Australia's two-speed economy: the reality behind the "new golden age"

Alex Messenger
19 April 2010

Sharp increases in global commodity prices, including a 90 percent jump in iron ore prices over the past month, have sparked a new round of exuberance in Australia's financial press. Leading commentators claim that the new China-led minerals boom means a return to the decade of "prosperity" that preceded the 2008 crash.

The Reserve Bank, noting predictions of a 55 percent price increase for coal, says the boom means "a good 20 years for China and for us". Australia is the world's largest exporter of both iron ore and coal. Michael Stutchbury, economics editor of *Australian* newspaper claims that as long as "wages behave themselves," Australia will succeed in completely dodging the global recession. Meanwhile, Alan Kohler, writing in the *Business Spectator*, tells readers "[i]t's getting harder and harder to shake off this feeling that Australia is entering a new golden age. The only way to stay glum in Australia at the moment is to read foreign newspaper websites." Kohler notes that house prices surged 14 percent in 2009 and that unemployment, now officially 5.3 percent, is down from its 2009 peak of 5.7 percent: "[H]ousehold wealth has been almost entirely restored after the GFC (global financial crisis)."

These euphoric statements obscure the significance of what has become known as Australia's "two-speed economy"—that is, a high-profit mineral export sector and a low-growth, low-profit non-mineral economy. Stratospheric iron ore prices coincide with declining export volumes in manufacturing, agriculture and services. The corporate media and the Labor government increasingly accept the two-speed economy as inevitable, and therefore barely deserving of comment. Given that the bulk of the workforce is not employed in the minerals sector, the hardships facing workers have only intensified.

Continuing the trend established during the global downturn, a stable official unemployment rate across February and March (5.3 percent) was accompanied by a staggering seasonally adjusted decrease of 10 million hours in the aggregate number of hours worked by Australian employees. While it is apparently true that Australian workers are more likely to be employed than workers elsewhere, including in the United States, as the economy "recovers," they will continue to experience chronic and apparently entrenched under-employment. Many are employed in part-time, low-paid and temporary jobs.

The 14 percent house price rise in 2009 (up a further 5 percent since the beginning of 2010), occurring in the middle of this huge cut in working hours, means the housing surge cannot be considered the product of healthy economic demand. It is the result of pump-priming (the First Home Buyers Grant which ended in December 2009), previous interest rate cuts and, most critically, the Australian banks' recognition that the best bet for maintaining multi-billion dollar profits in the middle of the global crisis was to plough their borrowed funds into the domestic housing market. Many home purchasers now confront large rises in their mortgage repayments because the Reserve Bank has increased interest rates five times in the past seven months.

The flip side of the housing boom is a choking-off of business loans. The decline in business lending experienced at the height of the 2008-2009 crisis continues unabated, falling for the fourth straight month in February. It is down 14 percent from the same time in 2009. Moreover, the banks themselves say that they will force more businesses to the wall this year than they did during the last. In February, the number of companies that went into insolvency jumped 42 percent from the previous

© World Socialist Web Site

month. The figure is 4 percent up on February 2009, the height of global economic panic. Further predicted interest rate rises in coming months will push many businesses, already barely afloat, into insolvency. A partial recovery in the value of business assets, including commercial property, means that there is now more incentive for banks to sell-up struggling borrowers.

The restoration of personal wealth for which Kohler gives three cheers largely takes the form of house price increases and is therefore an amalgam of "paper wealth" and further increases in already crushing levels of personal debt. Seen in these terms, the housing boom only adds further burdens for working people. According to a report by the South Australian Valuer-General, the average house price in the South Australian capital, Adelaide, is now $405,000. Adelaide property prices have risen 243 percent over the past 10 years, but nominal (that is, non-price adjusted) wages in that city have increased only 35.5 percent over the same period. The same period has seen the city's working class decimated by the loss of manufacturing jobs, especially in the car industry.

Household debt in Australia is now a higher percentage of GDP than in the US. If Australia has so far dodged the worst effects of the global crisis, this is because its private sector has not yet—in stark contrast to the rest of the world—deleveraged, that is, reduced its ratio of debt to assets. Such a development could be triggered by a significant fall in house prices, the first signs of which might be now emerging. Despite the housing bubble, the number of mortgages entered into by owner-occupiers (as opposed to investors) fell for a fifth consecutive month in February and was 22 percent down from the June 2009 peak. As the example of Adelaide house prices illustrates, the bubble is ripe for bursting.

As for the mining sector, the boom is largely based on high growth in China—the product of unsustainable stimulus spending. The super-profits of mining giants such as BHP Billiton and Rio Tinto will come to a halt once China's credit-fuelled infrastructure programs and housing speculation stall or collapse. At present, 50 percent of Australian mining sector profits go to foreign investors and overseas parent companies. A nominal 30 percent is paid to the Australian government in corporate taxation. A further 20 percent goes to those shareholders—mostly very wealthy—located in Australia.

The federal Labor government has made clear that the $15 billion corporate tax windfall expected from the jumps in coal and iron ore prices will not be used for social expenditure of any kind (this will be slashed) but will be spent on productivity-enhancing industrial infrastructure, including for the high-profit mining sector. This is Prime Minister Kevin Rudd's stated justification for Labor's planned overhaul of the health system. As Rudd announced on March 29, the health reforms aim at the "freeing up the state's balance sheets to re-focus their efforts on critical state investment in infrastructure".

As the two-speed economy becomes further entrenched, so chronic underemployment and low investment in non-export sectors are reinforced. Writing in the *Australian* last week, Michael Stutchbury advised readers that "the Reserve Bank of Australia's core mission is to absorb one of Australia's biggest ever mining booms without pushing beyond full capacity and igniting inflation. If the mining development is blowing its head off, then other sectors such as retailing have to grow below par to keep the overall economy with its speed limits." In other words, given the mining boom's scale, maintaining low growth and low employment growth in the non-minerals sector—with its consequent heavy impact on working people—is essential to avoiding the kind of generalised economic blow-out that would threaten the profitability of Australia's largest businesses, especially the banks.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site