberal-National Coalition government yesterday announced a stimulus package to prop up corporate Australia in the face of the international crash triggered by the Covid-19 pandemic.

Within hours, however, the package was swamped by the deteriorating economic news from around the world. The World Health Organisation (WHO) declared a global pandemic, the death toll in Italy soared and US President Donald Trump announced a travel ban on Europe. Amid a global run on stock markets, Australian share prices plunged.

By the end of the day, Sydney’s stock market, the ASX, suffered its worst day since the 2008–09 global meltdown, losing 7.4 percent, taking its total fall since the coronavirus crisis began to 25 percent.

Unveiling his government’ stimulus package, Prime Minister Scott Morrison spoke of “supercharging” businesses to ensure that the economy “bounces back” after the Covid-19 crisis. His rhetoric cut little ice with the population, or the financial markets.

The lion’s share of the government’s $17.6 billion package will go to business via tax handouts, investment incentives and wage subsidies. Workers struck down by the virus will receive no sick pay. Instead, workers laid off or unable to work will get just $40 a day—not enough to live on—on jobless “Newstart” benefits.

Even a casual worker on just $20 an hour for 25 hours a week receives a wage of $500 a week. Newstart is only $280 a week, far below the poverty line. In addition, applicants will have to wait at least a week for processing and, because of a means test, they will get nothing if they have assets or savings.

Many people will be under enormous pressure to keep working, even if they are ill or potentially contagious, in order to survive and pay their bills. As a result the coronavirus epidemic will spread.

While businesses will get billions, poverty-stricken aged pensioners and others depending on welfare payments will get a miserable $750 one-off payment, which the government calculates they will spend quickly because of their dire circumstances—another way of boosting profits.

Regardless of the enrichment of the corporate elite at the expense of working-class households, the package seems certain to fail. Australian capitalism is extremely exposed to the world crisis, especially due to its dependence on raw material exports to China and other Asian markets, its reliance on in-bound tourism and overseas students, and its need for constant investment inflows, especially from the United States.

About $11 billion of the package will purportedly be spent by June 30, the end of the financial year. The cash injection, which amounts to just 0.5 percent of gross domestic product (GDP), is unlikely to be enough to prevent an official recession during the first two quarters of 2020—the first in Australia since 1991.

By contrast, the government still plans to spend some $40 billion this financial year on the military and meeting its commitment to the Trump administration to allocate at least 2 percent of GDP to the armed forces.

“This plan is about ensuring the Australian economy bounces back stronger on the other side of this,” Morrison told a news conference. “Bouncing back stronger” is code language for another wave of pro-market measures to drive up profit rates.

Morrison and Treasurer Josh Frydenberg admitted
that their government would now fail to deliver the
budget surplus it had promised the financial markets
and claimed to have produced a year ago in the
pre-election 2019 budget.

Ratings agency S&P said Australia’s triple-A
sovereign credit rating is not immediately threatened as
a result of the failure to deliver a budget surplus, but
the economy would probably experience a recession by
June. It said Covid-19 is a greater “shock” than the
global financial crisis of 2008-09.

Recent statistics showed that, except for government
spending, the economy was already contracting last
year, before the summer bushfire catastrophe and the
coronavirus calamity, both of which have taken a
severe financial as well as human toll.

Business investment has been falling sharply for
months and consumer confidence has dropped to a
five-year low.

Businesses, which received tax cuts last year already,
could receive at least $7 billion from the government’s
package. “We will supercharge around 690,000 small
and medium employers with a [tax-free] cash flow
boost of up to $25,000,” Morrison said. “And we will
supercharge the instant asset write-off so businesses
can immediately make new purchases of up to
$150,000 and reap the rewards.”

Morrison also announced a 50 percent accelerated
depreciation deduction, over and above existing
deductions. Another $1.3 billion will be paid directly to
employers to provide a 50 percent wage subsidy for
about 120,000 apprentices—just $21,000 per apprentice.

A further $1 billion will go to a “regional and
community fund” to shore up industries such as
tourism that have been particularly hard-hit by the
economic fallout from the virus. Like last year’s sports
grants, this is likely to become a vote-buying
pork-barrel.

In another blow to aged pensioners, those with
savings will receive only a marginal reduction in the
“deeming” interest rate that the government uses in
applying assets and income thresholds. The main rate
will fall to 1 percent, still well above the record low
official interest rate of 0.25 percent that the Reserve
Bank set last week in another bid to revive corporate
investment.

Corporate chiefs generally welcomed the package,
while demanding that the tax concessions be extended
to the largest companies. But bank economists voiced
scepticism that the measures would avert a recession.

UBS economist George Tharenou told the Australian
Financial Review: “Recession is now our base case,
despite an almost 1 per cent of GDP stimulus.”

Citi’s Josh Williamson warned that “merely
providing payments to businesses and households is not
enough.” He stated: “Recipients need to have the
confidence to spend their payments on goods and
services, rather than add to precautionary savings or
debt repayment.”

Even before the package was officially released, the
Labor Party had declared its support for the handouts to
business. Yesterday morning, Labor leader Anthony
Albanese told the Australian Financial Review
business summit: “Labor will continue to be
constructive and provide expedited support through the
Parliament for any reasonable measure that restores
confidence, increases economic activity and keeps
people in jobs.”

In reality, thousands of workers are being laid off
already, and companies will continue slashing jobs,
even as they pocket the tax breaks.

Australia’s top business leaders used the same
summit to reiterate their demands for “structural
changes” to boost investment and drive
productivity—that is for a stepped-up offensive against
workers’ jobs and conditions, as well as more
corporate tax cuts.

The government’s primary aim, backed by Labor, is
clear. It is to exploit the virus disaster, like the global
breakdown of 2008–09, to accelerate a
corporate-driven restructuring of the economy and
depthen the assault on the working class.