REFLECTIONS ON THE LONG AUSTRALIAN BOOM

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We begin by identifying three distinctively Australian characteristics of the long boom that began in 1992 and may (or may not) now be coming to an end. These are the minerals boom, the surprising robustness of the financial system, and the collapse of trade union power. However, since Australia is a small open economy, its performance must be assessed in the context of the global economy, so we next consider explanations of the rapid growth in world capitalism. In the third part of the paper we outline five ways in which the world boom might end, three of them drawing on aspects of Marx's writings on economic crises (the falling rate of profit, over-accumulation and underconsumption) and two coming from Post Keynesian theory (Hyman Minsky's financial instability hypothesis and Nicholas Kaldor's North-South model of global accumulation). We conclude by speculating on the implications for Australia, returning to the three distinctive features of the Australian boom with which we began.

What is Distinctively Australian about the Long Australian Boom?

Australia is more fully integrated into the world economy than it has ever been, and the fundamental causes of the 16-year Australian boom derive from the impressive (and very largely unexpected) success of global capitalism since 1992. None the less, there are local peculiarities. We begin by discussing three of them. We make no appeal to neoclassical ideas about cyclical fluctuations in their monetarist, new classical or 'real business cycle' versions because all omit the main (Marxian-Keynesian) point that crises involve effective demand failures. (However, we recognise that neoclassical ideas can be used in a different way to shed light on crises more generally, as we show in Howard and King 2001 and 2002).

The Minerals Boom

Unlike most OECD countries, Australia is a major exporter of primary products. The importance of the minerals boom, especially since 2000, is too obvious to need much emphasis. In Western Australia it has produced something close to full employment, for the first time in 35 years. Whether this reliance on exports of primary products is a healthy situation for an advanced capitalist economy to be in, and whether it is sustainable, are questions that we shall return to at the end of this paper.

The Robust Financial System

A second distinctively Australian phenomenon has been the quite surprising strength of the financial system, which few would have predicted at the time of the Pyramid and Tricontinental disasters in the late 1980s. The collapse of these companies caused great distress to individual depositors, in the first case, and to the careers of a number of Victorian Labor politicians, in the second case, but had no broader economic consequences. Even Westpac's near-death experience proved to be salutary rather than debilitating. Unlike, say, Japan or Sweden, asset price bubbles did not burst but instead deflated gradually, and there were no serious broader effects of the real estate slump of the early 1990s. Australia came through the East Asian financial crisis of 1996-7 unscathed, and even escaped the repercussions of the Wall Street 'correction' of 2000-1. It is not clear how far all this was the result of more sensible risk-management practices by the banks, combined with intelligent regulation by APRA and the Reserve Bank, and how far it was simply good luck. It was certainly a necessary condition – if far from sufficient - for the long Australian boom

The Collapse of Australia Unionism

The third distinctively Australian characteristic of the long boom once again took everyone by surprise. As little as 20 years ago the Australian labour market was tightly regulated and the ACTU was a major power in the land, effectively determining macroeconomic policy in alliance with the federal Labor government. Today unions count for very little. Union density peaked at 60% in 1951, and was still 49% in 1982 (Bray *et al.* 2005, p. 202, Table 6.4), but has declined steadily since then to a new low of 18.9% in August 2007, when only 13.7% of private sector employees were union members (Schneiders 2008). A decline that took six decades in the United States, beginning with the Taft-Hartley Act of 1947, has been largely compressed into a mere two decades in Australia. This has contributed to the long boom in three ways. First, it has allowed profits to rise much more rapidly than output; capital's share in GDP has never been higher. Second, the slow but inexorable tightening of the labour market has proceeded with very little sign of accelerating wage inflation, confounding the monetarist claim that there was a 'natural' rate of unemployment of 8% or more below which wages growth would accelerate rapidly. The third, intangible but undoubtedly important, consequence of the collapse of union power has been the boost that it has given to capitalist confidence. The modest recovery of the late 1970s in Australia soon burned itself out in sectional wage disputes, flow-on pay rises in other sectors, a profit squeeze, an investment strike and consequent stagflation. This part of the country's economic history has not been repeated.

Why Has World Capitalism Boomed?

All this took place in the context of a vigorous global upswing. There seem to us to be four principal explanations for the strength and longevity of the world capitalist boom. They are not mutually exclusive, and there is room for debate about their relative importance.

A Kondratiev Upswing

The most obvious (if not the most simple) interpretation of the powerful upswing that began in the early 1990s involves the Kondratiev cycle. In the classic account by Joseph Schumpeter (1939), each ‘long wave’ of economic activity lasts for 40-60 years, with two or three decades of sustained prosperity and weak 8-10 (Juglar) cycles, followed by a similar period of relative stagnation and more pronounced Juglar cycles. The first three Kondratiev waves were (roughly) 1795-1848, 1848-1895 and 1895-1945. In this spirit the ‘golden age’ between 1945 and 1973 can be seen as the fourth Kondratiev upswing, with the troubled years between 1973 and 1992 as a (relatively short) long downturn and the last fifteen years as the first half (more or less) of the fifth Kondratiev boom, which might thus be expected to end within the next 15 years (say, between 2012 and 2017).

Nikolai Kondratiev himself was reluctant to espouse any theory of the long cycles in economic activity that he had identified, but Schumpeter was in no doubt that long upswings were the result of clusters of innovations that offered new profit opportunities and thereby stimulated investment expenditure (see also Lipsey *et al*. 2005). Schumpeter would probably argue that since the early 1990s information and communications technology has become generally applicable throughout the economy, and that its introduction into all sectors has been the driving force behind the fifth Kondratiev upswing.

In the more nuanced version of the long wave analysis by Marxist Ernest Mandel (1978), the vicissitudes of the class struggle are equally important in explaining long-run fluctuations in profitability and hence in the pace of accumulation. Mandel would presumably claim that the new Kondratiev boom owes a great deal to the defeats suffered by the Western working class as a whole (not only in Australia) in the 1970s and 1980s, which restored the power, self-confidence and (above all) the profit expectations of the ruling class, all of which had been seriously threatened in the final years of the golden age.

A New Social Structure of Accumulation

Similar themes can be found, with a slightly different twist, in work of the French regulation school and their Anglophone colleagues, the 'social structure of accumulation' theorists. All took a broad, non-reductionist Marxian approach to the golden age, emphasising the temporary truce in the class struggle, the successful implementation of the Bretton Woods system and the general acceptance of Keynesian macroeconomic stabilisation policies as critical elements in the success of the 'Fordist' version of advanced capitalism. The post-1973 period was, in contrast, characterised by the disintegration of all these components of Fordism. Most writers in this tradition maintain that no new social structure of accumulation has yet emerged in the neoliberal era, since several of the fundamental issues that had been resolved by the introduction of the Fordist mode of regulation have been reopened since 1973. In particular, solutions to the problems of underconsumption, international financial instability and rising primary product prices have yet to be found (Kotz 2003; O'Hara 2006; Wolfson 2003). One could, however, put an alternative gloss on recent history and suggest that a new neoliberal social structure of accumulation had in fact emerged by the late 1980s, and that this in turn provided the socio-political and institutional basis for the post-1992 boom.

Global Neoliberalism

There are at least five reasons why neoliberalism has been good for growth. First, since the early 1970s there has emerged a new 'general purpose technology' centred on the computer, whose efficient utilisation requires greater market density and extensiveness (Howard and King 2008; Lipsey *et al.* 2005). Second, the shift in the balance of class power associated with the return of the market has restored both profitability and confidence in the role of market relations. The latter is an intangible but very important requirement for the rapid accumulation of capital. Third, it is not necessary to agree that state failure is always much worse than market failure in order to acknowledge that there were huge efficiency gains to be made by switching from non-market to market (or market-mimicking) processes, and therefore big profit opportunities open to entrepreneurs who took advantage of them. Fourth, neoliberalism has been very closely bound up with globalisation. Restraints on international trade and (especially) capital flows have been very greatly weakened since the 1970s, creating profit opportunities comparable to those of the first age of capitalist globalisation between 1870 and 1914 (Glyn 2006). Fifth, all this is inextricably connected to the financialisation of twenty-first century capitalism, which has greatly expanded what can now be bought and sold, especially if it has first been securitised. The many forms of financial repression that were introduced in the 1930s, and strengthened in World War II, necessary though they were at the time, became a drag on the accumulation of capital that has now been very largely removed. In sum, the world economy increasingly resembles that described by Marx and Engels in the *Communist Manifesto*: unplanned, largely uncontrolled, market-driven, extremely dynamic and also (as we shall argue shortly) potentially very unstable.

The Chinese Economic Miracle

Finally, the triumphant emergence of Chinese capitalism has decisively refuted the twentieth-century neo-Marxist myth that the system had become moribund, unable to reproduce itself in pre- (or non-) capitalist societies and in any case having a vested interest in preserving their underdevelopment (the classic text in this tradition is Baran 1957). China’s explosive growth has stimulated the demand for Western commodities and capital and has provided exceptionally cheap imports on an unprecedented scale. Less tangibly, it has also boosted the confidence of Western capitalists and seriously undermined the bargaining power of organised labour throughout the advanced capitalist world. The proletariat is now effectively a global phenomenon as, almost a century ago, Rosa Luxemburg predicted that it soon would be.

Historical Parallels?

One final question, which we shall pose but not attempt to answer, concerns the existence (or non-existence) of historical parallels. We have already suggested that the post-1992 boom can be compared to the 'golden age' of growth between 1945 and 1973, and perhaps also to the first phase of globalisation from 1870 to 1914. More alarmingly, the similarities with the 1920s are not merely superficial. There is the same liberalisation of markets, especially financial markets; the same growth of inequality in income and wealth, nationally and globally; the same capitalist exuberance, in the apparent absence of any viable alternative. Plutocracy unchained, to misquote David Landes.

When, How and Why Will it End?

As Marx once wrote. 'there are no permanent crises' (1862-3, p. 497), and he was of course quite right. Equally, there are no permanent booms. Cyclical instability has been a persistent feature of the capitalist mode of production, and there is absolutely no reason to suppose that the pattern will change and the present boom will last forever. Several questions arise from this. When and why will the inevitable downturn occur? How deep will it be? Will Australia fare better or worse than the other rich countries? To speculate on the causes of the downturn we initially draw on some long-established Marxian ideas on economic crises, and then supplement them with more recent Post Keynesian thinking.

The Falling Rate of Profit

In a justly celebrated survey article almost thirty years ago, Thomas Weisskopf (1979) distinguished three versions of Marxian crisis theory: the falling rate of profit, over-accumulation and underconsumption models. The first of these is the classical, *Capital* volume III analysis of the tendency for the organic composition of capital to increase more rapidly than the rate of exploitation, dragging down the rate of profit and reducing the pace of capital accumulation. There is an enormous literature on this issue (Howard and King 1992, chapter 7), and we have no desire to add to it. We simply note that the counteracting tendencies that Marx himself identified seem to be as strong in 2008 as they have ever been. First, information and communications technology is still 'cheapening the elements of constant capital' and thereby slowing or reversing any rise in the organic composition. In terms of fixed capital, the quantity of labour embodied in any given amount of computing power has of course fallen dramatically, and continually, for several decades. The Science Museum in Manchester, recently visited by one of the authors, has a replica of the original computer designed c.1950 by Alan Turing; it occupies a large room and has a capacity measured not in MB or GB but in *bytes*. In terms of working capital, just-in-time systems have greatly reduced the quantity, and hence also the labour value, of stocks held by companies in many branches of manufacturing and distribution. Second, the global weakness of the labour movement is allowing the rate of exploitation to increase. We do not anticipate any serious problems from this source.

Over-accumulation

The over-accumulation or 'profit squeeze' model of crisis has its origins in volume I of *Capital*, and was successfully invoked by Glyn and Sutcliffe (1972), along with many others, to explain the end of the postwar 'golden age'. As full employment continued, and workers in the advanced capitalist countries became increasingly restive, they voiced their discontent with the alienated conditions of their labour in major strike waves (May 1968 being the most dramatic), but settled in the end for wage increases large enough to cut into profits and also to generate accelerating inflation. This does not seem likely to be a major problem in the second decade of the 21st century. For one thing, the Thatcher-Reagan counter-revolution has seriously weakened organised labour, and not only in the UK and the USA. For another, the advance of globalisation since 1973 has meant that the reserve army of the unemployed is now a world phenomenon. Two hundred million under-employed Chinese peasants, and at least an equal number in India and the rest of the poor South, represent a lethal threat that any remaining rank-and-file militants in Western Europe recognise only too well. It is hard to imagine the profit squeeze of the early 1970s (repeated, in the case of Australia, in 1982-1983) happening again.

Underconsumption

There are allusions in all three volumes of *Capital* to the tendency for capitalist economies to experience chronic demand deficiency due to the growth of property incomes relative to labour incomes, given the lower propensity to consume of capitalists by comparison with workers. 'The ultimate reason for all real crises', as Marx wrote, 'always remains the poverty and restricted consumption of the masses as opposed to the drive of capitalist production to develop the productive forces as though only the absolute consuming power of society constituted their limit' (Marx 1894, p. 484). This, at least, has a clear 21st century resonance. Up to now, however, underconsumption has been avoided by a combination of high government expenditure and the seemingly insatiable nature of capitalist consumption spending, which has reminded some observers of the gross excesses of the 1920s. Marx, Hobson and Keynes would have been surprised by this development; Thorstein Veblen would not. It is not immediately obvious what might bring an end to the orgy of luxury spending by the new plutocracy. But this is not the whole story. Working-class consumption has also grown faster than working-class incomes, fuelled by borrowing on an unprecedented scale. The resulting potential for a debt-default deflationary crisis is a development that Marx did not foresee, and could not have been expected to anticipate. Rising debt levels have reduced the danger of underconsumption as he understood it, but have increased the vulnerability of the global capitalist economy to financial crises.

The Financial Instability Thesis

Hyman Minsky's financial instability thesis is the first of two Post Keynesian theories of economic crisis that we now consider. Minsky's 'Wall Street vision of capitalism', dominated by the relationship between investment bankers and their clients, seemed a little eccentric when he first developed it in the 1960s, but in 2008 it is almost a commonplace. For Minsky, like Marx, capitalism is intrinsically cyclical. As the economy moves out of recession, pessimism gives way first to cautious optimism and then to recklessness enthusiasm, on the part of borrowers and lenders alike. In the first phase of the upswing *hedge finance* is the rule: the expected returns from investment projects not only cover interest commitments but also permit the repayment of the principal. Soon *speculative finance* takes over, allowing projects to be undertaken that will be profitable enough for interest payments to be made, but not repayments of principal. As the boom approaches its peak, *Ponzi finance* makes its first appearance: borrowers now take out new loans in order to meet their interest commitments on existing loans. *Financial fragility* increases and raises the likelihood that any 'bad news' will undermine confidence, bringing a cascade of defaults and bankruptcies, which leads to a sharp fall in asset prices, a collapse in investment expenditure and a contraction in output and employment. Minsky himself regarded 1929-1933 as the definitive financial crisis. He was confident, for several reasons, that nothing on the scale of the Great Depression was likely to recur (Minsky 1986). Perhaps he was too confident, given the extensive deregulation of global financial markets in the 1990s and the speculative excesses that are beginning to be exposed in the US real estate sector and elsewhere (Howard and King 2008, chapters 7-8).

Limits on Growth, Kaldor-style

Nicholas Kaldor (1986) also emphasised speculation as a fundamental source of capitalist instability, but in his case it was speculation in primary products rather than in financial instruments. Kaldor transformed his interpretation of the end of the golden age into a more general theory of growth and instability in a world economy split between a rich North and a poor South. The price of food, raw materials and oil are the driving force. In the long run, Kaldor argued, there was some evidence to support the Prebisch-Singer thesis that the terms of trade inevitably move in favour of manufactures, and the global North. This was the result of land-saving technical change in primary production, which disadvantaged the South. In the short run, however, a world boom as powerful as that of 1968-1973 places great strain on the supply of primary products and thus on their prices. This is greatly accentuated by speculators, who acquire stocks of commodities as a hedge against inflation and currency fluctuations, thereby fuelling the inflationary process. Unionised labour then resists the implied reduction in real wages and a wave of strikes pushes up labour costs, squeezing profits and inducing further increases in the prices of manufactured goods. Kaldor advocated international buffer stocks of primary products, administered by an international organisation representing both Southern producers and Northern consumers, which could smooth out cyclical peaks and troughs in commodity prices and thereby encourage long-term investment in primary production. In the absence of international cooperation of this sort, he maintained, any sustained global expansion would inevitably end in a new stagflationary crisis like that of 1973-4.

The End of the Australian Boom

We conclude that the global capitalist economy is vulnerable on at least three counts: underconsumption, financial fragility and the increased price of oil and of basic agricultural commodities, especially wheat, rice and maize. These, to repeat, are *possibilities*. We have no crystal ball, and there are sound logical reasons why accurate forecasting of the timing and depth of any downturn is not possible. (If such forecasting was possible it would change the actions of economic agents and thereby undermine itself). And, if Schumpeter was correct (and if a rampant Chinese capitalism continues to catch up with the West), there may be another 10 or 15 years of life left in the fifth Kondratiev upswing.

Sooner or later, though, the global boom *will* end. Capitalist development is uneven as well as unstable, so that the impact of the next downturn will vary in different parts of the world. There will be distinctively Australian features of the next Australian recession. With this rather banal observation we return to the specifically Australian characteristics of the long boom with which we began.

The minerals boom will certainly come to an end, possibly sooner rather than later, with potentially serious consequences extending far beyond Western Australia and Queensland. The ensuing sharp decline in the value of the $A might be expected to benefit manufacturing, which has suffered from an acute case of Dutch disease in recent years as import penetration has grown rapidly in response to the appreciation of the currency. There must be doubts, however, about the reversibility of this process, given the loss of skills, research and development facilities and all the myriad external economies that are enjoyed by an expanding manufacturing sector. A currency depreciation may simply increase import prices and further widen the trade deficit, rather than stimulating a powerful wave of re-industrialisation. The resources 'freed' by the contraction of the mining industry are at least as likely to remain unemployed for a lengthy period as they are to be quickly and painlessly absorbed in a revived manufacturing sector.

Financial fragility is already a serious cause for concern. Minsky's core proposition is that financiers' expectations become increasingly irrational as memories of the previous cyclical downturn fade. In Australia, financial fragility will probably appear first in real estate, where exuberance seems already to have given way to prudence on the part of both lenders and borrowers. The household debt-to-income ratio is at a historical high, so that a significant rise in unemployment, coupled with a fall in house prices, could easily precipitate a chain of mortgage defaults, fire sales of assets and the bankruptcy of weaker lending institutions. We can only speculate on the reactions of APRA, the Reserve Bank and the federal Treasury. Will the sacred cows of permanent budget surpluses and 'no bail-outs' be sacrificed to protect an iconic but failing merchant bank like Macquarie Bank, to cite one possible scenario? The very nature of liberalised finance means that a necessary condition for maintaining a functioning financial system, and thus inhibiting the development of a serious depression, is the extension of lender of last resort facilities to *all* significant financial institutions. Limiting the facility to legally designated clearing banks will not contain modern financial crises and protect the real economy.

Only ***the future of Australian unions*** does not appear to be in much doubt. They have no future, outside some parts of the public sector (itself in continuing decline) and a few residual areas of strength in the private sector (larger companies in manufacturing and construction, perhaps). Even a change of government and the ensuing repeal of the worst features of the anti-union legislation of the Howard years is unlikely to make much difference, or so the UK and New Zealand experience suggests. From a macroeconomic viewpoint this is probably just as well, since the dangers of the 'banana republic' syndrome that Paul Keating warned against in 1986 would otherwise be considerable, with currency depreciation leading to rising import prices, accelerating price inflation, compensatory wage increases, further loss of external competitiveness and renewed depreciation: a vicious and inescapable downward spiral of economic decline. The collapse of real wage resistance, however, makes this scenario much less plausible than it was twenty years ago, and reduces the current relevance of the Kaldor model. It also makes a severe underconsumption crisis more rather than less likely, however.

Postscript (29 May 2008)

This paper was completed in early September 2007, and has subsequently been revised only in minor details. Since then, developments overseas have confirmed the relevance of two aspects of our argument. The financial crisis in the UK and US is a classic Minsky moment, as has been noted by many commentators, and the record oil price (which touched $130 a barrel in May 2008) would not have surprised Kaldor.

It is too early to know whether the financial crisis will cause a deep and sustained downturn in the US and European economies. Neoliberal governments have been quick to announce the socialisation of financial losses (UK and US) and a substantial fiscal stimulus (US), disregarding the shibboleths of moral hazard, sound finance and policy ineffectiveness/Ricardian equivalence. So far there has been little or no impact on Australia, where the change of government in November 2007 has had no perceptible effect on either the rhetoric or the reality of macroeconomic policy. It is difficult, however, to imagine the Rudd government being less interventionist than Bush or Brown should the need arise.

The threat posed by the oil price is more long-term, and has led to calls for OPEC to make huge investments in expanded production capacity. Such demands have been resisted on the (Kaldorian) grounds that energy prices are too volatile and unpredictable to offer producers a secure return (Webb 2007). In recent months there have also been sharp increases in the prices of basic foodstuffs, partly speculative in nature but also linked directly (in the case of maize) to the increased use of biofuels. Thus the North-South model, developed by Kaldor in the mid-1970s, remains relevant to the twenty-first century.

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