TROUBLING TIMES-THE GFC AND ITS IMPLICATIONS FOR REGIONAL PERFORMANCE.
PART TWO: AUSTRALIA

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Biographical Notes

Robert Stimson is a Professor in the faculty of Architecture, Building and Planning at the University of Melbourne in Australia, where he is the Director of the Australian Urban Research Infrastructure network (AURIN), a $20 million project funded by the Australian Government. An analytical human geographer and regional scientist, Robert Stimson has conducted research in regional economic development and planning, human spatial behavior, quality of urban life, housing, spatial disadvantage, and spatial decision support systems. He has published 48 books and monographs and more than 300 book chapters, journal papers and conference papers in these and related fields over the last 45 years. Professor Stimson is a Fellow of the Academy of the Social Sciences in Australia. Well known in regional science circles, he was one of the founders of the Australia and New Zealand Section in the mid 1990s, and is a Life member of that association. He is a Past President of RSAI and is a Fellow of RSAI. He is also a recipient of the JP Thomson Medal awarded by the Royal Geographical Society, Queensland.

Abstract

The Global Financial Crisis (GFC) was a profound exogenous shock which has had profound impacts the performance of national economies and the regions within them. The differential outcomes are vast. In many parts of the world there is evidence of what is being referred to as the ‘two-speed’ economy - or even a ‘multi-speed’ - economy. This has implications for regional economic development theory in which, over the last two to three decades, there has been an increasing emphasis

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on endogenous growth with much of the emphasis in regional policy focusing on the roles of leadership and institutional factors to harness improved capability for regions to better utilize their resource endowments. However, shocks such as the GFC change the relative influences of exogenous and endogenous processes in regional development and performance, and the ‘two-speed’/‘multi-speed’ economy phenomenon is posing a challenge for how we conceptualize and practice regional development. The contrasting empirical contexts for discussing the impacts of the GFC are the US, Europe and Australia.

**Keywords:** Regional Development; Endogenous Factors; Exogenous Factors; Global Financial Crisis

**JEL Classification:** R11, R58

**Australia’s ‘two-speed’ Economy: or is it ‘three-speed’?**

Resource rich countries such as Australia, Canada and Chile actually did not officially go into recession during the GFC. After just one quarter of negative growth in GDP, in the March quarter of 2009, GDP growth in the next quarter in Australia was 0.4%. It was one of only two advanced national economies to grow in that quarter.

In a speech by Australian Treasury official, Steven Kennedy (2009), made this comment:

“…on any number of measures, such as unemployment and the stability of the financial system, Australia is doing better than most other advanced economies.” (p. 1)

He put that down to the following factors:

- the timely response of the Australian Government (a large fiscal stimulus incorporating a housing package, cash hand-outs to households, and an infrastructure component) and the Reserve Bank of Australia (rapid reductions in the official interest rates);
- Australia’s strong trade with China in particular and Asia in general; and
- the strong state of Australia’s banking system.

Although only the 14th largest economy in the world (based on market exchange rates in mid-2009) with an annual GDP of a little over US$1 trillion, Australia’s highly trade exposed economy is certainly riding high on a resources boom creating what is termed the ‘two-speed’ economy. The outcomes play out differently in different sectors of the economy and in different regions creating marked differentials and disparities for people and places.
The resources boom: Triggering the ‘Dutch disease’?

Economist Max Corden (2001: p. 2) points out that between 2005 and 2011:

- the mining sector grew by about 90% compared with growth in the economy as a whole of 43%;
- the value of mining exports increased by 140%;
- terms of trade increased by 41%;
- non-mining sectors in the economy increased in value by 37%; and
- there was a real appreciation in the A$ of 37%.

Corden says that the currency appreciation has had:

“…an adverse effect on at least some (and perhaps many) import-competing and non-mining export industries. These were the losers from the mining boom.”

It is a reflection of what is termed the ‘Dutch disease’.

Thus there is much talk of a ‘two-speed economy’ - or possible a ‘three-speed’ economy:

“… The fast moving part is the Booming Sector, the slow moving or even declining part is the Lagging Sector, and the rest - where there are more likely to be gains - is the Non-tradable Sector.” (Corden, 2001: p. 2)

It is the ‘lagging’ sectors that are the locus of concern in the ‘Dutch disease’, and those industries are the losers in the multi-speed economy. The ‘lagging’ non-boom sectors might include manufacturing, services such as tourism and education, and perhaps agriculture.

But the mining boom is spatially specific and is it is particularly dominated by just two states; Western Australia and Queensland, plus, to a lesser extent, New South Wales.

Investment is flooding into mining projects. Even during the height of the GFC, the sector was attracting an annual investment of about A$ 30 billion, and that has escalated to what is likely to be about A$ 140 billion over the next year. Significantly, a considerable amount of that is foreign investment. Off a small base of only a little more that 3% of the national employment, the number of

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2The Dutch disease refers to the adverse effects through real exchange rate appreciation that a boom can have on export and import competing industries.
jobs in mining is surging, with a 40% increase over the last three years with labour shortages creating high remuneration for even low-skilled jobs in mining operations that tend to be in remote locations.

Exports by the mining sector have been booming. During the last fiscal year, iron ore exports increased by 66%, natural gas by 32%, coal by 20%, crude petroleum by 23%. Commodity prices have been particularly strong, and outputs have increased fast because of capital investments with the inflow of foreign funds. Labour shortages have driven up real wages in the sector. An appreciating A$ has resulted.

However, as explained by Corden (2011):
“… some of the spending goes on imports, on the remittance of dividends abroad, and on the purchase of foreign assets of various kinds. These involve an outflow of funds from Australia and thus depreciate the exchange. But there is still a net appreciation of the currency. Imports and the various other outflows just moderate the initial appreciation.” (p. 3)

The Reserve Bank of Australia expects mining to soon account for about 40% of all business investment. Overall, the mining sector has been growing at around 5% per annum. Services to mining are growing at an incredible rate of 20% a year, with much of that growth being spatially concentrated in cities like Perth, the capital of Western Australia. Growth in the mining sector is likely to accelerate as massive new projects start production that will generate huge revenue streams.

At the regional level, the resources-related boom is starkly evident. For example, Ryder (2012) reports that in the port town of Gladstone on the central Queensland coast - which serves the coal and LNG regions of central Queensland and processes minerals - currently there are seven projects being constructed with A$55 billion investments generating about 18,000 construction jobs. There are a further nine projects in the pipeline involving A$25 billion investments and a further 11,000 construction jobs. Over the decade up to 2008, investments in Gladstone totaled just A$ 20 billion. The median house prices in Gladstone have rocketed up from A$ 230,000 in 2005 to A$400,000 in 2010. Housing shortages and affordability are major issues. The Gladstone experience:
“… is not unique; there are similar scenarios across Australia, including Port Headland, and Karratha in WA, the Bowen and Surat basin areas in Queensland, and the Hunter region of NSW.” (Ryder, 2012: p. 32)
All this growth is occurring on the back of rapid economic development and urbanization in China in particular, with exports to that market increasing by almost one-quarter in the last fiscal year. But, despite this overall boom in the mining sector, there is now some talk of a ‘two-speed’ mining sector, in which iron ore is forging ahead while the rest, including coal, is lagging somewhat.

The other part of the resources economy is agriculture. It has been recovering from the prolonged drought. But over the last fiscal year the agricultural sector’s export growth has also been strong - at 50% for wheat and almost one-third for wool in the last year. However, the sector continues to shed jobs, with its share of total employment continuing a long-term decline.

**Poor performance in the ‘other’ economy**

The growth of the mining sector - which is experiencing labour and skills shortages - is said to be sucking resources out of other sectors of the national economy such as manufacturing. This, along with the rapid revaluation of the A$ from US75 cents to now well above parity with the US$, is being blamed for problems evident in the non-resources sectors of the economy squeezing export competitiveness in many industries.

In contrast to mining, the non-mining part of the economy is creeping along at only 1% growth per annum, and the non-mining sectors’ share of the national economy has declined. Australia’s manufacturing exports grew by less than 6%. For exports in the services sectors, there was a 12% decline in exports for education, almost 3% for tourism, and 0.5% for professional services.

In the post-GFC years, the ‘two-speed’ or ‘three-speed’ economy is resulting in significant economic restructuring. But despite that, Australia’s unemployment rate remains very low in international comparative terms - especially in the context of most OECD nations. The unemployment rate is not much above 5%, having bottomed out at less than 6% at the height of the GFC. But under-employment is estimated to be about 7.5%, so there is space capacity in the labour market.
Distributionaland spatial outcomes

It is noteworthy that of the almost half-million jobs created in Australia since the GFC, 304,000 went to men and 187,000 went to women. Journalist George Megalogenis (2012) describes an interesting phenomenon where:

“… lower skilled men have been doing better than lower-skilled women in the job market since the bottom of the global financial crisis.” … “At the top of the corporate ladder, women are gaining on men in management and extending their lead in the professions. The restructure of the economy is defying the previous patterns of deregulation when the pink collar trumped the blue collar across the board.” … “The mining boom is restoring some of the former glory for men in the brawn economy, while a redivision of labour is emerging in services as men move into traditional female areas.” (p. 5)

Despite the resources boom, mining continues to be a relatively small provider of jobs, even though it added 45,000 jobs over the last year, which is a phenomenal increase of 22%. The other sector with big jobs gain was public administration with 35,000 new jobs (+4.9%), and there have also been significant gains in health and education sector jobs. Once the leading employer, the retail trades have slipped to second place to be overtaken by employment in health care and social assistance jobs, with men are now taking more of the jobs growth in some parts of that sector than women.

But there were job losses of:

- 9,000 in food and accommodation (a decline of -7.4%);
- 46,000 in transport, postal and warehousing (-7.7%);
- 35,000 in the retail trades (-2.8%);
- 30,000 in wholesaling (-7%); and
- 24,000 in manufacturing (-2.4%).

The manufacturing sector in particular is attracting a lot of attention as it sheds jobs. There have been closures and downsizing of food manufacturing plants, some in rural centres with hinterlands in ‘food bowl’ regions. Those firms are often parts of multi-national corporations whose decision-making is exogenous to what are highly productive agricultural regions, and the food processing plants are significant local employers with job losses being devastating for the affected local economies.
Employment downsizing is also occurring in other manufacturing sectors - including clothing, steel plants, automobile plants located in outer suburban sites in two major metro-cities, and aluminium plants located in some key regional towns. It is significant that the jobs losses in manufacturing are largely in those industries that developed under prior protection policies of high tariff walls while in contrast some of the elaborately transformed manufactures are doing rather well with export success.

Tourism - once a strongly growing export sector - is also struggling especially under the high A$ - and it is always challenged as a result of the long distances in Australia. And the retail sector has depressed sales and is experiencing job losses.

The patterns of restructuring that are occurring post-GFC in employment in the leading industry sectors are illustrated in Table 1.

<table>
<thead>
<tr>
<th>Industry: top 5 sectors</th>
<th>Feb 2009 # jobs</th>
<th>Feb 2009 % all jobs</th>
<th>Industry: top 5 sectors</th>
<th>Feb 2012 # jobs</th>
<th>Feb 2012 % all jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail trade</td>
<td>1.23m</td>
<td>11.3%</td>
<td>Health care and social assistance</td>
<td>1.35m</td>
<td>11.8%</td>
</tr>
<tr>
<td>Health care and social assistance</td>
<td>1.17m</td>
<td>10.7%</td>
<td>Retail trade</td>
<td>1.21m</td>
<td>10.6%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1.12m</td>
<td>9.4%</td>
<td>Construction</td>
<td>1.02m</td>
<td>8.9%</td>
</tr>
<tr>
<td>Construction</td>
<td>0.99m</td>
<td>9.1%</td>
<td>Manufacturing</td>
<td>0.97m</td>
<td>8.5%</td>
</tr>
<tr>
<td>Education and training</td>
<td>0.80m</td>
<td>7.4%</td>
<td>Professional and technical services</td>
<td>0.88m</td>
<td>7.8%</td>
</tr>
</tbody>
</table>

Source: Australian Bureau of Statistics and *The Australian*.

While Australia has escaped the serious negative impacts of the GFC that have been evident in the US and Europe, nonetheless the ‘two speed’ economy phenomenon has been impacting negatively on many parts of the Australian economy and on particular regions. While the national unemployment rate
remains low at only 5.3%, there are marked spatial differentials in regional rates of unemployment (see Figure 1).

For example, in the State of Victoria, it has been suggested that the effects of the GFC have been:
“… more pronounced in the areas that have less diverse economies or were already facing economic hardship” (Municipal Association of Victoria, 2009: p. 4).
In that State’s non-metropolitan areas, in early 2009 unemployment was 6.8% compared to the national average of 5.2%. In general many of the State’s rural regions were in a relatively poor economic state that the capital city metropolitan area prior to the GFC and have remained so or deteriorated further following the GFC.

The structural adjustments that are occurring in the ‘two speed’ economy render some regions highly vulnerable, and that is also the case in some parts of the major metropolitan cities vulnerable to an exogenous shock such as the GFC. That is as demonstrated by an Employment Vulnerability Index (Flannigan and Mitchell, 200; Baum and Mitchell, 2009) which is illustrated in Figure 1 for metropolitan Melbourne. The ‘red alert suburbs’ are identified as being particularly vulnerable.

**Figure 1. Regional differentials in rates of unemployment in Australia**
Policy considerations

Australia’s vast distances, low population densities, and a 70% concentration of the nation’s population in just five mega-metro regions that are separated by long distances, means that distribution costs represent a substantial component of final product prices (for example 43% for a major bread manufacturer). The rapid recent revaluation of the A$ to above parity with the US$ is biting hard on the competitiveness of manufacturing sector exports. In addition, there has been a 35% increase in electricity costs over the past three years, with estimates of a doubling in prices over the next five to seven years, with gas prices also forecast to increase significantly. The Federal Government’s carbon tax due to start in July 2012, along with the winding back of the previous government’s reforms deregulating the labour market, are yet to bite.
As a result of the GFC and the ‘two speed’ or ‘three speed’ economy phenomenon, Corden (2011: p. 6) poses this question:

*Can one say that there is a national or Australian community gain or loss?*

He says there is a gain in two senses:

- “first, there is a potential gain for the whole community through the increase in tax revenue coming from the Booming Sector - at least provided that the money is wisely spent by the government.
- “secondly, one could argue that in the (Pareto) compensating sense there is a national gain when the gains from the boom are potentially able to compensate the losers, the latter being primarily in the Lagging Sector.” (p. 6)

But Corden also says:

“…since full compensation never takes place, there will always be losers, in this case possibly with substantial losses. And that - to repeat - is the Dutch Disease problem.” (p. 6)

Corden (2011) has argued that there is a case for measures that might ease the high exchange rate. He suggests that given Australia’s floating exchange rate regime, the policy options are:

1. *Do nothing*- while policy might help the adjustment process, it is best not to stop or slow the process.
2. *Piecemeal protectionism*- which usually focuses on selective parts of manufacturing, or even particular firms, for special assistance, running the danger of ‘picking winners’ in protecting the inefficient and bowing to interest groups.
3. *Establish a Sovereign Wealth Fund*- financed through a special tax on the profits of the booming mining sector, generating a partial sharing effect from the boom and building a future ‘nest egg’.

The rapid growth in mining has certainly been forcing supply-side changes, and some economists are arguing that this requires supply-side reforms to maximize the benefits of resources boom and encourage economic resources to shift from lower value to higher value industries.

There is something of a populist push in some quarters for a return to protectionist interventions. Not surprisingly there have been considerable industry-specific, union-backed, and local community-agitated calls for government interventions to provide subsidies to shore-up local production and
employment, calls which are attracting governments to come to the party providing industry assistance. This is occurring with the federal government having announced yet further bail-out funding to the auto industry, this time more than A$250 million to General Motors to ‘guarantee’ a further decade of production in Australia.

But the biggest issue for the non-mining sectors is to achieve productivity gains. As discussed at length by Parham (2012), multi-factor productivity has been in decline since the early 2000 and it has been manufacturing that has made the greatest contributor to that productivity slump which relates to the structural adjustment pressures arising out of the resources boom which have created a favorable balance of trade but without productivity gains are unlikely to provide sustained gains in prosperity. If productivity gains were to be achieved, that would make it easier for the Reserve Bank to lower the cash rate - which would likely reduce capital inflow and increase outflow and depreciate the A$\(^3\) - but which it is not doing because of concerns about inflation. Journalist Paul Cleary (2012) recently put the case that the contradictory forces playing out in Australia’s economy should represent:

“… a catalyst for government and business to redouble their efforts to boost Australia’s competitiveness, but some fear that the mining boom is making Australia even more complacent.”

(p.15)

That is needed to address what has been a trend of overall declining national productivity in spite of the seemingly never-ending resources boom.

**Conclusion**

I have discussed then GFC as a major exogenous shock impacting national and regional economies around the world, and have highlighting how it has impacted different parts of the world in different ways, as illustrated in the examples of the US, Europe and Australia. One is inclined to agree with French, Leyshon and Thrift (2009) that the GFC was a ‘*very geographical crisis*’.

But as Garretsen et al. (2009) have emphasized, we need to recognize that there was an initial *financial crisis* which led to an *economic crisis*, and that:

\(^3\)Currently the A$ is the 5\(^{th}\) most traded currency in the world.
“...the geographies of the two crises are likely to be different and will be determined by the mechanisms through which the former is transmitted to the latter - as the decline in world income and trade and the inability of producers and consumers to borrow to invest and consume will have different spatial impacts and amplitudes.” (p. 147)

They remind us that:

“… There is in fact considerable evidence that ‘money and space’ are still closely intertwined - geography has evolved and changed but its ‘end’ is not in sight. This will become even more apparent as the fallout and complex repercussions of the current financial crisis continue to feed through to the real economy throughout the globe.” (p. 147)

What the GFC clearly demonstrates is that:

“… finance may have gone global”, [but its] “complex circuits are profoundly spatial in their operation and impact.” (Garretsen, et al., 2009: pp. 147)

Certainly internationally the contrasts in the post-GFC world are stark:

1. Growth has boomed even though it has slowed a little in China (but it is still high); and India and a lot of the rest of Asia continue to display reasonably strong economic growth.
2. Resource rich countries like Australia are riding on the back of that continuing growth; but ‘two-speed’ or even ‘three-speed’ economy has emerged.
3. Europe is in a slump; many countries remain in recession and some including the UK and Spain have dipped back into it; and the heterogeneity of the national and regional outcomes is very considerable.
4. In the US growth has returned, albeit at a somewhat disappointing rate; companies are adding capacity through spending on equipment even though corporate earnings per share of companies in the S&P 500 declined a little in the last quarter of 2011 after successive quarterly increases from mid-2008; but there are marked regional variations in economic performance.

It seems that the case that for many countries and regions the scope for export-led growth has been severely diminished. And the continuing tightness of credit, government budgetary austerity, and consumer reluctance to spend are having a stifling effect on business growth.

\[\text{Based on data from Thomson Reuters and US Department of Commerce.}\]
While globally integrated financial market may have had benefits, the impacts of the GFC demonstrate that major risks are inherent and there is a need for institutional reform of the international financial architecture (Claessens et al., 2010a: p. 1).

How to manage responses to the crisis has certainly been a major institutional challenge - both nationally and internationally - and much of the evidence thus far from the policy responses does not always inspire confidence. Generally there has been a “lack of internationally consistent and coherent policies”(Claessens et al., 2010a: p. 2). The GFC has highlighted the need for policy-makers to: “…watch many targets, including the composition of output, the behavior of asset prices, and the leverage of different agents” (p. 28).

While they have more instruments at their disposal than they had pre-crisis, the challenge is to “learn how to use these instruments in the best way” (p. 28). And there is a need for governments to better plan their exit strategies from their interventions.

The spatially heterogeneous impacts and outcomes of the GFC is certainly due at least some degree to regional endogenous factors reflecting prior conditions - especially structural - and overall regional resource endowments, which have either enabled some regions to weather the storm better than others or has rendered the more vulnerable to suffer deleterious outcomes.
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