

Their biggest challenge? Avoiding a recession

Written by Peter Martin, Visiting Fellow, Crawford School of Public Policy, Australian National University

Albo, or Plibersek, or whoever it turns out to be the next Labor leader, might have had a lucky accident. Usually, it's Labor that inherits an economy turning down.

This time, it's the Coalition. And because of regular updates from the Reserve Bank and the Bureau of Statistics strikingly at odds with their public position that the economy strong, they ought to be finely attuned to it.

Economic growth, the catch-all that is supposed to show us where the economy has been and where it is headed, is frighteningly small.

The treasury's best estimate of potential growth – how strongly the economy could be growing over time if things were well managed – is [2.75% per year](#) .

The reality, for the two most recent quarters for which we have data, is [0.3% and 0.2%](#) .

The economy is anaemic, despite the crowing

If you add those two numbers together and multiply by two you discover that for six months the economy has been growing at an annualised pace of just 1% – way, way short of its potential.

Stripping out population growth and minimal price growth, real living standards have been going backwards.

The result of what the Reserve Bank describes as “ [persistently slow growth in household incomes and declining housing prices](#) ” has been something of a strike in consumer spending. The real value of spending per household hasn't been falling, but it hasn't really been climbing either.

Their biggest challenge? Avoiding a recession

Written by Peter Martin, Visiting Fellow, Crawford School of Public Policy, Australian National University

The bank says consumption growth has slowed most noticeably for discretionary items that tend to have the strongest relationship with home buying, such as furnishing and household equipment. It says growth in other types of discretionary spending, such as eating out, has also slowed. Consumption of so-called “essential” items is holding up.

We’re going to need a boost

It means we can’t rely on household spending to revitalise the economy (although the government will give it a go, stumping up a bonus of [as much as \\$1,080](#) to be delivered with each tax return from July in a much-needed boost that will be disguised as a [tax cut rather than spending](#)).

Household spending accounts for three-fifths of gross domestic product. The bank identifies uncertainty over household spending, which itself derives from uncertainty over income growth, as a “[key risk](#)” for economic growth:

Should households conclude that low income growth will be more persistent than previously expected, households may adjust their spending by more than currently projected and consumption growth could remain weak for a longer period

Labor would have helped stabilise uncertainty over income growth by immediately intervening before the Fair Work Commission to get higher wages, directing it to draw up a long-term strategy for higher wages, restoring cut penalty rates, and funding the increases of some childcare workers itself.

Read more: [***The next government can usher in our fourth decade recession-free, but it will be dicey***](#)

Their biggest challenge? Avoiding a recession

Written by Peter Martin, Visiting Fellow, Crawford School of Public Policy, Australian National University

Having won an election opposing those things, the Coalition will have to try other things, perhaps even bigger and earlier tax cuts.

Prayer would help – prayer that international commodity markets remain strong, that the Reserve Bank cuts rates on June 4 (it is practically certain to), that it cuts them again before the end of the year (financial markets are literally 100% certain that it will) and that home prices stabilise.

Perhaps a very big boost

On the face of it, none of these would be enough to force economic growth back up. If it falls even further, and continues to fall, Australia will enter a recession within this term of government, an outcome to which the academic economists polled by The Conversation in January [assigned a 25% probability](#) .

So far employment growth has been the economy's brightest light, but in its quarterly update released a week before the election, the Reserve Bank pointed out that employment growth can lag economic growth by [up to nine months](#) , meaning it might be about to turn down, although it added that it was not unusual for “trends in GDP growth and the labour market to diverge for sustained periods”.

If employment growth does turn down (and the bank says “near-term leading indicators of labour demand have softened”) it is likely to happen first in the construction and retail industries. The construction jobs will come again (and the government is doing its best to bolster them with promises of spending on infrastructure) but the retail jobs might never return, the nature of retailing having changed.

The economy matters more than the surplus

If needed in order to avoid a recession the government will have to be prepared to abandon its promised 2019-20 budget surplus. If the prospect of a recession does loom, it'll have the political cover. And if it looms early in its term, it might still be able to deliver a budget surplus by the end.

Scott Morrison and his treasurer Josh Frydenberg were elected to manage the economy, and

Their biggest challenge? Avoiding a recession

Written by Peter Martin, Visiting Fellow, Crawford School of Public Policy, Australian National University

that means doing whatever is needed to avoid a recession and the long term damage to lives and living standards it would deliver. Speaking personally, I've no doubt they are up to the task, just as Labor would have been. In a way it's a pity they didn't adopt one of Labor's key economic promises, which was to have a new budget in August, to refresh things.

And they've got to focus on lifting living standards over the longer-term, where conveniently, they have a big advantage over Labor.

And it matters more than superannuation

Labor has a blindspot when it comes to superannuation. It wants to lift compulsory contributions from 9.5% of salary to 10% on July 2021, and then by another 0.5% the next year and another 0.5% the next year and so on for five consecutive years, apparently regardless of what it will do to incomes now.

It's a good thing that unlike Labor, the Coalition will be relaxed about pushing out the timetable if the economy can't stand it, as it has done before.

Before the election it was preparing to respond to the landmark [Productivity Commission report](#) that found that unintended multiple accounts and the defaulting of new workers into entrenched underperforming funds were costing members an extraordinary A\$3.8 billion per year.

The Coalition can set up super for the future

Weeding out the chronic underperformers, clamping down on unwanted multiple accounts and insurance policies, and letting workers choose funds from a short menu of good funds and stay in them for life would give the typical worker entering the workforce an extra \$533,000 in retirement.

It recommended a full-blown independent inquiry into [how much superannuation we need](#) .

Labor, wedded to a series of increases, would never have done it. The Coalition can.

Their biggest challenge? Avoiding a recession

Written by Peter Martin, Visiting Fellow, Crawford School of Public Policy, Australian National University

Read more: [**No surplus, no share market growth, no lift in wage growth. Economic survey points to bleaker times post-election**](#)

Peter Martin does not work for, consult, own shares in or receive funding from any company or organization that would benefit from this article, and has disclosed no relevant affiliations beyond their academic appointment.

Authors: Peter Martin, Visiting Fellow, Crawford School of Public Policy, Australian National University

Read more <http://theconversation.com/their-biggest-challenge-avoiding-a-recession-117381>