The reality of Australia's "two-speed" economy

Alex Messenger
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The release of a new round of positive GDP figures in August was the cue for Australian Treasurer Wayne Swan, to announce that finance ministers in the US, Europe and Japan would "kill for figures like these". The Australian economy grew by 1.2 percent in the June quarter, that is, at an annualised rate of nearly 5 percent. Not only could the country "not have hoped for a better of set of national accounts", but, Swan claimed, speaking at a function organised by economic "think-tank" The Sydney Institute, the figures vindicated the market-oriented, low-debt policies of successive Labor and Liberal governments. "We are in the 19th year of continuous economic growth. No other advanced economy can talk about that. It sets up a very solid foundation for the future."

Like a tree rotting from the inside, however, knock gently on the June GDP figures and you will hear a hollow sound. Numbers released simultaneously with the national accounts show that the mining industry, which accounts for just 7 percent of the economy, accounted for 40 percent of pre-tax profits in the June quarter. Excluding mining, pre-tax profits *fell* by 8 percent. New housing sales fell by 7 percent. Wholesaling profits fell 17.5 percent.

At the same time, Australian manufacturing is experiencing negligible growth, according to the leading PricewaterhouseCoopers (PWC) index. The growth detectable in August (slowing since the previous month) was the result of mining-related demand for basic construction materials. More broadly there is a lack of "the sort of impetus from the private sector that is needed to underwrite aggregate growth at a time of receding public sector demand" according to PWC's global head of industrial manufacturing, Graeme Billings. Manufacturing employment actually fell in July. New orders are flat across the sector.

As for the household sector, despite its considerable contribution to the June quarter GDP—second only to mining production—jobs in related areas, including retail, have been stagnant for months, and in August declined. According to a leading recruitment firm, "companies are doing little more than replace staff attrition."

What this broader set of figures indicates is an economy with just a single area of growth—the extraction and export of coal and iron ore to Asia. Soaring prices for iron ore and coal alone have boosted mining earnings over the past three months by $10 billion.

What happens to these huge mining industry profits? Do they find their way from the coffers of Rio Tinto or BHP Billiton into the rest of the economy or even into the hands of workers?

According to the corporate press, of this there is no doubt. The Murdoch-owned *Australian* newspaper reported last month that "the economy is awash with cash from the mining boom." Meanwhile, the *Sydney Morning Herald's* economics editor Ross Gittins told readers that "for all the talk of a two-speed economy (one which places Western Australia, the key mining state, at the epicentre of the 'fast' economy), the six states form one, highly-integrated national economy. Income that arises in one state flows easily across state borders and is spent." Gittins's argument against the existence of the "two-speed economy"—the phenomenon of a high growth mining economy existing alongside more general economic stagnation—is based on figures indicating that aggregate demand has been high in most states. Western Australia leads demand growth over the past year with a figure of 7.9 percent, but in each of South Australia, New South Wales and Victoria demand growth is nearly 6 percent. This, says Gittins, proves the mining boom's ripple effects.

In reality, other figures, especially income distribution indicators, tell a different story. Over the last 30 years the share of national income devoted to wages has been on a

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continuous decline, but the fall in the wage share over the past year, including in the last three months, has been among the sharpest on record. Just over 52 percent of national income is paid to workers. That trend mirrors the sharp fall in labour costs per unit of productivity—down 4 percent since the beginning of the global financial crisis alone. In other words, although Australian mining profits are going through the roof, workers' share of those profits is in precipitous decline.

Treasurer Swan was quick last week to jump on an Australian Bureau of Statistics (ABS) survey indicating that Australian businesses planned to increase investment by 24.5 percent over the next 12 months. The figure in the mining industry is an astonishing 48.5 percent. However, on the same day as the release of the ABS survey, the Reserve Bank of Australia published a report demonstrating that Australian banks have cut their business loan portfolios by more than $100 billion since the start of the financial crisis. In August alone, they cut loans by $6.7 billion.

How can investment increase so dramatically if business lending is drying up? First, businesses *planning* to invest might not find banks willing to lend. Second, so staggeringly large are mining industry profits that, unusually for Australia, new investment in major projects is being funded from retained profits. These profits, even if they end up on deposit in Australian banks, are not being on-lent to smaller or even medium-sized businesses. This is reflected in a sharp fall in non-residential construction to just 60 percent of what it was at its peak five years ago. Even more tellingly, construction rates are 35 percent below their average for the past three years, including the period since the collapse of the US merchant bank Lehman Brothers in September 2008. Overall business lending is down 5 percent over the past year.

In light of these statistics on income and investment, the state-by-state demand figures that Gittins uses to demonstrate the broad impact of the mining boom are apparently explained by big resource industry investments (including in the New South Wales coal industry, which dominates that state) and, more critically, by the significant year-to-June impact of stimulus spending. That spending, especially a multi-billion dollar school building program, is rapidly tapering off, as is its positive economic impact. Even on the figures Gittins selects to back his argument, aggregate demand growth in Western Australia, the mining epicentre, is on average more than 35 percent higher than growth in the other states. West Australian demand growth is four times that of Queensland, the other so-called mining state.

Nor is there any indication that the profits of the mining boom will somehow trickle into workers' lives via redeployment of resource industry tax revenues to social services. All the major parties, including the Greens, have committed to major reductions in spending. Even as Swan heralded the mining boom "Mark II", he pledged the Gillard Labor government to ongoing "fiscal consolidation".

The evidence for a two-speed economy is incontrovertible. Attempts by Labor and the media generally to convince workers they are in the grip of a wondrous boom will not work. As the widespread and palpable disgust towards both Labor and Liberal in the August 21 election has shown, millions of voters have failed to experience what Swan claims is "world-beating economic prosperity". Official unemployment is up to 20 percent in areas of southern Brisbane, western Sydney, outer Melbourne and northern Adelaide, while underemployment (reduced hours), is at record levels, accompanied by skyrocketing rents and housing costs and grossly underfunded critical services, including schools and hospitals.

Seeking to explain Labor's electoral debacle, Swan blames the ingratitude of voters, telling the Sydney Institute that "the economic conversation and the political conversation have gone in opposite directions." There is more than a hint of incredulity in these comments: how is it possible, Labor asks, that economic prosperity could count for so little?

What Swan's comments demonstrate is the complete disconnect between the experiences and concerns of the political and ruling elite, and the hardship of ordinary lives. None of the parliamentary parties or their representatives has any conception of even the most basic economic facts that Australian workers face, namely, escalating poverty—especially among the aged and the underemployed—and permanent job and income insecurity.

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