The resources boom and structural change in the Australian economy

Victoria University

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Australian Treasury
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Outline

➢ The resources boom
➢ Structural change in the Australian traded sector
➢ Policy Responses
➢ Is the resources boom an example of Dutch disease?
Terms of trade
(Index 1900-01 to 1999-00 = 100)

Trend: 1965-66 to 1985-86

Source: ABS Catalogue Number 5206.0, RBA and Treasury.

Australia’s export shares
(Value)

1999-00

Rest of World 17%
Japan 11%
US 11%
Korea 6%
China 4%
India 3%

Source: ABS Catalogue Number 5365.0.
Australia’s export shares (Value)

1999-00

- Rest of World: 4%
- Japan: 11%
- Korea: 6%
- China: 2%
- India: 2%

2009-10

- Rest of World: 6%
- Japan: 15%
- Korea: 7%
- China: 21%
- India: 8%

Source: ABS Catalogue Number 5365.0.

GDP per capita (Per cent of OECD-15 average)

Note: OECD-15 = Australia, Austria, Belgium, Denmark, Finland, France, Iceland, Ireland, Netherlands, Norway, Sweden, Switzerland, UK, US and Canada.

Source: The Conference Board Total Economy Database and Treasury.
Urban population shares

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Source: United Nations population database.

Consumption per capita

### Aluminium

- **China**: 0, 130, 260
- **India**: 5, 15, 20
- **Japan**: 25, 50, 75
- **United States**: 75, 150, 225

### Finished steel

- **China**: 0, 130, 260
- **India**: 5, 15, 20
- **Japan**: 25, 50, 75
- **United States**: 75, 150, 225

Source: ABARE, Steel Statistics Yearbooks and Treasury.
Indicative life of Australia’s non-renewable resource stocks

Note: Stock resources at end of 2009 and based on 2009 production. * indicates stock resources at end of 2008 and based on 2008 production.
Source: Geoscience Australia.

Australian real exchange rate
(Post-float average = 100)

Source: Reserve Bank of Australia and Treasury.
Australian employment and investment

Employment

Investment as a share of GDP

Mining and Construction

Manufacturing

Source: ABS Catalogue Numbers 5206.0, 6204.0, 6391.0.55.003 and Treasury.

Net tourism and the exchange rate

Trade Weighted Index (LHS - Inverted)

Short-term overseas arrivals minus departures, monthly (RHS)

Source: ABS cat. no. 3401.0 and RBA.
Policy Responses

➢ Counter-cyclical fiscal policy – already doing that to a considerable extent

Commonwealth fiscal consolidation
(change in underlying cash balance)

Source: Mid-Year Economic and Fiscal Outlook, November, 2010.
Policy Responses

- Counter-cyclical fiscal policy – already doing that to a considerable extent
- Mining tax – even a mining tax that has a minimal effect on investment incentives will reduce size of the income shock, provided tax revenue is saved (e.g. in higher public saving or in superannuation).
- Reduce impediments to labour mobility (enhance flexibility generally)
- In declining sectors – support workers not firms

Policy Responses (continued)

- Respond to skill shortages with:
  - Immigration, which reduces the extent to which declining sectors have to actually shrink, and
  - Participation-friendly reform – again reduces the extent to which declining sectors have to actually shrink
Dutch disease?
(Gregory effect)

- Discovery/exploitation of Dutch natural gas field in 1960s-70s drove up Dutch exchange rate; led to decline in Dutch manufacturing sector, and rise in unemployment
- Fear about harming Dutch industrial structure consistent with longer term comparative advantage
- Of what relevance to Australia’s current circumstances?

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Back pocket

State and Commonwealth fiscal consolidation
(change in underlying cash balance)

Year 0 Year 1 Year 2 Year 3 Year 4

Source: Commonwealth 2010-11 MYEFO, 2010-11 state budgets with the exception of NT 2010-11 MYEFO, ABS GFS