

Going gangbusters?

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We are going gangbusters at the moment. We are certainly doing very well at the present time.

John Howard, 8 March 2002

The *Journal of Australian Political Economy* special issue on the long Australian economic boom is timely for two reasons. First, because its release comes at the end of the boom, allowing for a comprehensive overview of and a vantage point from which to appraise the long period of expansion which began back in 1992. Secondly, the contributors are generally critical of the neo-liberal orthodoxy, whose bankruptcy is now apparent.

The most obvious question to ask is: 'how were 16 years of expansion sustained?'

Michael Howard and John King, while citing many factors, evoke 'long wave theory' to explain the period. This theory, put forward by Russian economist Nicolai Kondratiev in the 1920s, postulates that in addition to short-run boom-bust cycles, the capitalist economy undergoes long-term upswings and downswings in price movements, accumulation and economic growth. Howard and King suggest that the period from 1992 represented the first half of a new global long wave upswing.

However, as G. A. Studensky, argued against Kondratiev 80 years ago that

A cycle means fluctuations within the framework of a fundamentally unchanged system ... [W]aves of technical progress must be interpreted, not as cycles, but as phases of reversible historical process of the

development of productive force which proceeds by jolts and is accompanied by crises.¹

That is, capitalism embodies a fundamental contradiction of development: the tendency of the rate of profit to fall as the ratio of investment in capital equipment rises relative to investment in labour.

The rate of profit is the fundamental gauge to judge the health of the system because, as Ashley Lavelle notes, it best 'reflects capitalists' propensity to invest'. The lower the expected return on investment, the less inclined bosses will be to outlay their capital, and the more inclined they will be to collectively intervene in the economy to create more favourable conditions of investment.

Long wave theory plays down or ignores this contradiction. It envisages a system of 'complex repetition'² in which the economy moves inexorably from one period to the next., which seems to be a more sophisticated version of the idea that the market is self-correcting.

Yet capitalism is a system in which technological advance adds productive capacity while also generating lethargy, stifling the dynamism of the system in the long term. This tends to undermine accumulation and results in profound crises, which lead to attacks on working class living standards and are often solved by extra-economic means like war or revolution.³

The long term tendency for the rate of profit to fall asserted itself globally from the late 1960s. As Philip O'Hara notes, the rate of profit in Australian industry declined through the 1970s and 1980s as the ratio of investment in capital equipment to outlays on labour power increased, and the rate of exploitation of the workforce declined between the 1960s and 1970s. This led to a period of lower growth and instability which saw 3 recessions in the 17 years from 1974.

The pattern reversed in the 1980s and 1990s as the ruling class took the offensive against organised labour. While the fundamentals did not move enough to restore the rate of profit to its 1960s peak, it seems they did move enough to provide a foundation on which a semblance of stability could be restored.

Yet despite this attempt by the ruling class to reverse their collective fortunes, Lavelle points out that the last 30 years have represented 'almost continuous decline' globally, and

1 Quoted in George Garvey, 'Kondratieff's theory of long cycles', *Review of economics and statistics*, 25 (4), November 1943, p. 213.

2 Leon Trotsky, 'The curve of capitalist development', from *Fourth international* New York, 2 (4), May 1941, www.marxists.org/archive/trotsky/1923/04/capdevel.htm, accessed 8 February 2009

3 For a systematic exposition on the law of the tendency of the rate of profit to fall, and a brief critique of long wave theory see Chris Harman *Explaining the crisis: a Marxist re-appraisal* Bookmarks, London, 1999, pp. 14-50 and pp. 132-136; On the centrality of the law see also Rick Kuhn *Henryk Grossman and the recovery of Marxism* University of Illinois Press, Chicago 2007.

that ‘the current [Australian] boom is best seen as part of the period of lower growth and higher unemployment that commenced in the 1970s’.

It was a period of immense change in terms of institutions and the regulatory environment, as well as ideologically with the supremacy of neo-liberal ideas over a discredited Keynesianism, and the collapse of state capitalism in the Eastern Bloc ironically marginalising socialist ideas. Christopher Lloyd and Geoff Dow in their articles point to a ‘new regime of accumulation’ and a particular ‘mode of regulation’ which have been established over the last several decades. This new framework represents ‘a shift of ideology, culture and public policy’ and the ending of commitments to social cohesion, consumer affluence and equality.

Their focus on these changes is useful, especially in highlighting local developments—the dismantling of industrial protectionism, the sidelining of a centralised wage setting and arbitration system and the process of privatisation of state assets. Yet such a discussion needs to consider the extent to which these changes were elements of a conscious attempt by the ruling class to force a rise in the rate of profit.

As Robert Brenner points out,⁴ the *global* move to neo-liberal policies resulted from the *failure* of previous institutional and regulatory arrangements not only in response to the collapse in profit rates and the global crisis of the mid 1970s, and the subsequent exacerbation of the problems into the 1980s.

Seen in this light, regulatory, institutional and ideological changes reflect less a qualitative shift in the capitalist system than a series of tactical and pragmatic moves by the ruling class, with an accompanying set of theoretical justifications. In fact, many institutional and regulatory changes—particularly those relating to protectionism and privatisation, as opposed to those which directly attack labour—can be (and are being) reviewed in light of their long-term effectiveness. So while U.S. President Nixon could embrace Keynesianism as long as it seemed to deliver, today ‘it’s *laissez-faire* [only] until you get into deep shit’.⁵

It is this dynamic of declining profitability, and then attempts to reverse the decline, that must be central to an evaluation of the period as a whole.

The most telling insights into the nature of the period since the 1970s come from those contributors who, like Lloyd, show how the 25-year ruling class offensive has shifted a significant share of national income from wages to profits. Lloyd finds the profit share increasing from 21 per cent of income in 1992 to 27 per cent in 2008 and contributed to a partial revival in the profit rate. The boom from 1992, explains Lavelle, was ‘built partly on good, old-fashioned increases in exploitation’.

This changing fortune of the wages share of income gives credence to Howard and King’s analysis that one of the central planks of the boom was the dramatic collapse of trade union

4 Robert Brenner *The economics of global turbulence* Verso, New York, 2006.

5 The ‘King of Wall Street’ John Gutfreund, cited in Michael Lewis ‘Hitting the wall’ *Australian financial review*, ‘Review’ section, 30 January 2009 p. 12.

power over the last 20 years. Unfortunately, this was a decline to which the trade union leadership contributed—most notably through their ‘Accord’ with the Hawke-Keating Labor Government, as Damian Cahill outlines in the journal’s final article.

There are a number of symptoms of the decline of organised labour and the transfer of wealth to the bosses—persistent underemployment, growing wealth inequality and increasing insecurity in employment—that point to a lop-sided boom in terms of income distribution.

Therese Jefferson and Alison Preston, focussing on the experience of women in Western Australia, find that the gender pay gap has widened, coinciding with two waves of industrial relations reforms that tipped negotiating power decisively toward employers.

National figures from Lloyd and Iain Campbell show that the transition to an ‘individualised, differentiated and market driven system of employment’ that has helped sustain the boom has also resulted in a rise in casual employment to 30 per cent of total employment.

Campbell provides useful data exposing the increase in the number of underemployed in Australia—those 30 per cent or so working less than full time hours who would prefer to work longer hours. During the last recession there was a significant rise in unemployment and underemployment, but as the expansion set in, bringing unemployment down from over 10 per cent to less than 4 per cent, underemployment remained high (5-7 per cent depending on the year and method of measurement), declining slightly only over the last few years.

This existence of high unemployment (at least double the average of the first decades after WWII) and underemployment is another sign, not only that the boom was not as equitable a period of expansion as that of the post WWII decades, but also that despite its longevity, it was not as strong. On the other hand, this experience suggests that the current sharp downturn has serious social ramifications, as workers were already struggling in ‘the good times’.

Nevertheless, while a generalised offensive against the working class and a changing institutional backdrop leading to an incomplete recovery in the rate of profit helps explain the 16 year expansion, it doesn’t go far enough in explaining Australia’s particular immunity to serious recessions in this period.

Other key factors, which a number of contributors point out, were the minerals boom particularly due to demand from China, and the explosion of consumer credit and household debt that sustained spending above incomes and sent private saving levels plummeting.

Ray Broomhill notes how the current account deficit climbed from \$16 billion in 1993/94 to \$59.2 billion in 2006/07 and Lloyd points out that mineral and energy exports rose from 29 per cent of merchandise exports to around 44 per cent over the same period. Lavelle observes that personal debt levels were, by the mid 2000s twice those during the Great Depression, with Australia’s debt servicing ratio the second highest in the OECD.

Several contributors argue that the scale of the current account deficit and personal debt are unsustainable, and a cursory glance at the business pages suggests they have already been proven right. The key factors in the good times have now become vulnerabilities—and may soon turn into liabilities.

In fact regardless of the theoretical diversity of the contributions, much of the information presented, when put together, suggests the downturn we are entering will be grim. During the boom, the manufacturing sector was already in long term decline. Organised labour was already in a parlous state. The economy was very dependent on income from mineral exports. Consumption was reliant on credit. Levels of poverty and inequality were already high. Under-employment was already substantial. And crucially, the rate of return on investment was already insufficient to drive serious and sustained economic growth.

There are clearly difficult times ahead, and it would be wishful thinking to suggest workers are not going to be hit the hardest by the downturn. Yet there is nothing *axiomatic* about how workers will fare in the coming period. The productive capacity of society is not fundamentally diminished by an economic crisis. Offices, factories and arable land do not simply disappear. There will still be plenty of food, plenty of raw materials and plenty of people willing to work. The objective conditions for *human* development do not deteriorate simply because capitalists are unwilling to invest.

Ultimately, the human cost of any failings in the system will not be determined by the latest Treasury figures, but by a struggle over the distribution of what *is* produced and over access to the productive equipment and land that will lie idle while working people are told there are fewer jobs.

Howard and King disagree, writing that trade unions ‘have no future, outside some parts of the public sector ... and a few residual areas of strength in the private sector’. But there is no reason to suppose that labour’s decline is inexorable, for crisis can provoke resistance, and we have seen that when unions conduct serious fights they can recruit and rebuild.⁶

If the coming economic crisis is not to be simply a misfortune for workers, then we will need more of these fights. Whether they happen will be determined not only by objective economic reality, but by the willingness of organised labour to go gangbusters in taking on employers and the government.

The diversity of theoretical perspectives represented in the special issue of the *Journal of Australian Political Economy* can be regarded as a weakness. Some will see this as an advantage, but I suspect that many people seeking a comprehensive overview of the Australian economy could walk away more confused about the economic situation than ever. The greatest strength in the issue, however, is the weight of the statistical research and the many contributions exposing John Howard’s myth that we never had it so good.

6 Diane Fields, ‘From exploitation to resistance and revolt: the working class’, in Rick Kuhn (ed.) *Class and struggle in Australia* Pearson, Sydney, 2005, pp. 55-73; Tom Bramble *Trade unionism in Australia: a history from flood to ebb tide* Cambridge University Press, Melbourne, 2008, pp. 239-252.

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