

CONTRADICTIONS IN AUSTRALIA'S 'MIRACLE ECONOMY'

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The re-election of the Coalition Government in October 2004 was widely attributed to its successful management of the economy, in particular, the maintenance of low interest rates. The strong swing to the Coalition in the outer metropolitan seats where large mortgages are common is regarded as confirmation of this argument. It was also widely argued in the media and by the Government's supporters that the 2004 election crystallised an alleged conservative cultural shift on the part of 'mainstream Australia'. According to right-wing commentators, the result of the 2004 election is an indication of the gradual emergence of a new aspirational and entrepreneurial society. Leading Murdoch journalist, Paul Kelly, for example, claims that "class politics is collapsing as a fault line" in Australian politics and that "the battlers" are now rallying behind Howard's vision of a successful Australian economy, family values and cultural conservatism (Kelly, 2004).

In this view, Labor's failure was the result of its preference swap with the Greens and its increasing divorce from its working class base which was alienated by Labor's adoption of allegedly "inner-city cultural elite causes" such as the war on Iraq, refugees and the environment. It is commonplace to hear from these commentators and Coalition politicians that the majority of Australians have turned against migrants, Aborigines, and 'special interest groups'. The 'rights agenda', supposedly the creation of the 'permissive 1960s', must now be replaced by one

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focusing on people's 'responsibilities', usually construed as firm parental discipline, marital fidelity, hard work and the firm application of laws against wild 'ethnic gangs', lawlessness, and a general breakdown of civilised behaviour. The strong support for Pauline Hanson in 1996-99, and the results of the 2001 'Tampa election' are often cited as evidence for this argument. The 'War on Terror' and associated ramping up of 'national security' are also regarded as accelerating this process of social conservatism.

The decline of the union movement is a further factor that is identified as suggestive of a move to more individualistic values. Union coverage declined from 49 per cent in 1982 to 23 per cent in 2002. Union membership, which peaked at 2.66 million in 1990, had fallen to 1.83 million by 2002, with no indication that an end to the decline is in sight (ABS, 2004a). Coalition politicians argue that these trends indicate that trade unions are out of kilter with workers' individual lifestyles and the emerging aspirational society.

This assessment of the 2004 election and broader social trends is widely shared on the Labor side of politics, on both the left and the right. The general conclusion drawn by Labor politicians in the aftermath of the election was that the party had to highlight the economic 'reforms' set in place by the Hawke and Keating governments of 1983 to 1996 and to steer the party still closer to the Coalition's neoliberal agenda (Lewis and Karvelas, 2004). Thus, key shadow ministerial responsibilities for economic, industry and industrial relations policies were given to leading figures from Labor's Right, Wayne Swan and Stephen Smith. It is unlikely that Swan and Smith will receive much opposition from the left of the party. Former ALP frontbencher, Lindsay Tanner, concluded from the election that "We've got to decide who we are... The Labor Party has to be the party of competition, the open international economy.... the party of productivity, the party of economic growth" (cited in Beams, 2004). The same shift to the right is evident in other portfolios. Incoming shadow immigration minister, Laurie Ferguson, a member of Labor's Left faction, lost little time in advancing the Coalition's claims that "a sizeable proportion" of asylum seekers had fraudulent cases and were manipulating the legal system to stay in Australia.

The alleged shift to an 'aspirational society' is also regarded as a significant factor in the re-election of the Coalition Government by various left-liberal media commentators, most evidently in the Fairfax press. However, rather than celebrate this trend, they regard it as a sign of a culture in decay. Clive Hamilton from the Australia Institute declared that the Howard election victory "reflects nothing more than the narrow-mindedness and preoccupation with self that characterises modern Australia after two decades of market ideology and sustained growth. Private greed always drives out the social goods"(cited in Beams 2004).

The purpose of this article is to challenge this conventional wisdom. The article sets out some of the main economic factors that help explain the buoyant economy enjoyed by the Howard Government in its third term in office, but also points out the limitations and contradictions of the current situation, both in terms of its economic foundations and the underlying ideological trends. I conclude that the situation facing the Howard Government on its re-election is rather less promising than may first appear and that behind the superficial picture of 'economic sunshine' and socio-political stability, significant problems and weaknesses lie in store for conservative politicians, Coalition and Labor alike.

Aspects of the 'Miracle Economy'

The starting point for understanding the Australian economy today is the recovery in the rate of profit from its low point in the late 1970s and early 1980s. The post-war economic boom peaked in 1969 when the rate of profit (return on capital) reached 16.2 per cent. It then slid steadily under both Coalition and Labor governments to a low of 6.5 per cent in 1983. The Hawke government then lifted profitability substantially to 10.5 per cent, and it rose still further under Howard to 13.4 per cent by 2001 (Mohun, 2003: 88). The share of profits in national income has reached its highest ever recorded at 25.6 per cent in 2003, up from 23 per cent in 1996 (Uren and Newman, 2004).

The financial sector in particular has benefited from the Howard government, with its profits rising by 185 per cent between March 1996

and March 2004 (as compared to an increase of 'only' 66.4 per cent in the non-financial corporate sector) (Reserve Bank of Australia (RBA), 2004a). Those companies that have benefited most recently have been sectors exposed to the cyclical upswing such as resources (BHP Billiton; Rio Tinto; Alumina), media (News Corp; John Fairfax), and sectors which are enjoying strong local demand, such as building materials (Boral; Bluescope) and consumer stocks (Woolworths; Foster's; Qantas) whose profits rose by anything between 27 per cent and 125 per cent in the 2004 financial year (Anon., 2004). Rising profits have driven up share prices, which by November 2004 were at record levels, more than 60 per cent higher than when Howard was elected.

The rise in profitability has been driven the current period of business expansion. With annual growth in GDP averaging 3.75 per cent since 1996, Australia has, with New Zealand, been the fastest growing of the developed economies in the past decade, outpacing the OECD average by some distance (Parliament of Australia, 2004a).¹ Business investment grew from a trend figure of \$20 billion in the early 2000s to \$26.7 billion in June quarter 2004 (Parliament of Australia, 2004b).² Monthly commencements in engineering construction increased from around \$1.5 – 2.5 billion in 1996-97 to \$2.5 – 4.0 billion in 2003-04 (RBA 2004b). Consumer spending rose by 30 per cent over 1999 to 2004, twice the rate of inflation over that period (Uren, 2004a). Monthly retail spending lifted from \$12.9 billion in June 2000 to \$16.3 billion in June 2004 (RBA 2004b).

The construction boom has been an important feature of the recent economic buoyancy. Dwelling approvals were running at about 10,000 per month when Howard was elected but have been tracking at approximately 14,000-15,000 since late 1999 (ABS, 2004b). There has also been a boom in non-residential construction, with commencements more than doubling in dollar value between 1994 and 2004. Key drivers for the boom have been offices and the retail and wholesale sector, with

1 It should be noted that when GDP per capita is used, Australia's record is somewhat less impressive.

2 Figures are for 'gross fixed capital formation for other buildings and structures, machinery and equipment, livestock and intangible fixed assets'. Seasonally adjusted.

factory construction and non-residential accommodation rather more muted (ABS, 2004b). The construction boom has been directly responsible for a rise in construction jobs by 40 per cent between August 1997 and August 2004 (ABS, 2004c). The housing component of the boom also lifted spending on household goods, which grew by 150 per cent in volume terms between 1995 and 2004, far outstripping other areas of retail spending (ABS, 2004d). The rise in house prices has given the illusion of wealth for many, and allowed home owners to borrow against their home equity, further pushing up consumer spending.

Rising consumer spending has been underpinned by relatively favourable trends in the jobs market. Employment grew from 9.03 million in January 2001 to 9.67 million in July 2004. Unemployment (seasonally adjusted) fell to 5.3 per cent in October 2004, well down on the figure of 8.0 per cent when Howard was first elected in 1996 (ABS, 2004e). Skill shortages are apparent, and private sector job vacancies rose from 65,000 in March 1996 to nearly 100,000 in February 2004 (ABS, 2004f). The wages share of national income has been remarkably steady at 56 per cent since Howard was elected in 1996 and has not moved by more than one per cent above or below that figure (RBA, 2004c).³ The tighter labour market is pushing up wages and unit labour costs. Enterprise agreements have been consistently delivering annual wage rises of 3.5-4.5 per cent since March 2001, well above the inflation trend of 2.0-2.2 per cent (RBA, 2004c). Average weekly ordinary time earnings (excluding overtime pay) for full-time adults rose at an annual rate of approximately five per cent between June 2000 and June 2004 (Parliament of Australia, 2004c).⁴

The economic growth and declining unemployment experienced over the past 12 years created something of a 'feel-good' factor which

3 The apparent conundrum of a stable wages share and a rising profit share is explained by the decline in the share of national income held by unincorporated small businesses and contractors, many of which have incorporated in the past two decades to take advantage of lower corporate tax rates (Uren, 2004c). Of some note, Australian Bureau of Statistics data indicate a small dip in the wages share in 2001-03.

4 Ordinary time average weekly earnings rose at an annual rate by only 3.1 per cent to June quarter 2004, but it is too early to tell if this is a new trend. Other evidence points to business sector fears of wage growth acceleration.

undoubtedly contributed to the electoral success of the Howard Government in the 2004 election. This factor can be demonstrated in a variety of ways. Following a dip in consumer sentiment with the introduction of the GST in July 2000, the Westpac Melbourne Institute consumer sentiment index has been trending upwards and in November 2004 was at its second highest level in 30 years (Uren, 2004b). Twice as many respondents to the Australian Survey of Social Attitudes (AuSSA2003), conducted in November-December 2003, agreed with the statement "People like me and my family have a good chance of improving our standard of living" as disagreed (46 per cent vs. 23 per cent) (Gibson *et al*, 2004).⁵ The jobs market was an important factor in creating a sense of optimism – only 12 per cent of workers surveyed in AuSSA2003 believed that they were likely to be retrenched in the next 12 months, and nearly one-half thought that it would be "easy to find a new job with another employer with similar wages and conditions" (Gibson *et al*, 2004).

In addition to the labour market trends, economic growth coupled with a steady rise in the ratio of taxes to GDP have channelled billions of dollars of tax revenue into the Government's coffers, allowing the Howard Government to buy off sections of business and the middle class potentially hurt by economic restructuring, including the sugar farmers and timber companies. The middle classes have also benefited disproportionately from the large subsidies outlaid on private health and private schools by the Howard Government which has been intent on commoditising a variety of public goods since its election in 1996.

Limits and Contradictions

It would appear from the analysis thus far that the Howard Government has enjoyed the benefits of both economic prosperity and a shift to a more conservative social and political mood in Australian society.

5 These results are based on 4,270 subjects (aged over 18) who responded to the mail-out/ mail-return survey. Those who carried out the original analysis and collection of the data bear no responsibility for the further analysis or interpretation of them. Hereafter referred to as AuSSA2003.

However, by examining the limits and contradictions to the current economic and political environment we can draw some very different conclusions, ones that do not bode well for the long-term survival of the Coalition government and its right-wing agenda. I investigate in turn the economic and ideological factors at work that lead to this conclusion.

Economic Contradictions

Sunshine for some...

Despite the picture of economic buoyancy and confident business predictions of continuing growth in the aftermath of the 2004 election, the situation is not as rosy as it might appear, most evidently for Australian workers. The rise in profitability in the 1990s which underpinned the past decade of growth has to be seen as part of a longer-term picture involving a rising rate of labour exploitation.⁶ According to Mohun (2003), between 1968 and 1981, real wages rose faster than labour productivity. The result was a falling profit share, which underlay Australian capitalism's economic malaise in the 1970s. From 1982 onwards, the pattern switched over. Between 1982 and 2000 real wages rose more slowly than labour productivity, boosting the profit share in national income and underpinning business prosperity in recent years.

Mohun (2003) breaks down the period between 1982 and 2000 into two sub-periods, from 1982 to 1991, and from 1991 to 2000. In the first period, the combination of the 1982-83 recession and Fraser wages freeze, followed by the ALP-ACTU Accord, cut the annual rate of growth of real wages to only one per cent (in 1986-88 real wages actually fell for three successive years). From about 1991, real wage growth began to accelerate, partly because of the introduction of enterprise bargaining and the collapse of centralised control over wages, and also because workers, usually without strikes and in the context of falling unemployment, began to win back a portion of higher productivity in higher wages.

6 The following analysis rests on Mohun (2003).

According to Mohun (2003), rising productivity and real wage cuts lie behind capitalist revival in the past 15-20 years in Australia. Underlying these trends have been the large-scale expenditure on information and communication technology (ICT), a weakening of the trade union movement, and a more hostile anti-union legal environment. Together, these factors have allowed employers to embark on significant reorganisation of work processes and work organisation in Australia over the past two decades. This has involved the shift towards part-time, temporary, casual work, labour- and agency-hire arrangements, outsourcing, unpaid overtime, 24 x 7 operations, and short notice call-ins.

The labour force is increasingly being polarised between the under-worked and under-paid on the one hand, and the over-worked and exhausted on the other. In terms of the former category, part-time workers accounted for 28.5 per cent of the Australian workforce in June quarter 2004 (ABS, 2004f). The same proportion (27.9 per cent) work on a casual basis, up from 16 per cent in 1984 (ACTU, 2004). Since the election of the Howard government in 1996, 35 per cent of all net new jobs created have been casual. Two thirds of the net increase in jobs between 2000 and 2003 paid less than \$600 per week (ACTU, 2004)

Official unemployment rates may have fallen to 20-year lows, but there is substantial under-employment – not just part-time workers who would like to work longer hours but also many of the 680,000 people on disability support pension, now more than the number on Jobsearch and Newstart allowances combined (Steketee and Dawkins, 2004).

At the opposite end of the hours spectrum, we see the growing numbers of staff working long hours (45+ per week). Nearly 30 per cent of those surveyed in the 2003 Australian Survey of Social Attitudes believe that their working hours are too long, and two-thirds agree that “too many people work long hours in Australia today” (Gibson *et al.*, 2004). In 2003, one million workers were working unpaid overtime, an increase of 24 per cent compared to 1996 (ACTU, 2004).

Inequality has also been climbing over the past decade and the bulk of the rewards of recent growth have gone to the wealthy. Between 1994-95 and 2000-01, average real disposable household income rose by eight per

cent for the low income bracket (predominantly those reliant on government pensions and allowances), by 11 per cent in the middle income, and by 14 per cent in the high income bracket (Uren, 2004d). The introduction of various family allowances in the run-up to the 2004 election boosted spending power in poorer families but not sufficient to compensate for their falling behind over a sustained period. Furthermore, these figures understate the real situation, as they do not take into account the effect of the GST which disproportionately hurt the poor. They do not factor in the impact of compulsory superannuation payments, effectively a form of privatised pensions, on workers' wages, and nor do they account for the impact of 'user pays' on working class households whereby many services which used to be provided free at point of delivery are now costly – the decline in bulk billing is just one example.

Executive salaries have mushroomed. Executive pay was on average 22 times greater than average weekly earnings in 1992. By 2002, it was 74 times greater. And when wealth is factored in, the differences become even more striking: ten per cent of the population hold 46 per cent of the wealth, and the top half have 93 per cent of all household wealth (Harding, 2002). Australian remains a clearly class-divided nation: even on publicly available data which most certainly underestimates the wealth of the super-rich, the top ten per cent of the population control half or more of the country's wealth-generating assets, specifically 86 per cent of all share values, 62 per cent of all rental properties, and 50 per cent of business assets broadly defined (Harding, 2002).

These trends indicate that Howard's period of economic sunshine has coincided with a significant shift in the balance of power towards the capitalist class, at the expense of the working class.

Limits to Growth

The second factor that sheds a very different light on the 'economic miracle' of recent years is knowledge of its internal limits. Several factors dim the prospects for continuing growth.

(i) Long-term decay in the world economy

Regardless of the immediate prospects for the world economy, which are currently reasonably positive, the contradictions in the world system have not disappeared. The dynamism of the OECD economies experienced in the 1960s has long gone. Comparative rates of economic growth in the 1990s versus the golden decade of the 1960s were as follows: USA: 3.2 per cent vs. 4.6 per cent; Japan: 1.3 per cent vs. 10.2 per cent; Germany: 1.9 per cent vs. 4.4 per cent; Eurozone 12: 2.0 per cent vs. 5.3 per cent, G7: 3.1 per cent vs. 5.1 per cent (Brenner, 2002, Table 1.10).⁷ Indicators of GDP per capita, labour productivity, real wages, and private business investment all follow a similar trend.

Underlying this slow-down is the long-term picture in profits. The rate of profit in US manufacturing fell continuously from 1965 to 1981. From that point on it began to revive under the impact of declining working-class living standards, investment in advanced technology, and workplace speed-up. Nonetheless, despite the growth of the 1980s and 1990s, the rate of profit is still lower than at any time between 1948 and 1968 (Brenner, 2002, Figure 1.1), and the years since the bursting of the bubble in 1999 have been characterised by jobless growth and rising unemployment. The rate of profit in German manufacturing has been falling continuously since 1953, while the rate in Japanese manufacturing has been oscillating wildly but has been on a clear downward trend since the late 1960s. Although the rate of profit in Australia is now at its highest since the 1960s, it is still one-sixth below its peak in 1969 in the context of a much less robust world economy. Australia as a trading nation cannot be isolated from long-term trends in the world economy.

In addition to these long-term trends, there are also some significant medium-term factors that could trigger a sudden halt to world economic growth. The most obvious trigger would be a melt-down in the US financial system given the country's huge twin deficits in budgets and international trade, the large overhang of household debt, and an overextended stock market. In addition, the Chinese economy could be dragged down by a crisis of overproduction on world markets (the trigger

⁷ See also Pollin (2003).

for the 'Asian' economic crisis of 1997-98), or indeed an economic crisis at home brought about by a collapse of speculative activity. This time, however, a new 'Asian' crisis would do rather more damage to the Western economies, given their increasing dependence on China as an export market (see below).⁸

(ii) Household debts and the potential for a speculative collapse

The growth of household debt and the construction boom of the late 1990s and early 2000s also impinge on Australia's economy and are a two-edged sword. On the one hand, they have fuelled the consumption and building boom which has created jobs and lifted living standards. On the other hand, booms turn into busts and debts have to be paid, with interest rates a key factor holding everything in the balance.

Dealing first with the housing industry, it appears that the housing boom is now over. After rising by 18-19 per cent in the years 2001-02 and 2002-03, house prices rose by 'only' 11 per cent in 2003-04 and, in June quarter 2004, fell by 1.2 per cent compared when compared to March quarter 2004, the first fall in four years (ABS, 2004g). Even the boom itself was a mixed blessing for Australian workers, benefiting those who own their own property outright but hurting younger workers and cutting home affordability. In 1996, 43 per cent of people owned their own home outright, with 28 per cent paying it off. By 2001, the figures had changed to 38 per cent and 32 per cent respectively (Uren, 2004d). The proportion of 25-39 year olds who own their own home has fallen by 10 percentage points in this time.

Any significant rise in interest rates will prick the housing bubble in two ways. First, it will hurt those who have taken out the huge loans that are now necessary to buy a house. It is estimated that it will only take a two percentage point rise in mortgage rates to have the same effect on borrowers' capacity to repay as the 17 per cent mortgage rate overseen by Paul Keating because the value of debts is so much larger today (Murphy, 2004).⁹ Second, by taking the heat out of the housing market, a

⁸ Thanks to John King for these points which I have incorporated.

⁹ The ratio of interest payments to income rose rapidly under the interest hikes of the 1980s to 9 per cent, fell back to 6 per cent as interest rates and house prices

rise in interest rates will liquidate the huge growth in nominal wealth enjoyed by many home owners, reducing their ability to borrow against the value of their home to finance consumption, and may precipitate margin calls from financial institutions against home owners who have used their home as collateral for investments in the stock market. In addition, it will contribute to the already evident paper losses experienced by those sections of the middle class who have bought investment units as a form of superannuation for their retirement.

Housing debt contributes to the problem of household debts more generally. Consumer spending has increased by \$110 billion over the five years to 2004. Total earnings have risen by only \$77 billion. The balance has come from running down savings and by taking out debt (Uren, 2004a). Household savings as a share of household disposable income have fallen from 14 per cent in 1983, when the Hawke Government was elected, to six per cent in 1996 to *negative* three per cent in 2004 (ABS, 2004h). Household debt to income ratios, by contrast, gradually rose from 35 per cent to 50 per cent between 1976 and 1990, but since then have grown exponentially to 75 per cent by 1996 to 150 per cent in 2004 (Murphy, 2004). Some of this is borrowing against the value of the home and is hostage to the housing market discussed already. Other debt has been racked up on credit cards – outstanding balances have more than quadrupled from \$6.6 billion to \$27.7 billion between March 1996 and March 2004 (RBA, 2004d).

A key weakness in non-residential construction is weak spending on public sector infrastructure, which often acts as a stabilising factor, and the dominance of the more volatile private sector. The entire growth in engineering construction between 1994 and 2004, for example, has been building by the private sector for the private sector. Construction for and by the public sector has been stagnant in real terms (ABS, 2004b). This imbalance between private and public sector construction is likely to exacerbate any potential downturn in the sector.

The dependence of the current economic buoyancy on consumer spending, household debt, asset price inflation, and private construction

subsidised in the early to mid-1990s, but has since jumped strongly to 9.5 per cent in 2004 (Murphy, 2004).

renders the economy susceptible to a speculative collapse and a subsequent sharp lift in unemployment on the lines of the 1890s and 1930s, albeit not of the same scale. A steep rise in interest rates in the context of high indebtedness and nil household savings would be the most likely catalyst for this to occur, pushing debts higher and depressing the price of property and shares. Given that interest rates are largely in the hands of the world financial markets and out of the control of the Australian Government, the Howard government has every reason to be concerned about its vulnerability on this matter.

(iii) Trade and debt

Despite years of economic reform, Australian trade patterns are still fairly traditional – the Australian capitalist class imports predominantly manufactured goods (electronic goods, machinery and equipment, aerospace, pharmaceuticals) and exports predominantly commodities and raw materials (gold, wool, coal, iron ore). Australian business exports significant amounts of alumina, which is included in manufacturing but is essentially a quasi-resource industry. There are some exceptions: Australia is now a significant exporter of relatively high value-added manufactured goods such as aerospace goods, cars and car components. Nonetheless the broad picture is little changed since the 1960s.

After years of the terms of trade (the relative price of exports versus imports) sliding against the Australian capitalist class in US dollar terms, the situation in the past two years has been strongly in its favour. Export prices are rising on world markets, and import prices are in decline. The rise of China since 2000 has been crucial in this development. First, Chinese demand for raw materials is insatiable. The Australian capitalist class is ideally situated, geographically and politically, to take advantage of this situation. The \$25 billion liquefied gas deal signed in 2003 may be just the beginning of major developments. Chinese iron ore imports have quadrupled in the past four years, and the Pilbara is working at full capacity to expand supply. Base metal prices climbed by nearly two-thirds in US dollar terms (63.4 per cent) in the two years to July 2004 in the face of this demand and are set to increase further in 2005-06 (Trounson, 2004). These developments are being felt most strongly by the resource states – most evidently Western Australia and Queensland. After years of trading water, shares in the resource sector are now

booming, rising by 47 per cent between June 2003 and July 2004 (RBA, 2004e).

But China is not just about resources and foodstuffs. Australian companies also have business prospects in financial and professional services. One case in point is higher education. Although enrolments by fee-paying international students at Australian universities declined in 2004, the proportion of Chinese students in the overall total has been rising steadily relative to those from Australia's traditional markets (Malaysia, Singapore, Hong Kong), and there is every prospect that this new source of international students will drive an absolute increase in enrolments in coming years.

China also matters for imports. China has now established itself as the world's leading platform for low-cost manufacturing, even if much of it is low-tech assembly. Billions of dollars of foreign investment from North America, Europe, East and SE Asia have poured into China. Australia is a small player by comparison. But Australian companies benefit because cheap Chinese textiles, clothing and footwear, household items and electronic goods keep a lid on wages for Australian workers – they reduce the socially necessary labour time required to reproduce the Australian working class, creating a windfall profit for the Australian capitalist class.

Nonetheless, despite this sunny picture for Australian business, the current account is once again drifting out of control, at \$12 billion per quarter, equivalent to six per cent of GDP, up from \$3.3 billion as recently as the September 2001 quarter.¹⁰ This is comparable to the deficit in 1986, when Treasurer Paul Keating declared that Australia was at risk of becoming a 'banana republic'.

The major contributor to the ballooning current account deficit is the rapid rise in the merchandise trade deficit, now running at approximately \$6 billion each quarter (RBA, 2004f). As recently as 2001 it was in surplus. This blow-out has arisen due to a slide in the value of exports and a sharp lift in the value of imports. In Australian dollar terms,

¹⁰ All data on values and volumes of exports and imports are sourced from RBA (2004f).

merchandise exports peaked in mid-2001, with rural exports having risen by 49.6 per cent since March 1996, resources exports by 70.0 per cent, and manufactures by 55.1 per cent. This increase was driven by both volume and currency factors. Volumes of exports rose fairly consistently across all three categories. In addition, although US dollar prices for resources and rural products declined on world markets between 1996 and 2001, the rapid fall in the Australian dollar more than compensated, allowing farmers and miners to gain more Australian dollars in return for a given tonne of iron ore or bushel of wheat.¹¹ Meanwhile, manufacturers benefited from a falling dollar which made their exports cheaper in world markets.

Between June 2001 and June 2004, the main variables shifted adversely against the Australian capitalist class.¹² Exports of rural products slid sharply in volume under the impact of the drought, recovering to their June 2001 level only in June 2004. Resources exports, despite the 'China effect', exhibited no trend increase in volume over this three year period, actually ending 3.5 per cent lower in June 2004. Exports of manufactures were the only bright spot for Australian business, rising by ten per cent in volume terms. In terms of prices, the US dollar price of rural exports rose very strongly, as did minerals. However, the sharp recovery in the Australian dollar (from 49 US cents in September 2001 to 76 US cents in January 2004) meant that prices for rural commodities fell in Australian dollar terms, and minerals prices were steady. Meanwhile, the rising Australian dollar and the general cheapening of manufactured goods on world markets meant that the money received by manufacturing exporters declined in Australian dollar terms. The result of all these factors was that the Australian dollar value of rural exports fell by 8.0 per cent, of resources exports by 9.2 per cent, and of manufactures by 3.6 per cent. After a steady rise over two decades, the value of exports is now falling as a percentage of GDP.

Meanwhile, the rising Australian dollar has made imported manufactured goods more attractive. Theoretically, this need not have any impact on

11 Commodity price data are sourced from the RBA (2004g).

12 All data on values and volumes of exports and imports in this paragraph are sourced from RBA (2004f). Commodity price data are sourced from the RBA (2004g).

the balance of merchandise trade if volumes rise at no faster than the decline in Australian dollar price (i.e. if price elasticity of demand (PED) is unity or less). However, the PED for manufactured imports is significantly greater than unity. The result has been an increase in the value of manufactured imports across the board, most especially for consumer goods and capital goods, where the value of imports rose by 27.5 per cent and 39.5 per cent respectively between June 2001 and June 2004.¹³ Over the term of the Howard Government, the value (in Australian dollars) of consumer goods imported has risen by 133.5 per cent, of capital goods by 73.4 per cent, and of intermediate goods by 48.7 per cent (RBA, 2004f). As a result, the total outlay on imports has shifted over time towards non-value-creating items (i.e. consumer goods) relative to goods necessary to fuel capital accumulation.

If merchandise trade is the major contributor to the growing current account deficit, it is not helped by other areas. Despite the huge growth of international students (education now being a significant 'export industry', along with tourism), trade in services runs at a small deficit (RBA, 2004h). Finally, there is the investments picture to consider. This is the balance of returns on overseas investments net of interest and dividend payments paid to foreign holders of Australian assets. Given that Australia has always been a large capital importer, this has always been in deficit and in 2004 was running at \$6 billion each quarter (RBA, 2004h).

In the short term, a current account deficit means that Australian living standards are being propped up by borrowing from foreign institutions (or by selling reserves of foreign currency). Australia's foreign debt rose from \$245 billion in December 1999 to \$394 billion in June 2004, or from 40.4 per cent to 48.5 per cent of GDP (Parliament of Australia, 2004d). All of this is accounted for by private debt, public debt having been effectively eliminated over the past decade. Foreign debt is not a problem so long as foreigners are happy to hold Australian debt, which they have been in recent years because of Australia's AAA credit rating

13 The volume of consumer goods, capital goods and intermediate goods imports rose by 48.3 per cent, 92.4 per cent and 32.0 per cent respectively between June 2001 and June 2004 (RBA, 2004f).

and relatively high interest rates (5-6 per cent since January 2001, as compared to 2.5-4.5 per cent in the EU, 1-2 per cent in the USA, zero in Japan) (Parliament of Australia, 2004e). However, the interest rate disparity may not last if the US continues to increase its interest rates. An attempt by the Reserve Bank to meet such a rise in Australia, in order to keep foreign banks buying Australian debt, would potentially spark off the housing collapse.

These three factors tell us something very important about the recent decade of 'economic sunshine'. It cannot last forever. And, when the economic storm hits Australia, as eventually it must, employers must once again go on the attack against workers jobs and living standards. The economic circumstances of world capitalism simply do not allow us to re-live the post-war boom. It is this fact that underpins the entire balance of forces between workers and employers in Australia and elsewhere in the OECD.

Ideological Contradictions

Evidence suggesting a widespread shift to more conservative social attitudes is impressionistic and highly limited. The regular surveys of social attitudes compiled by the Australian Social Science Data Archive tell a rather different story (Table 1).¹⁴

The data on basic class questions reveals a shift to the left in political attitudes since the late 1980s, consistent with the findings of authors such as Michael Pusey. Between 1987 and 2001 there was a clear trend increase in the proportion of respondents agreeing that "big business has too much power" and "income and wealth should be redistributed towards ordinary people". For some reasons not yet clear, the number fell

14 Tables 1 and 2 bring together two sources. Data from 1987, 1996 and 2001 are derived from the 'Australian Election Studies' (AES) of political and social attitudes which were conducted by a team of social scientists led by Ian McAllister, Roger Jones and Clive Bean (ASSDA Nos. 445, 943 and 1048). Data from 2003 are drawn from AuSSA2003, cited above. The AES, like AuSSA, are held in the Australian Social Science Data Archive (www.assda.anu.edu.au). As with AuSSA, those who carried out the original AES analysis and the collection of data bear no responsibility for the further analysis or interpretation of them.

sharply and against trend between 2001 and 2003, but this latter shift does not mean that people have been converted to a pro- business outlook.¹⁵

Table 1: Australian Social Attitudes, 1987-2003: Class Issues

	Percent Agreeing			
	1987	1996	2001	2003
Big business has too much power	50.9	64.6	71.6	59.6*
Trade unions have too much power	70.5	61.8	47.6	43.9*
Australia would be better off without trade unions (ACIRRT)		25.0	17.0	
Stricter laws should be introduced to regulate trade union activity	74.2	58.9	49.0	
Income and wealth should be redistributed towards ordinary people	45.7	47.1	55.8	43.7
Favour spending more on social services as against tax cuts	15.0	16.8	30.0	48.0
Favour tax cuts as against spending more on social services	66.0	57.1	42.0	27.9
High taxes make people less willing to work hard	79.9	74.0	59.4	

*2003: "Big business/ trade unions should have less power"

Sources: *Australian Election Surveys* (1987-2001) (computer files, various authors); Gibson *et al* (2004); ACIRRT (2003).

In addition to the data in Table 1, the 2003 Australian Survey of Social Attitudes reveals that two-thirds of respondents agreed in 2003 that "ordinary working people do not get a fair share of the nation's wealth", and 84.4 per cent agreed that "the gap between those with high incomes and those with low incomes is too large". Four-fifths (80.9%) agreed that "when big business breaks the law, they often go unpunished"; 78.6 per cent agreed that media ownership is too concentrated amongst a few rich

15 It is not clear if the sudden break with the trend is due to a methodological difference in data collection between the Australian Election Survey and the Australian Survey of Social Attitudes or a shift in values. Trends will be clearer when the 2004 AES or the 2005 AuSSA results are available.

families”, and 57.9 per cent agreed that “Federal Government is run for a few big interests” (Gibson *et al.*, 2004). These data demonstrate the continuing validity of class as a central construct in the world view of most Australians, Paul Kelly’s prognostications notwithstanding.

Rather than becoming more ‘aspirational’ (the Murdoch press) or ‘selfish’ (the Fairfax press), the majority of Australians exhibit a growing concern for the welfare of the broader community, evident in the shift over the past two decades in their answers to the survey question asking respondents to choose between “tax cuts” and “more social services” (Table 1). For the first time since the survey was conducted in 1987, more are in favour of social spending than tax cuts. Two-thirds (68.1% and 63.5% respectively) of AuSSA2003 respondents would be willing to pay higher taxes to fund health & Medicare and public schools. This is connected to the fact that 60 per cent of respondents to AuSSA2003 believed that the standard of health services (including Medicare) declined over the period 2001-03, and 42 per cent believed the same for public education.

Popular attitudes to trade unionism do not support the idea that declining union membership is the result of greater individualism or a desire to forego collective action in favour of the ‘ladder of opportunity’. Annual surveys conducted since 1996 for the NSW Trades and Labor Council demonstrate that approximately 50 per cent of the workforce answers positively to the statement “I’d rather be in a trade union” (ACIRRT, 2003). Although support for this statement was strong amongst ‘traditional’ sectors of the unionised workforce (e.g. labourers and related workers, intermediate production and transport workers (plant operators, road and rail transport), and tradespersons and related workers (all around 53-58 per cent), and was weak amongst advanced clerical and service workers (secretaries, personal assistants and book-keepers) (20 per cent), support for trade unionism was also strong amongst professionals (including teachers and nurses) (56 per cent), elementary clerical, sales and service workers (50 per cent) and intermediate clerical, sales and service workers (45 per cent).

When non-union members were asked by ACIRRT researchers why they had not joined, 28 per cent responded “no need to/ not worth it”, 23 per cent said “don’t know, no reason” (especially common amongst young

workers), 20 per cent said “no relevant union, no union available”, and only ten per cent said “I don’t believe in unions”. These responses suggest that many of those not currently union members could be attracted to join if union organising were more ambitious. They do not indicate that rampant individualism is the main deterrent to people joining a union. Much more significant a factor underpinning the decline in union coverage has been a clear shift towards a more aggressive employer attacks on unionism in the past decade, most evidently on the waterfront, but also in the meat industry, the mining industry, the airlines, and the construction industry (Peetz, 1999).

**Table 2: Australian Social Attitudes, 1987-2003:
Social Justice Issues**

	Percent Agreeing			
	1987	1996	2001	2003
Women should be able to obtain an abortion easily when they want one	38.6	53.5	57.6	81.1
Not enough movement towards EEO for women	19.5	31.7	37.9	
Land rights for Aborigines have gone too far	59.0	60.6	49.8	
Government help for Aborigines has gone too far		55.3	47.2	
The migrant intake should be cut*	49.9	63.0	34.9	37.0
Equal opportunities for migrants have gone too far		44.2	34.5	
Reintroduce the death penalty (for murder)	59.5	66.3	56.5	46.9
Stiffer sentences for breaking the law	87.8	80.8	74.3	70.5
Marijuana smoking should remain illegal	67.3	45.6	44.1	49.1
The right to show nudity and sex in films and magazines has gone too far	48.8	55.5	45.8	

*1987 figure derived from “no more migrants allowed in”, plus “only those from UK and Northern Europe”, plus “no Asians”; 1996 & 2001 = “the number of migrants has gone too far”; 2003 = “the number of immigrants should be reduced”.

Sources: *Australian Election Surveys* (1987-2001) (computer files, various authors); Gibson *et al* (2004).

Again, contrary to the popular idea that Australians have become more conservative on social issues, Table 2 demonstrates that popular

sentiment has been shifting against the Howard government agenda for some years.

Finally, it is worth considering the degree of public alienation from the mainstream institutions of Australian public life. The data in Table 3 denote a high degree of alienation in all the main pillars of the establishment, the important exceptions being the armed forces and the police.

Table 3: Confidence in Public Institutions, 2003

	Percent Expressing No Confidence*
Armed forces	17.3
Police	28.0
Australian political system	46.0**
Federal government	49.1**
Major Australian companies	54.1
Federal parliament	57.7
Public service	65.1
Australian political parties	67.4**
Legal system	69.5
Banks and financial institutions	72.9
Press	81.2**

* Percent expressing "not very much" confidence or "none at all"

**2001 data

Source: *Australian Election Survey* (2001) (computer files, various authors); Gibson *et al* (2004).

Taken together, the data in Tables 1 to 3 demonstrate a series of interesting trends. Generally speaking, there has been a general shift away from the values and priorities of big business and neoliberalism towards those of workers, trade unions, and 'ordinary people'. Economic rationalism is a dirty word now, and public provision of social services is strongly supported. A substantial minority of people now hold anti-sexist, anti-racist and anti-homophobic sentiments, and despite the best efforts of the media and governments, there is less hysteria about law and order. In other words, rather than there being a shift to cultural

conservatism, there has been a long-term shift leftwards in mass consciousness since the late 1980s. This shift has found expression in a variety of ways, all of which are distinctly unhelpful to the Howard Government. These include significant support for the struggle by the Maritime Union in 1998, the rise of the Greens (now polling 20-30 per cent in inner city Sydney, Brisbane and Melbourne), the popularity of public commentators such as Michael Moore and John Pilger, and the enormous attendances at the anti-war rallies in February and March 2003. Even one of Howard's trump cards, public opinion on the issue of refugees and 'boat people', has now turned against the Government, according to Morgan polling.

The problem that faces the left today, therefore, is quite different to that in the 1980s, when Thatcher and Reagan seemed triumphant, when economic rationalism, privatisation and the market were not widely regarded with contempt, and when intellectual debate on the left was slipping into the morass of postmodernism. However, there are certainly limitations to this shift. Even though popular attitudes have shifted to the left, this has not resulted in people identifying as 'left-wing' in a formal sense – only 17.2 per cent of respondents to the 2003 AuSSA survey identified as 'left of centre' (vs. 22.0 per cent right of centre) (Gibson *et al*, 2004). Furthermore, the decline of the trade unions and the weakness of the organised left in Australia more generally means that there are no organisations that can cohere and give expression to these mass sentiments on a more sustained basis. The failure of the ACTU to actively campaign against the Howard industrial and economic agenda gives members and the wider public little confidence in their effectiveness.¹⁶ As a result, the blow-ups that periodically break through the superficial calm of Australian political life quickly evaporate.

It is also important to note that the years of economic growth, rising wages, and falling unemployment have moderated the kind of political and social polarisation evident elsewhere. In the USA, for example, there is deep polarisation around the Bush administration. Economic restructuring in the USA since the early 1980s has seen wages for blue-

16 More than two-thirds of respondents to the AuSSA2003 survey indicated little or no confidence in trade unions (Gibson *et al*, 2004).

collar workers barely keep up with the cost of living (Pollin, 2003). Millions have actually experienced a decline. The social security system has been cut to ribbons. Now, the cost of the war is bearing down on the US budget, meaning that the attacks on the poor and workers by the Bush administration will have to be maintained in his next term. These trends help explain the half a million protesting against the Republican National Convention in August 2004.

Problems for the capitalist classes are even more acute in Europe, where economic stagnation for the best part of a decade has created a deep bitterness and loss of confidence in the ranks of the ruling class. Unemployment in France and Germany stands at 9-10 per cent and in Italy at 8.5 per cent (Parliament of Australia, 2004f), and there have been waves of national strikes and mass demonstrations. Half a million demonstrated across Germany against government cuts to state pensions and welfare state in April 2004. Tens of thousands took part in weekly protests in the former East Germany in September 2004 against Chancellor Schroder's Agenda 2010 plans to cut the welfare system, and the political situation is polarising between left and right. The German demonstrations in April 2004 were part of a Europe-wide coordinated day of action in 16 countries against unemployment and austerity by both social democratic and conservative administrations.

The relative buoyancy of the Australian economy explains why disenchantment has not reached the levels evident in Europe and North America. Australia has not experienced the kind of social and political polarisation evident in Europe with the rise of the far left and far right, and economic expansion has been an important reason for this, undercutting, for example, the appeal of Hansonism to her support base in small business and regional towns. Likewise, economic expansion (and employers' demands for more skilled immigration) has meant that the Howard Government has gone quiet since 2001 on demonisation of refugees.

Despite all these limitations, however, the constant work reorganisation, the job insecurity and speed-up associated with processes of mergers and acquisitions, the longer working hours for many white-collar workers, the rise in part time and casual employment, and the growth in inequality

underpin the sense of disenchantment with prevailing economic and social trends outlined in Tables 1-3.

Conclusions

Regardless of the growth in the Australian economy over the past decade, and even the emergence of the potential new giant, China, the Australian capitalist class cannot escape the inexorable decay in the world system and the system's own contradictions. The current 'economic miracle' cannot last forever. And, when the economic storm hits Australia, as eventually it must, employers will once more be driven onto the offensive against wages and jobs.

As always, political trends in Australia are linked to the world system. The Australian capitalist class has enjoyed exceptional economic success in the past ten years, at times out of sync with its major trading partners which have swung between boom and bust. However, the Australian ruling class cannot escape the crisis in the world system brought about by America's attempts to bomb its way to world supremacy. By signing up to the War on Terror, Howard has ensured that Australian politics are embedded firmly in the increasingly tense world situation, and a crisis in the US ruling class occasioned by a defeat in Iraq would be a stupendous blow to the arrogance of the Australian ruling class as well.

In summary, the conclusions that have been drawn by most commentators about the significance of the 2004 election result are substantially out of kilter with both the long-term ideological trends and the underpinning economic foundations. These trends suggest that coming years are likely to be characterised not by a long period of conservative ascendancy, economic prosperity and social stability reminiscent of the Menzies era, but by structural economic crisis and popular, if sporadic, political protest.

In these circumstances, whether the Coalition Government is called to account will largely rest on the strategy of the ALP. Labor's performance in recent years does not augur well – so concerned to assert its 'economic credentials' to business, the party leadership pursues a strategy that appears almost designed to cut itself off from its voting base. This schism

arises not because Labor leaders appeal to the 'inner-city elites' but because they do not seize the opportunity to capitalise on the steady shift leftwards in mass popular consciousness. Howard's victory in 2004 was, fundamentally, not the result of the alleged greed and selfishness on the part of the Australian electorate, but a failure of will on the part of the ALP to present a package of measures that could present a clear alternative to the programme of neoliberalism which has dominated establishment political and economic discourse for the past two decades and from which so many millions are now alienated.

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