

REFLECTIONS ON THE INTERNATIONAL CONTEXT OF AUSTRALIA'S ECONOMIC BOOM

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Last year a special issue of this journal discussed 'Australia's Economic Boom 1992-?' It offered a rich and informative variety of non-neoclassical analyses of the period. However, there was relatively little investigation of Australia's experience in relation to that of the rest of the world. The international economy may have been a taken-for-granted basis for many of the contributions and for some this was explicit (Broomhill 2008, Goodman and Worth 2008, O'Hara 2008, Lavelle 2008). However, international connections or comparisons were seldom the direct analytical focus. There is no reason why they should have been and the many specific features of Australia's political economy warrant the detailed attention they received. Nevertheless, the collective scarcity of commentary on the global economy leaves some significant silences. This article argues that comparing Australia with other countries and placing it in an explicitly global context better illuminates the boom, important problems that developed within it and, at least implicitly, the constraints this places on economic management.

Many of the ways in which the international economy both conditions and limits Australia's circumstances are, of course, all the clearer after a year of dramatic financial crisis. It may be too early to see the result as 'collapse', 'devastation' and 'bust' (Broomhill 2008:13, Lavelle 2008:301, Bell and Quiggin 2008:71) but, even less than a year on, predictions of impending 'long upturn' (Dow 2008:140) now look particularly optimistic. At the time of writing, Australia had avoided the severe economic contraction afflicting many parts of the world but the

question mark at the end of *JAPE* 61's title probably now more aptly signals doubt over exactly when the boom ended rather than how long it will endure.

This article begins by showing that Australia's economic experiences have moved in close alignment with those of other leading economies, at least since the 1920s. The alignment became particularly close from the 1970s. From 1992, Australia did grow slightly more quickly than most other rich countries, but more slowly than the average of its poorer country neighbours and trading partners in Asia.

The following section of the article situates Australia within a global process of changing class relations and a changing orientation of investment. The Australian economy, like others, was marked by growing inequality and a falling wage share of national income. This implied a higher proportion of income available for investment and Australia did achieve modest increases in rates of capital formation. This contrasted with the experiences of many other rich countries. However, as elsewhere, growth could also reflect increases in the quantity and intensity of work rather than simply capital deepening. A falling wage share could also produce problems of effective demand, increasing the propensity to borrow and tendencies towards systemic overcapacity, which militated against new investments aimed at domestic markets. In Australia, export oriented sectors, notably mining, attracted significant investment shares and achieved the highest levels of productivity.

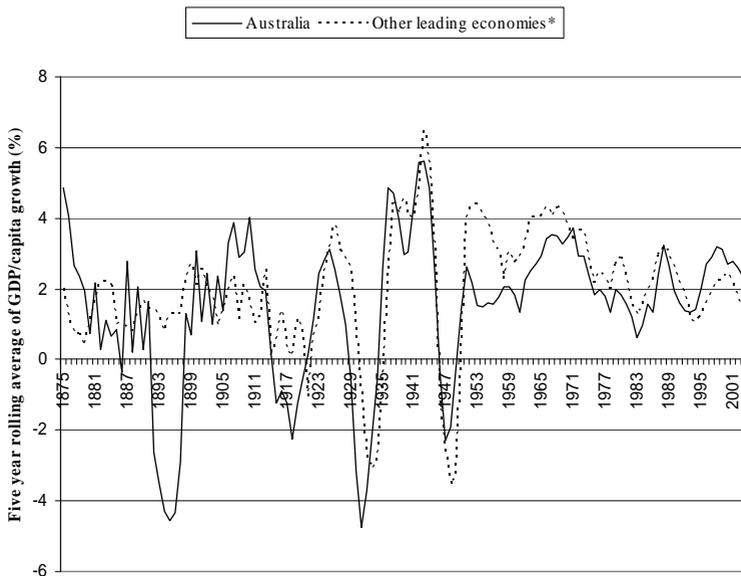
The article then describes how Australia's openness to trade increased considerably during the boom. There was a shift in Australia's major export and import markets, with its economy experiencing significant demand pull from rapidly growing economies in Asia, particularly China. Exports and commodity prices increased rapidly in the 2000s. However, Australia's shares of global production, even of key commodities like coal and iron ore, declined, suggesting a vulnerability as commodity prices fell. Furthermore, despite rising exports, the overall current account deficit increased substantially during this period, particularly from the early years of this century, to levels higher than most other major national economies. This was matched by increased borrowing.

The article ends by suggesting that Australia was left particularly vulnerable with the advent of global financial crisis and economic slowdown.

Australia in the World Economy

Australia's boom was not primarily a national phenomenon. Its trajectory was similar to that in other leading countries and was profoundly influenced by changes beyond its borders.

Figure 1: Growth in Australia and leading capitalist economies, 1875-2003



Source: calculated from Maddison (2007)

* leading economies defined in footnote 1

Figure 1 compares Australia's overall economic performance with that of other rich country economies. It shows GDP *per capita* growth (calculated on the basis of purchasing power parity or PPP) since 1875 in Australia and the weighted average of 16 other leading economies.¹ While the graph lacks the elegance of Dow's (2008:151) schematic representation of cycles over a similar period, its comparative nature indicates a close association between Australia's experiences and those in other rich countries, at least since the 1920s. The use of rolling five year averages smooths the data but, even on an annual basis, the correlation between Australian growth and the aggregate of these other economies was very close, particularly since the 1970s, as shown in Table 1. There are reasons to believe that international interdependence increased in recent years, for example in terms of trade openness and flows of investment. However, these data show that Australian political economy has been 'globally' integrated for some considerable time.

Table 1: Correlation between Australian Annual per capita Growth and that of 16 Other Leading Capitalist Economies*, 1875-2003

Year	Correlation
1875-1884	-0.20
1885-1894	0.12
1895-1904	0.48
1905-1914	0.60
1915-1924	0.48
1925-1934	0.71
1935-1944	0.59
1945-1954	0.88
1955-1964	0.46
1965-1974	0.58
1975-1984	0.92
1985-1994	0.85
1995-2003	0.81

Source: calculated from Maddison (2007)

*leading economies defined in footnote 1

1 These countries are Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the UK and the USA. Between them they accounted for 92 per cent of the rich country incomes and 47 per cent of the world total in 2003 (calculated from Maddison 2007).

Focussing more closely on the recent past, Australia did grow significantly faster than the average of the OECD countries, if not of the world, over the boom period (Broomhill 2008, Bell and Quiggin 2008). Measured in terms of Gross Domestic Product (GDP) and in current US dollars, Australia grew at 6.0 per cent per year between 1992 and 2007, compared with an advanced country average of 5.2 per cent and a world average of 6.2 per cent (calculated from IMF 2008).²

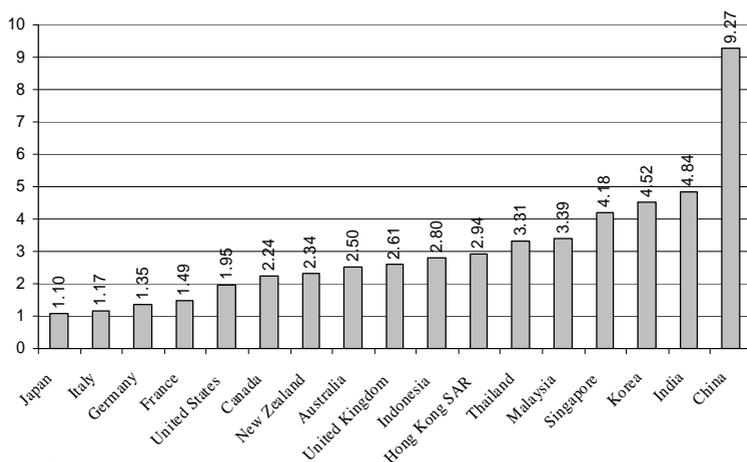
Australia's population also increased more quickly than that of most rich countries, so its performance was slightly less impressive according to per head measures. The chosen time period, precisely that of Australia's boom, also skews the results in its 'favour'. Japan and Germany, for example, grew strongly in 1991 when Australia was in recession, while the positions were reversed in 1993. Nevertheless, Australia did grow more quickly than the rich country average. This is confirmed in Figure 2, which compares Australian *per capita* growth between 1992 and 2007, with that of individual major rich country economies and with major poorer country trading partners. Australia grew marginally more slowly than Britain but faster than the other rich countries. However, it grew more slowly than all these poorer country economies.

Australia's comparative success was therefore only in relation to rich countries. On average, poorer ones grew faster. There are well rehearsed problems with characterising this more rapid expansion of many developing economies as 'globalisation'. Amongst other things, the gaps between rich and poor remained huge and poorer country growth was highly concentrated; in Latin America and Africa it remained slower than the average in rich countries. Geography, *pace* more trenchant statements of globalisation, continued to matter. Australia's specific proximity to rapidly growing Asian economies, particularly that of China, and the way

2 There are some familiar problems with the use of standard GDP data, particularly as an indicator of social development. Even in a strictly economic sense it can be misleading in terms both of what is counted and what excluded (see e.g. Mohun 2003). It might also be more appropriate, were data available, to measure Net Domestic Product (NDP) rather than GDP, thereby accounting for any capital depreciation (Spant 2003). However, for pragmatic reasons GDP measures are used here, although, following Dow (2008) and O'Hara (2008), these are presented on a *per capita* basis as a better indicator of changes in average national wealth and well-being.

it was linked to them, may have contributed significantly towards its growth.

Figure 2: Annual average GDP per capita growth, in leading economies and trading partners, 1992-2007



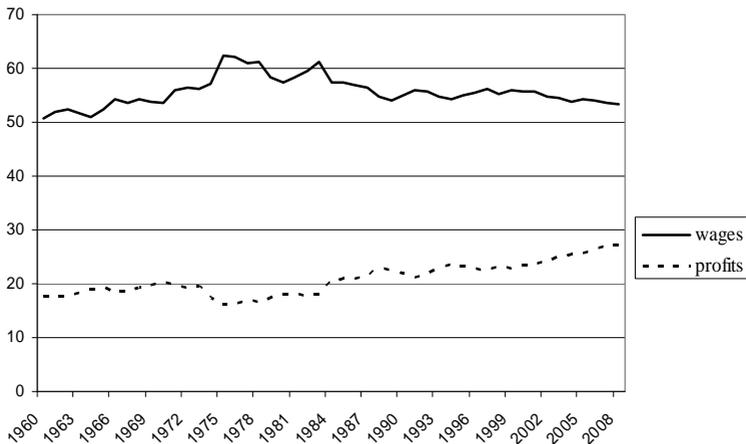
Source : IMF 2008

The Distribution of Income and the Re-orientation of Investment

Walker (1999) argued that labour's worldwide retreat since the 1970s had not produced any corresponding economic success for capital. This appears to be confirmed, in Australia as elsewhere, during the period of its boom. Profit shares of income tended to increase and wage shares to decline without this providing the basis for sustained growth. Broadly typical in terms of income redistribution, Australia was a partial exception in doing 'better' than many other rich countries in terms of investment and productivity growth. There were significant improvements, for example in manufacturing productivity, but this was a smaller sector in Australia than in other leading economies and overall productivity gains were both unspectacular and diminishing. If Australia

did marginally better in the 1990s and 2000s than it had done in the 1970s and 1980s it did worse than many other countries had done in those earlier decades. Increased output per employee could reflect the elimination of relatively inefficient as well as the creation of more efficient activities. It could also reflect changes in the quantity and intensity of work. Moreover, falling wage shares of income produced problems of effective demand (partially and temporarily mitigated in domestic markets by increasing debt) and of overcapacity, which tended to intensify the competitive search for export markets.

Figure 3: Wages and profits as percentage shares of Australian national income



Source : ABS 2008b

Processes of redistribution within national economies continued during the period of Australia's boom. Figure 3 shows the inverse relation between profits and wages in Australia since 1960. Over this longer period, the correlation between the two indices was -0.40. Since 1992 the strength of this inverse relation increased to -0.87. Cahill is therefore surely correct to begin with labour's decline and how it 'facilitated the "shakeout" of Australian capital' (2008:330). Union density, for example, fell from 55 per cent as recently as 1980 to 40 per cent in 1990

and to only 19 per cent by 2007 (Fairbrother and Yates 2003, ABS 2007). But this, albeit with substantial variation, was a global, rather than simply Australian, phenomenon. Across the OECD there was a trend for the overall wage share of income to fall, and conversely for the profit share to rise (Glyn 2007, Ellis and Smith 2007). Labour's organisational retreat in Australia occurred somewhat later but more rapidly than in many other countries with the overall experience probably mid-range. As Table 2 indicates, labour's share of national income was lower than in most leading rich countries; while the decline in its share was greater than in France, Japan and the USA but less steep than in Canada, Germany, Italy and the UK.

Table 2: Employee Compensation as a Share of National Income

Country	1992 (%)	2007 (%)
Australia	49.6	47.9
Canada	55.4	51.3
France	52.0	51.6
Germany	55.6	48.8
Italy	44.7	41.1
Japan	52.8	51.3
UK	55.9	53.2
US	57.4	56.6

Source: OECD 2008d

This measure tells only part of the story. Wage inequality also jumped. This was partly because of spiralling executive salaries, which should probably be understood as a part of profits rather than wages but are nevertheless included in aggregate measures of the latter. Several contributors to *JAPE* 61 noted growing inequalities in the Australian context (see e.g. Meagher and Wilson 2008). Between 1996 and 2006 the 'earnings dispersal' between the 9th and 1st deciles across 19 OECD countries increased on average from 3.12 to 3.33. France and Spain alone became significantly more equal. Australia's increasing inequality, rising according to this index from 2.95 to 3.26, was above average but not particularly exceptional.³

3 The increasing gender wage gap, rising from 15 to 17 per cent over this period, was more unusual. Overall, amongst these OECD countries, it fell on average from 22 to 18 per cent (OECD 2008a).

Various reasons for these changing income shares and growing inequalities have been articulated, from technological change, to globalisation, to the outcome of overt struggle (Glyn 2007). Whatever the cause, the result has been capital's gain at labour's expense. Labour's decline provided the basis for at least a partial restoration of global profit rates from the 1980s (Dumenil and Levy 2004).

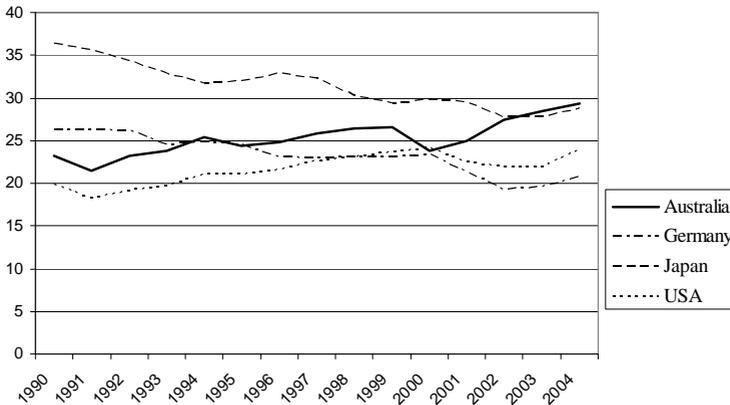
Rising profits can be used in different ways. They create opportunities for capital and can be reinvested, for example in new Information and Communication Technologies (ICTs) to fuel productivity growth. Claims of this sort have lain behind ideas of the 'new economy', ably articulated in Australia's case by Keane (2008). The US experience has usually been paradigmatic but is also particularly problematic. There were real increases in rates of productivity growth in that country but from a relatively low base. Other leading countries introduced many similar technologies but productivity gains declined. It has also been noted that rises in productivity in the USA were concentrated in relatively few sectors and that claims of the immaterial nature of the new economy notwithstanding, those in manufacturing were in aggregate considerably higher than the average (Henwood 2003, Baily 2004, Census 2008). However, at least in part reflecting productivity rises associated with new investment, manufacturing shrank as a share of employment and the overall economic gains from further productivity rises in manufacturing diminished accordingly.

In Australia, increased profits did allow increased investment. Figure 4 shows a contrast between Australia and the world's largest economies during its boom, with a significant rise in overall levels of Gross Fixed Capital Formation (GFCF). Amongst other rich countries, a modest rise in GFCF in the US was more than compensated by falls in Japan and Germany. Again, at least part of this went into new technologies. The OECD suggests that ICT capital made a greater contribution to GDP growth in Australia, both over a period from 1985 to 2006 and from 2001 to 2006, than in most rich countries. ICT capital contributed nearly 0.7 per cent to annual economic growth between 2001 and 2006, nearly a quarter of the total (OECD 2008b).

These gains were modest and have to be interpreted quite cautiously. As in the USA, value added per employee rose more quickly in Australian manufacturing than overall. However, manufacturing represented a

smaller share of the economy even than in other rich de-industrialising countries like the USA and UK. By 2007 its share of employment was just 10.3 per cent and manufacturing value added was 9.9 per cent of GDP. So gains in manufacturing contributed relatively little to the overall economy. Between 1992 and 2007, output per employee did rise even quicker in several other sectors; agriculture, utilities, wholesale and retail trade, transport and communications and finance and insurance. However, each of these sectors, except transport and communications (which employed a roughly constant 6.5 per cent of the total workforce), also shrank as a share of total employment. The largest workforce increases during this period were in construction, property and business services and health and community services. All of these were economically important but their rather low aggregate output per head suggested these were not dominated by vital new economy processes. Remarkably, by 2007, in only three sectors of Australia's economy - mining, utilities and finance and insurance - was their share of value added larger than their share of employment.

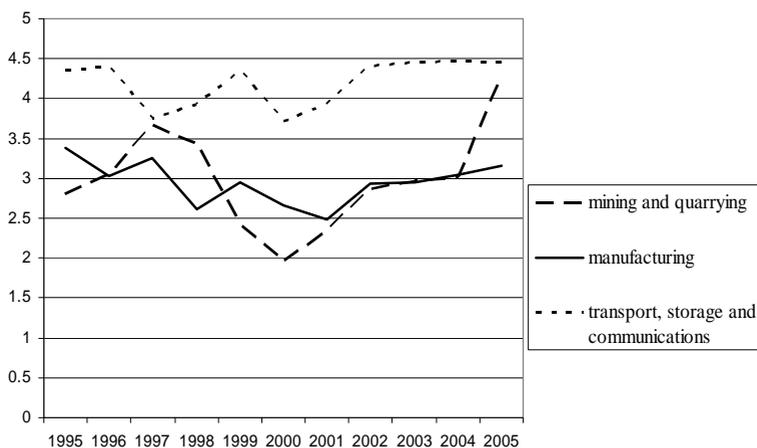
Figure 4: Investment share of GDP: Australia and the G3, 1990 - 2004



Source : OECD 2008c

Utilities accounted for only 2.1 per cent of GDP and 0.8 per cent of employment. More significant, mining and finance and insurance accounted for 7.8 and 7.3 per cent of GDP respectively but only 1.0 and 3.8 per cent of employment (calculated from ABS 2008 and ILO 2009). Both these sectors were also particularly highly internationalised. Figure 5 shows the major areas of GFCF and confirms the particularly sharp rise of that in mining after 2000. Mining employment also jumped by 35,000 between 2000 and 2007 but, reflecting the remarkable productivity of the sector, this still represented a smaller share of the workforce than it had done in 1992 (ILO 2009). Overall, productivity gains do appear to have been achieved, at least in part, by getting rid of jobs in low productivity sectors rather than generating substantial new employment in high productivity areas.

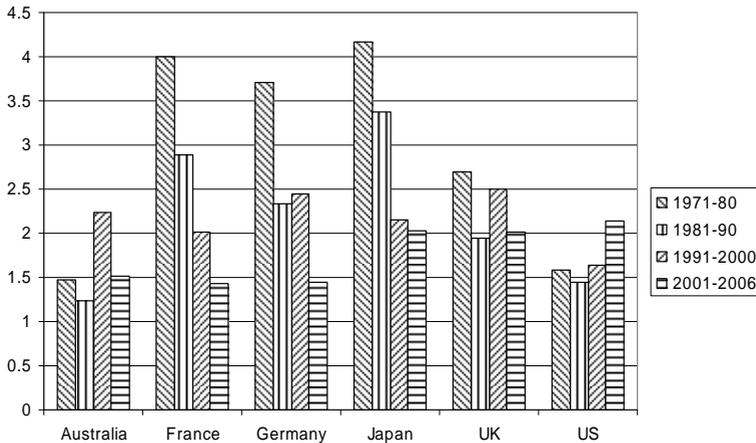
Figure 5: Gross fixed capital formation as a percentage of GDP in mining, manufacturing and transport, 1995-2005



Source : ABS 2008b

Figure 6 shows overall productivity changes in terms of GDP per hour worked in Australia and the G5 leading economies since 1971. Over this period, the declining performance in France, Germany and Japan is particularly noticeable. Rather similar to the US, Australia’s aggregate productivity gains did improve in the 1990s compared with the 1970s and 1980s before falling away in the 2000s but its overall performance looks particularly unimpressive. During the specific period of its boom, from 1992-2006, Australia’s average annual rise in GDP per hour worked was 1.9 per cent; almost identical to that in the US, Germany and France and significantly less than that in Japan (2.1 per cent) and the UK (2.4 per cent) (OECD 2008b). For Australia, in aggregate, this represented an improvement on previous decades but it was lower than rates previously achieved in most rich countries. This would appear to at least qualify some of the bolder claims of economic change and radical ‘socio-cultural transformation’ (Lloyd 2008:31).

Figure 6: Annual average increase in GDP per hour worked



Source : OECD 2008c

Australia's modest rises in GFCF also contrast with the much sharper jump in some poorer countries, most spectacularly that from 25 to 41.5 per cent of GDP between 1990 and 2005 in China (OECD 2008c). The OECD (2008b) suggests that Australian annual average capital productivity growth fell from 1995 to 2006, as it did for most OECD countries. Unusually, however, in Australia's case this decline accelerated in the period after 2001 with productivity gains falling to just over 1 per cent a year.

If output *per hour* increased only modestly, in this context it seems pertinent to also consider the amount of time worked. Table 3 shows that average annual working hours actually declined in Australia and the largest economies, but with considerable variation. Australians worked longer than people in any of the G5 countries except Japan, and saw reductions less substantial than elsewhere except the US. The economically active population also increased as a proportion of the total, from 63.0 to 64.5 per cent between 1992 and 2007. These levels and increases were slightly less than in the USA and Canada, comparable to those in the UK and significantly higher than in major continental European economies and Japan (ILO 2008). Thus, higher rates of labour 'utilisation' may have tended to offset any declining productivity increases in terms of output per hour worked.

Table 3: Average Annual Hours Worked, Australia and the G5

Country	1992	2006
Australia	1779	1726
France	1695	1555
Germany	1566	1433
Japan	1965	1784
UK	1732	1669
US	1712	1708

Source: OECD 2008e

Less well advertised than falling wages, labour's (dis)organisation may also influence the intensity of work. The OECD (2008b) figures confirm that the major contributions to Australia's GDP growth came from labour input and multi-factor productivity (MFP). This last is a residual

category. It is often associated with ‘working smarter’, which might itself be associated with the introduction of new technology. However, MFP can also be a euphemism for an intensification of work. This too became less significant in 2001-6 than it had been over the longer period from 1985 to 2006.

The inverse relation between profits and wages need not lead to capital’s success. Amongst other things, a declining wage share and a more unequal distribution of income tend to increase problems of effective demand. This may have exacerbated overcapacity, militating against new investment, while also increasing pressures towards financialisation and internationalisation. As seen above, Australian investment does appear to have been disproportionately directed towards export oriented sectors, particularly mining.

This Keynesian identification of the significance of demand problems also provides a vital background to the rise in household debt, identified in the Australian context by Lavelle (2008) amongst others. The ratio of household debt to income rose from 50 per cent in 1992 to 160 per cent in 2007 (RBA 2009). Overall domestic credit grew by 129 per cent between January 2000 and the second quarter of 2007, more than fifty per cent faster than it did in the US before its credit crunch. This was a similar rate of expansion to that in the UK and, amongst other rich countries, slower only than that in Iceland (754%), Ireland (277%), Spain (256%), Luxembourg (217%), Denmark (195%) and Greece (193%) (Turner 2008).

At the same time, saving fell. The correlation of net household saving as a share of compensation with the wages share of income from 1960 to 2007 was 0.32 but again this rose to 0.50 for the period from 1992 (calculated from ABS 2008). These numbers are not dramatic and the correlations significant only at the 95 per cent confidence level. However, as the boom developed the Australian household savings ratio fell from 5.9 per cent during 1992-97 to 2.0 per cent between 1998-02 and then to -2.0 per cent from 2003-06 (ABS 2008).

Thus, increasing profit shares of national income, in Australia as elsewhere, led to only modest revivals in capital productivity. Conversely, falling wage shares of income limited domestic demand,

providing the context for dis-saving, increasing debt and, as will be discussed below, the increasing search for overseas markets.

Australia's Changing Relations of International Investment, Finance and Trade

This article began by showing a long historical association of Australia's economic performance with that in other rich countries. The correlation became particularly close from the 1970s. Over the boom period, Australia's direct economic links with other countries continued to deepen. Measured in current Australian dollars, Table 4 shows the sharp rise in international investment, lending and trade since 1992.

Table 4: Indicators of Australia's Economic Internationalisation, 1992-2008, \$A (billions)

		1992	2008
Equity	Assets	69	553
	Liabilities	113	645
Debt	Assets	55	442
	Liabilities	198	990
Merchandise trade	Exports	68	168
	Imports	56	188
Services trade	Exports	13	48
	Imports	18	47

Source: ABS (2008)

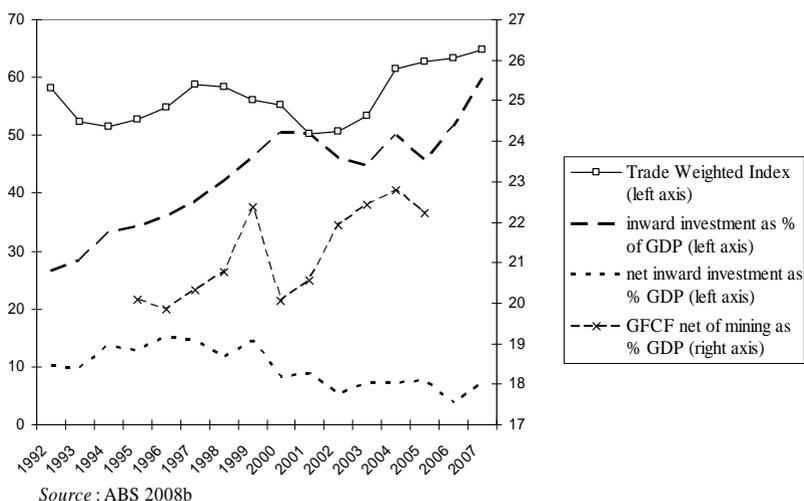
The data indicate that Australia was a substantial absolute and net recipient of foreign direct investment (FDI) over this period. The UN (2006) figures for FDI for a slightly shorter period between 1993 and 2005 are slightly higher but broadly comparable, indicating a net inflow of \$US93.7b. Most of this occurred between 2002 and 2004 and most of it came from other rich countries.

While the economic effects of FDI remain contested (Nunnenkamp and Spatz 2004), in arithmetical terms it is a positive contribution to GDP. Stocks of inward FDI rose from \$US76 billion in 1992 to \$US246 billion in 2006 (UN 2007a) and total inward equity stocks amounted to almost 60 per cent of Australia's GDP by the following year (ABS 2008).

However, net inflows represented a rather small proportion of GDP; FDI averaging about one per cent of GDP a year during the boom period, while net inward equity actually fell from 10 to 7 percent of GDP (ABS 2008, see Figure 7).

Nevertheless, the FDI inflows contrast quite sharply with the significant net outflows from many other rich countries over this period, particularly during the latter part of the 1990s. In numerical terms these outflows were greatest from the US but were a more significant proportion of GDP from Japan, Germany, France and Britain (UN 2006). The figures should be treated with some caution - because their aggregation suggests a significant global net outflow of FDI during the 1990s. However, Australia does appear to have been unusual amongst rich countries in attracting significant net inward investment.

Figure 7: Australia's foreign exchange and investment, 1992-2007



The absolute majority of foreign investment was in finance but there were also significant inflows to other sectors, particularly mining. Goodman and Worth (2008) argue that this influx of investment either comes at the expense of other sectors or appreciates the exchange rate; foreign investors must effectively buy Australian dollars, increasing demand. While it is impossible to evaluate the counterfactual - that is, what would have happened without these investments - the data shown in Figure 7 provide only limited support for this contention.

During the period from 1992 to about 2001, inward investments rose consistently, while the exchange rate tended to fall. GFCF in sectors other than mining fluctuated without any obvious correspondence to either the exchange rate or levels of FDI. However, the dollar subsequently rose, along with a rise in gross, but not net, inward investment, while GFCF in non-mining sectors also increased. Meanwhile, as will be discussed below, the exports generated by mining investments offset but did not reverse an overall trade deficit, which would normally be interpreted as putting downward pressure on the currency.

Levels of world trade increased significantly during the period of Australia's boom. The limited nature of domestic markets, imposed by a declining labour share of income, increased the search for export sales for many firms. Globally, the ratio of trade (exports plus imports) to GDP increased from 38 to 52 per cent between 1990 and 2005. For Australia it rose from 32 to 39 per cent (UN 2007b).

As shown in Table 5, the pattern of countries with which Australia traded also changed significantly. The table indicates Australia's top 10 import and export markets in 1992 and 2006 and a geographical re-orientation to Asia, particularly of its imports. Exports were already heavily concentrated in the region in 1992 but this became even more pronounced. Related to this geographical shift, but more dramatic, there was a move to poorer country markets. In terms of imports, the weighted average GDP *per capita* of these markets fell, relative to Australia, from 105 to 78 per cent. It had this in common with the US, the weighted average of whose import markets fell from 62 to 49 per cent of its GDP *per capita* between 1990 and 2005 (calculated from Census 2008).

The major increase in imports was in fuels, primarily oil, which rose from \$3.2b to \$23.4b or from 5.8 to 12.5 per cent of the total. Especially towards the end of the period, some of the increase was associated with steep price rises, which were then reversed in 2008. Auto imports also rose significantly from \$5.6b to \$24.3b and from 10.0 to 12.9 per cent of the total (ABS 2008), but Australia became a net importer in all major categories of manufactures, except for beverages and leather goods. As elsewhere, buying from cheaper sources may have counteracted inflationary trends at home and helped maintain or increase real consumption levels despite falling income shares (Montgomerie 2008). It may also have enabled the relatively liberal interest rate policy, identified by Bell and Quiggin (2008) as important to the boom. However, interest rates remained higher than in the largest developed country economies and this may have contributed to relatively high, and from 2001 rising, dollar values and declining trade performance.

**Table 5: Australia's Major Trading Partners:
Percentage Shares of Imports and Exports**

Import markets				Export markets			
1992		2006		1992		2006	
US	22.3	China	14.5	Japan	23.5	Japan	19.8
Japan	17.3	US	14.0	US	10.1	China	12.5
UK	6.2	Japan	9.8	Singapore	7.0	S.Korea	7.5
Germany	5.6	Singapore	6.1	S.Korea	5.6	US	6.2
NZ	4.4	Germany	5.1	NZ	5.2	NZ	5.5
China	4.0	S.Korea	3.9	UK	4.1	India	5.4
France	2.6	Malaysia	3.8	Hong Kong	3.9	UK	5.0
S.Korea	2.6	Thailand	3.6	China	2.9	Singapore	2.8
Singapore	2.6	UK	3.5	Indonesia	2.4	Indonesia	2.7
Italy	2.2	NZ	3.1	Malaysia	1.9	Thailand	2.6
Top 10 tot	69.8		67.4		66.6		70.0
% of top							
10 in Asia	43.8		66.5		78.7		84.0

Source: calculated from UNITSY (various years)

Exports rose more slowly than imports during the boom. In 1992 Australia had a merchandise trade surplus of \$US 2.2b, by 2006 a deficit of \$US 9.3b. These deficits were somewhat offset by a surplus in services trade but the overall trade gap continued to widen (ABS 2008).

The deficits were particularly large in manufactured goods, imports exceeding exports more than threefold. The low share of manufacturing in GDP, discussed above, meant that the deficit amounted to over 90 per cent of Australia's domestic manufacturing value added. The comparable figures, even for other notorious deficit countries like the US and UK, were only 29 and 37 per cent respectively (calculated from UNITSY 2007, World Bank 2008, Census 2009). This appeared to leave Australia heavily dependent on its commodity exports and on debt.

Unlike the USA, exports markets also became significantly more concentrated amongst poorer countries, with their weighted average income falling from 95 to 70 per cent of that of Australia. These poorer country markets may be intrinsically more volatile. However, as previously noted, the Asian countries buying from Australia grew remarkably quickly over the period considered here, helping to fuel demand. While Australia was growing more quickly than the global average, its 2.5 per cent *per capita* annual expansion from 1990 and 2005, contrasted with one of 5.8 for the countries of East Asia and the Pacific and of 3.4 per cent for those of South Asia (UN 2007). The countries that constituted Australia's principal export markets in 1992 (including a greater proportion of rich countries) then experienced a weighted average annual growth of only 2.4 per cent. The similarly weighted growth rate over the same period of its 2006 export markets (including a heavier representation of its Asian neighbours) was 3.5 per cent a year. The pull from China seems particularly significant in this context, accounting for most of the difference between these two figures.

Australia's major exports were fuels and 'other minerals', which between 1992 and 2007 increased from 20 to 23 and from 23 to 25 per cent, respectively, of the total. Coal exports jumped from \$7.3b to \$20.9, broadly in line with the overall increase in trade, while iron ore exports leapt from \$7.5b to \$35.6b or from 12.9 to 21.1 per cent of the total revenue. Towards the end of this period - and against the long term trend - this export boom was associated with steep rises in the prices as well as the volume of exported commodities. Coal prices roughly doubled between 2002 and 2004 before falling back somewhat by 2006. So while the volume of coal exports increased by 27 per cent between 2000 and 2006, their value rose by 150 per cent (IMF 2007). Iron ore prices,

having been roughly stable for decades until 2004, then rose (unevenly) by about 130 per cent by 2007. Price increases fuelled increased investment and production. Again, the significance of seeing this as a global phenomenon seems clear. Even as Australia's output of coal increased from 339 to 384 million tonnes, and of iron ore from 189 to 275 million tonnes between 2002 and 2006, these volumes represented a falling share of the world total; down from 7.0 to 6.2 and from 16.9 to 15.2 per cent respectively (Hetherington *et al* 2008). The increased global capacity and falling prices through late 2008 suggested that these export markets were fragile. Over the boom period, there was a corresponding relative (but not absolute) decline in agricultural and manufactured exports.

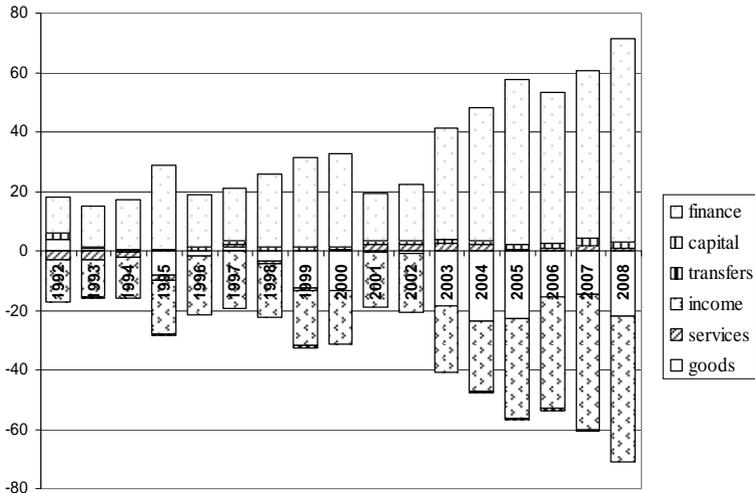
The USA was exceptional in that its ratio of exports to GDP barely changed from 1990, while its import ratio shot up - becoming the 'importer of last resort' for many other economies. It was a market of declining direct significance for Australia; but Lavelle (2008) raises the vulnerability of China to American downturn and thence of Australia's exports to China. This has been widely debated but seems a valid concern. China's growth was probably the most remarkable economic change of the late 20th and early 21st centuries. However, it was typical in that here too the wage share of income also declined, with final consumption falling from 47 per cent to 37 per cent of GDP between 1981 and 2004 (Heston *et al* 2006). So, although average real wages and living standards rose, export markets became increasingly structurally important. From being a net deficit country in the early 1990s, China's trade surpluses shot up to \$US261 billion by 2007, more than 60 per cent of this surplus arising from trade with the USA (UNITSY 2007).

Thus, even if China's state is able to mobilise resources to increase domestic spending as a short term fix, over a longer period a structural tension remains. To increase relative domestic consumption would appear to require a higher wage share of income, which would threaten the profit rates that have underpinned growth. Without re-orientation, China's economy remained highly vulnerable to downturn elsewhere, particularly in the USA. Consequently, so did Australia's exports to China.

China was by far the largest buyer of Australia's main export, iron ore, taking 54 per cent of the total, according to Goodman and Worth (2008). Overall, however, Japan rather than China remained Australia's major export market, amongst other things taking 41 per cent of coal exports (Goodman and Worth 2008). China, by contrast, remained a major net exporter of coal (UNITSY 2007). The weakness of Japan's economy in turn had implications for many of the other East Asian economies for whom it was also a major market, but into which Australia also had significant sales. So both directly and indirectly, Australia's exports were threatened by economic difficulties in other countries.

American deficits and debts have also reasonably been seen as at least a significant contributory factor to financial instability and the subsequent meltdown (Brenner 2003, Lucarelli 2008). The dollar's international role effectively allowed the USA to borrow cheaply to sustain its trade imbalances. Amongst other things, foreign dollar holdings were then lent back to the USA where they were churned on domestic financial markets. In several other countries, notably Ireland, Spain and the UK as well as Australia, the level of domestic credit also appeared to rise in tandem with rising trade deficits and international borrowing the 2000s (World Bank 2008). These smaller country trade deficits did not have the same global significance as those of the USA, while the cost of their debts was relatively heavier.

Table 4 shows how Australia's international debts increased between 1992 and 2007. In percentage terms, assets rose even more rapidly than liabilities. Nevertheless, the net deficit increased by more than \$400b across this 16 year period. Most of this rise again occurred after 2000. In the eight years to that date, debt increased by \$87b, in the subsequent eight years by \$317b (ABS 2008b). In part, international debts reflected the need to pay the growing trade imbalances, while interest payments could require more borrowing. Indebtedness could also, in part, reflect the capital inflows discussed above. As Jones commented of what was already in the 1980s an unusual Australian capacity amongst rich countries to attract net inward investment, 'yesterday's capital inflow is today's outflow of interest and dividends in the current account' (1989: 44).

Figure 8: Australia's balance of payments, \$Abn

Source: ABS 2009

It is hard to disaggregate their causes but, again unusually amongst rich countries, income payments became the largest component of growing current account deficits. Net outward income payments, \$14b in 1992, jumped to \$18b in 1995, then increased slowly to \$24b in 2004, before blowing out to over \$45b in 2007 and 2008 (ABS 2009). This, in turn, had to be covered by further loans.

Figure 8 confirms the parallel growth in Australia's overall balance of payments, on the one hand of merchandise trade deficits and income payments and on the other hand of debt. Increasing foreign liabilities may have contributed to investment and growth in Australia's economy but they had potentially damaging impacts in times of downturn. Amongst rich countries, overall current account deficits (as % of GDP) in 2007 were significantly larger only in Cyprus, Iceland, Greece, New Zealand, Portugal and Spain (IMF 2008).

Vulnerabilities of the Australian Economy

At the time of writing, Australia had not experienced the scale of financial crisis or economic recession engulfing many other economies but there are reasons to doubt that it will be a major exception to any significant global downturn. This article began by showing the very close historical association of the rates of growth in Australia and other leading capitalist economies. The increasing intensity of the country's international economic ties appears to have entrenched this relationship. However, neither the downturn itself - however likely this seems at the time of writing - nor Australia's embroilment within it is inevitable. Perhaps particularly at times of crisis when sacrifices are demanded in a national economic interest, it is necessary to remind ourselves that 'the economy' is not a thing in itself or an irresistible force of nature but a manifestation of particular social relations and social interests. Crises are times of transformation and out of the associated general misery individual, corporate, class and national winners can emerge. Economic decision making becomes more, not less, important but also more intensely political. However, without radical political and economic re-orientation there are grounds for pessimism.

This article has identified two particular problems. Firstly, a progressively declining labour share of income has meant a (relatively) more limited domestic market. On the one hand, this has created (at least the demand for) a massive accumulation of domestic debt. As Keen has been arguing for some time, there are good reasons to believe the levels reached are unsustainable (see e.g. Keen 2007). The historical comparisons are not encouraging. Meanwhile, at an international level, several other countries with similar levels of debt have already experienced severe financial stress. As noted above, household debt levels in Australia expanded even more rapidly than those in the US prior to the sub-prime crisis.

Secondly, this declining domestic market has meant that production, particularly in strong growth areas, has been oriented more towards exports. These have been particularly concentrated in commodities markets in East Asia. These trade relations provided an important

element of the country's boom but increased its potential vulnerability to changes in the international economy over which it has little or no control. Internationalisation limited the domestic benefits from multiplier effects of any government stimulus (Keynes 1973:120). As Timms wryly noted, government handouts to consumers are more likely to be spent irresponsibly on imported DVD players, than on domestic iron ore (*Sydney Morning Herald* 11/02/2009).

This all leads to a pessimistic scenario. The prices of commodities fell sharply with economic slowdown. Talk of peak-oil and the return of Malthusian demography, which had promised permanent price rises only a few months previously, quickly appeared premature (Wray 2008). Meanwhile, Australia's share of what was now a falling market had shrunk. The prices of Australia's commodity import prices, notably oil, also fell. But its imports were disproportionately in manufactured goods, the prices of which fell less quickly, and came predominantly from countries (China, the US and Japan) whose currencies rose relative to the Australian dollar with the onset of crisis. From the 1st July 2008 to the end of January 2009 the currency lost 31 per cent of its value against the US Dollar and Chinese Yuan and 41 per cent against the Yen (Oanda 2009). The value of foreign currency denominated debts rose accordingly. Liberal trade theorists posit 'J-curve effects' whereby currency depreciation initially leads to a deterioration of the trade balance before the curve rises and the performance improves. However, the timing and the strength of the 'uptick' is indeterminate. The well established structural nature of Australia's trade patterns (commodity exports and manufactured imports) the dip before any commensurate restructuring could redress this imbalance is likely to be substantial and prolonged.

The experiences of the USA are not encouraging, with years of falling dollar values accompanying rising trade deficits (Lucarelli 2008). Unlike the USA, Australia does not enjoy the privileges of seigniorage, whereby it can use its own currency to pay its creditors. Therefore, as long as deficits remain, Australia will need to borrow to pay for them and, particularly if its currency is declining, to borrow it will have to offer relatively high rates of interest, which would threaten to undermine any domestic economic stimulus and to burst the domestic debt bubble.

This possible sequence of events is something of a conjecture. Stimulus packages may get the major economies growing again, at least for a time, and help to avert or postpone the worst case scenario. However, there do appear to be significant structural fault-lines in the global and thence Australian economies, which seem likely to be intractable to minor reform.

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