

---

## **Editorial Introduction**

---

### **THE AUSTRALIAN ECONOMIC BOOM:**

**1992 - ?**

**Damien Cahill and Frank Stilwell**

Since 1992 the Australian economy has experienced 16 successive years of growth. Historically, this is unprecedented. Not even during the post-war boom – the celebrated ‘golden age’ of capitalism – did economic growth continue uninterrupted for so long.

Given the dominance of neo-liberalism in mainstream economic discourse, it is perhaps not surprising that, to date, there has been little critical examination of the boom. There are honourable exceptions: Tom Bramble, for example, examined the contradictions in Australia’s ‘miracle economy’ in the December 2004 edition of this journal (Bramble 2004). For most mainstream commentators, though, the boom seems to have provided confirmation of the central tenets of neo-liberalism: that free markets are the most efficient form of economic organization and that neo-liberal policy ‘reforms’ have produced conditions conducive to sustained economic growth. According to this view, the processes of deregulation, privatization and marketisation have freed up the Australian economy, leading to a rise in living standards of all but those on the very margins of the economy.

Such ideas underpin the prevailing view that the boom is largely a product of ‘sound economic management’. Even critics of this position tend to adopt similarly narrow frameworks, such as attributing the boom to the influence of Chinese demand for Australian commodities. While Chinese demand for commodities certainly underpins the latest mining boom in Australia, the beginning of the long economic boom pre-dates

this phenomenon by several years. Accounts that focus simply upon the mining boom therefore also leave much unexplained.

By drawing upon political economic traditions of thought, this issue of the *Journal of Australian Political Economy* offers a broader and more complex understanding of the boom. The articles in it raise questions such as: who are the winners and losers from the boom? What are the relationships between economic and political forces and institutions in underpinning the boom? Given the persistence of underemployment, is 'boom' even an appropriate description of the last 16 years? Such questions prompt consideration of power relations, the contradictory dynamics of the boom, its history and uneven effects.

An exploration of these questions enables informed debate about the future trajectory of the economy and economic policy. This is particularly pertinent following the election of the Rudd Labor government in October 2007. Although Kevin Rudd's description of himself as an 'economic conservative' signals a lack of appetite for major economic policy changes, a change of government generally provides opportunities for alternative policy directions – or at least political space in which such alternatives can be discussed. The issue of policy alternatives is taken up by several contributors to this special issue. Ben Spies-Butcher, for example, discusses how a reinvigorated welfare state could provide the basis for achieving macroeconomic policy goals, despite persistent claims that the government's ability to achieve such aims through regulation has been eroded by decades of neo-liberalism. The issue of neo-liberalism is also taken up by Damien Cahill, who argues that the prospects for progressive policy alternatives are undermined by the restructuring of the economy that occurred under the Hawke, Keating and Howard governments, especially those which undermined the power of organized labour.

In considering the foundations of Australia's current economic boom there is significant continuity with the historical concerns of *JAPE*. The journal, and indeed the political economy movement in Australia, was born in the context of the economic crisis which beset Australian and global capitalism in the 1970s and which heralded the end of the first long boom. It was in this context that particular shortcomings of orthodox economics were made apparent. Attention was also focused

upon the foundations of the ‘golden age’ of capitalism, as part of a broader investigation of the dynamics of capitalist economies which drew on radical traditions of political economy in Australia. The lead article in the very first edition of the *JAPE* – by Michael Brezniak and Jock Collins – examined this period (Brezniak and Collins 1977). It is fitting therefore that Jock Collins has contributed an article to this special edition on the second long Australian boom, this time on the role of immigration in boosting the labour force, and the discourse of the Howard government that gave a green light to more anti-immigration views.

## **Political Economic Approaches**

Heterodox traditions of political economy provide a rich array of conceptual tools for analyzing long periods of economic growth. Such traditions offer useful alternatives to the dominant neo-classical approach, and are evident in the contributions to this special issue.

For example, in contrast to neo-classical theory, which tends to view GDP growth as the prime indicator of economic and social progress, political economists have highlighted the limitations of GDP as a measurement of welfare (Daly and Cobb, 1989). They point out that GDP (or even GDP *per capita*) provides no indication of the distribution of economic resources. Furthermore, GDP fails to measure the social and environmental consequences of economic growth. Thus, while GDP is a measure of economic growth, it is not a measure of sustainable growth.

These concerns are reflected in this special issue. Several authors examine the uneven experiences of the commodities boom. Alison Preston and Therese Jefferson argue that while the minerals boom in Western Australia has led to rising average incomes, this has occurred alongside significant inequality, with women, in particular, often missing out on the prosperity. James Goodman and David Worth examine the negative social and environmental impacts of the minerals boom, including its contribution to an increase of greenhouse gas emissions.

Other articles challenge the celebratory accounts of recent economic growth by providing further evidence on the accompanying rise in

income inequality. Gabrielle Meagher and Shaun Wilson analyse how Australians have experienced and understood this rise in inequality and the implications for economic and social policy. Iain Campbell demonstrates that, despite officially low unemployment rates, the sustained economic growth in Australia since 1992 has been accompanied by persistent underemployment within the labour force.

A political economy approach also challenges the neo-classical treatment of technological change as an exogenous factor. Endogenous growth theory, for example, understands technological change as integrally related to investment, the organization of production, industrial relations and labour productivity. In this issue, Chris Keane examines the role of investment in Information and Communications Technology during the boom, questioning the extent to which the boom is founded on Australia's transition to a 'new economy'.

Ashley Lavelle notes in another article that periods of economic boom often 'induce bouts of amnesia' among commentators about the cyclical nature of capitalism. An important theme of political economy is that capitalist economies are characterized by systemic instability. Unlike neo-classical economics, which views recessions as the aberrant products of exogenous factors such as inappropriate state 'intervention', political economic analyses tend to view both booms and busts as normal features of capitalist economies.

The Marxian tradition of political economy strongly emphasises this cyclical character of capitalism, its potential for expanded self-reproduction and the contradictions within the process of capital accumulation that lead to periods of economic crisis. The Keynesian tradition of political economy focuses upon the role of changes to effective demand and business expectations in lowering investment levels and inducing economic downturns. Far from the prevailing view that capitalist economies are self-regulating, Keynesians thus regard the state as having a crucial role in managing effective demand through macroeconomic policies.

The influence of these Marxian and Keynesian traditions in political economy is evident in many of the contributions to this special issue. The article by Michael Howard and John King considers the

contradictions within the processes that have given rise to the recent decade and a half of economic growth. Geoff Dow questions the usefulness of the description 'boom' for a period characterized by significant unemployment, and argues for a strong role for the state in reorienting the economy toward full employment.

Political economy also focuses on the role of institutions in underpinning economic activity. The article by Stephen Bell and John Quiggin, for example, examines the importance to the boom of changes to the institutional architecture of the Australian economy, particularly the deregulation of the financial sector, the floating of the Australian dollar and the reorientation of the Reserve Bank to inflation targeting.

Taking an even more long-term perspective, both Chris Lloyd and Ray Broomhill situate the current boom within a historical context of the rise and decline of institutions and social relations which mediate and channel long periods of capital accumulation. Both authors draw, to various degrees, upon the *regulation* approach to political economy (Aglietta 2000, Boyer & Saillard 2002) which views the history of capitalism as the history of qualitatively different regimes of accumulation and modes of regulation punctuated by crises that herald the reconstruction of new institutional forms and new periods of growth. Phil O'Hara uses a rather different 'Social Structures of Accumulation' perspective (Gordon *et. al.* 1982; Kotz *et. al.* 1994) to examine the contradictory relationships between economic, social and political institutions and processes that have underpinned the Australian economy since 1992. He finds that Australia has generated only moderate *per capita* growth during the current boom, and argues that this must be understood as part of a 'long-wave downswing' also experienced by other capitalist countries since the 1960s.

Most of the articles for this special issue of *JAPE* were first presented at a conference on Australia's current economic boom held at the University of Sydney in December 2007. The diversity of topics discussed at the conference is reflected in the contributions to this volume. This special issue does not pretend to be comprehensive though. For example, the role of debt and financialisation in the boom is not analyzed in detail here. On these topics we point readers to the work, among others, of Steve Keen (2008) and Boris Frankel (2002).

## The End of the Boom?

As this issue goes to print the global capitalist economy is experiencing a financial crisis. Last year's collapse of the sub-prime mortgage market in the USA has led to major central banks intervening in the economy in ways that would have been considered improbable just a few years ago. The US Federal Reserve has intervened to shore up financial markets by providing liquidity and organizing a rescue package to prevent the collapse of the large investment bank, Bear Stearns. In the UK, the state stepped in to nationalize a major bank, Northern Rock, after the revelation of its exposure to the sub-prime market losses caused panic selling of its shares and queues of depositors seeking to withdraw their savings.

Australia has not been immune to this emerging crisis, notwithstanding the continued economic buoyancy coming from mineral exports and favourable terms of trade. Share prices of major financial companies have fallen as exposure to sub-prime losses have been revealed, the businesses Opes and Centro have collapsed, oil prices have risen sharply and interest rates are increasing, to some degree independently of the Reserve Bank's movement of the cash rate. The long-term effects of these tensions are still unclear. Whether it heralds the end of the current boom in Australia is not known. At the very least it should temper the hubris that has previously accompanied the boom, highlight the perennial instability of capitalist economies and the contradictions and consequences arising from two decades of a neo-liberal approach to public policy.

## References

- Aglietta, M. (2000), *A Theory of Capitalist Regulation: The US Experience*, Verso, London.
- Boyer, R. & Y. Saillard (2002), *Regulation Theory: The State of the Art*, Routledge, London.
- Bramble, T. (2004), 'Contradictions in Australia's 'Miracle Economy'', *Journal of Australian Political Economy*, No. 54, December, pp. 5-31.

Brezniak, M. and J. Collins (1977), 'The Australian Crisis From Boom to Bust', *Journal of Australian Political Economy*, Vol. 1, No. 1, pp. 4-33.

Daly, H. and J. Cobb (1989), *For the Common Good: Redirecting the Economy Toward Community, the Environment and a Sustainable Future*, Beacon Press, Boston.

Frankel, B. (2002) 'Financialisation', in Bell, S. (Ed), *Economic Governance and Institutional dynamics*, Oxford University Press, Melbourne, pp. 76-86

Gordon, D., R. Edwards and M. Reich (1982), *Segmented Work, Divided Workers: The Historical Transformation of Labor in the United States*, Cambridge University Press, New York.

Keen, S. (2007), *Deeper in Debt: Australia's Addiction to Borrowed Money*, Centre for Policy Development, Occasional Papers No.3, Sydney

Kotz, D. T. McDonough and M. Reich (eds) (1994), *Social Structures of Accumulation: The Political Economy of Growth and Crisis*, Cambridge University Press, New York.