



Australian Government
The Treasury

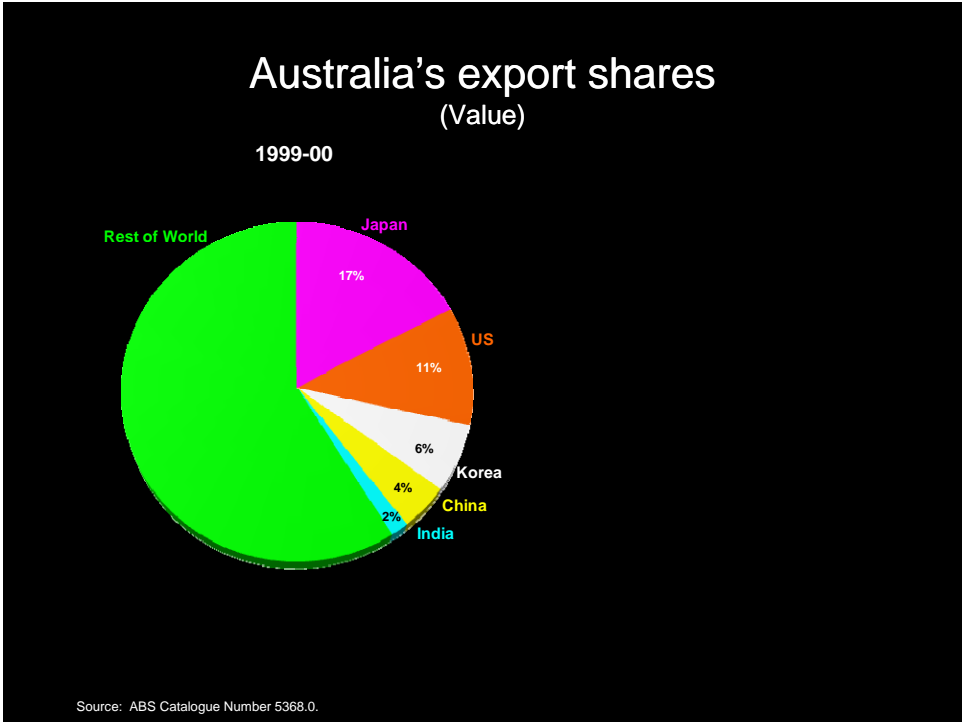
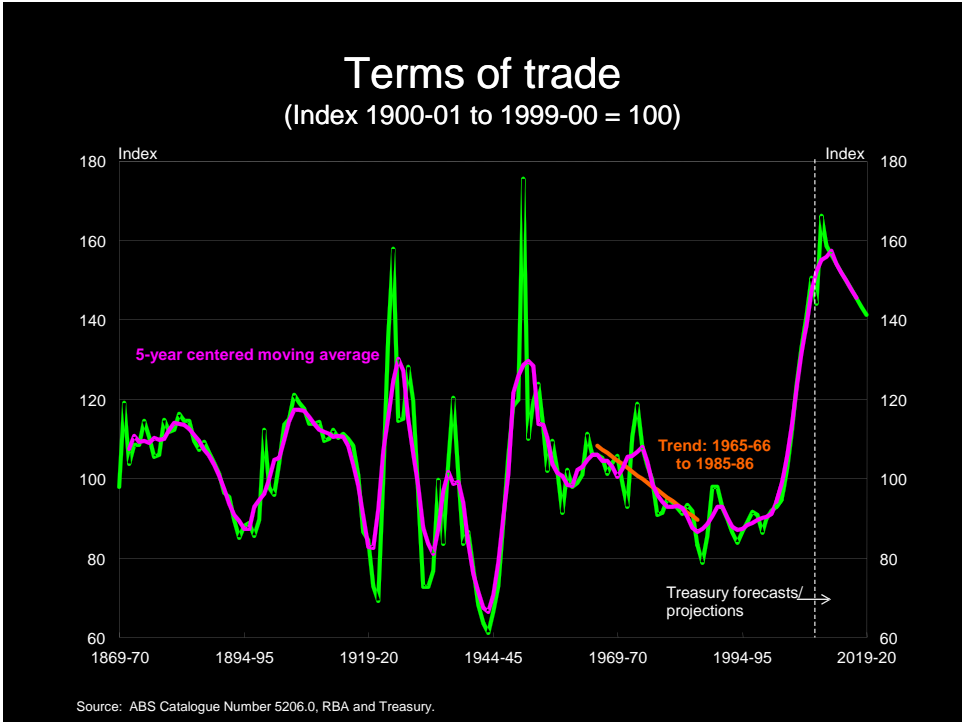
The resources boom and structural change in the Australian economy

Victoria University

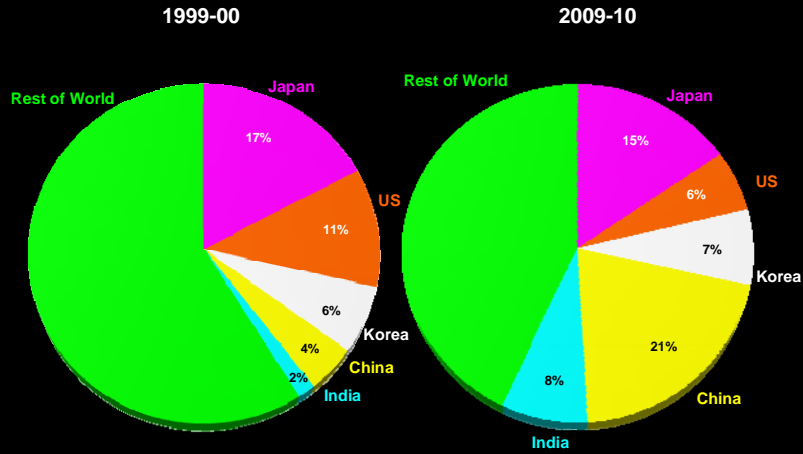
David Gruen
Australian Treasury
23 February 2011

Outline

- The resources boom
- Structural change in the Australian traded sector
- Policy Responses
- Is the resources boom an example of Dutch disease?

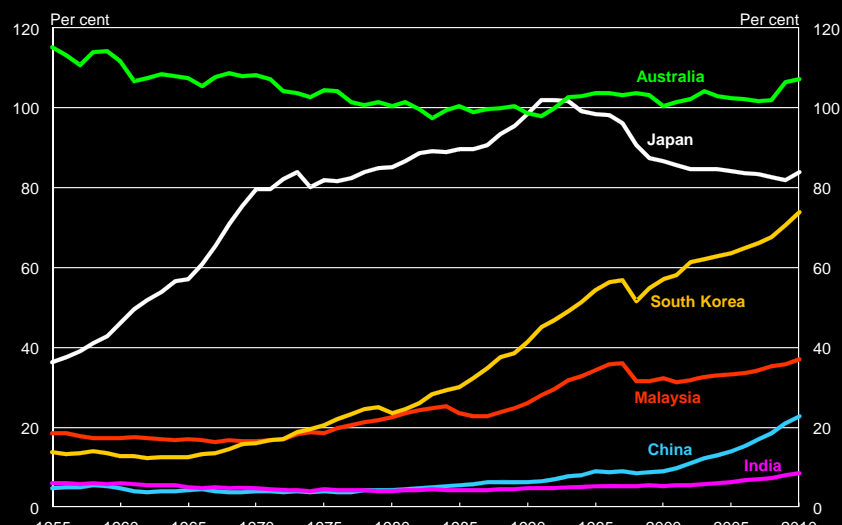


Australia's export shares (Value)



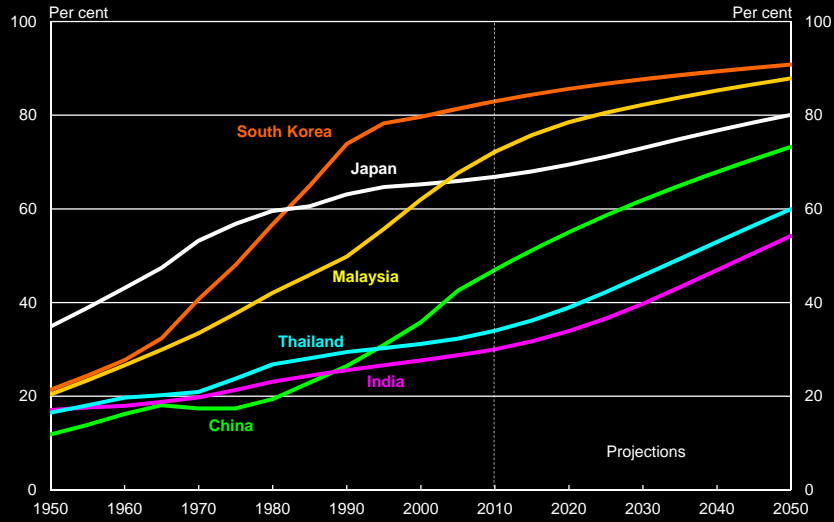
Source: ABS Catalogue Number 5368.0.

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



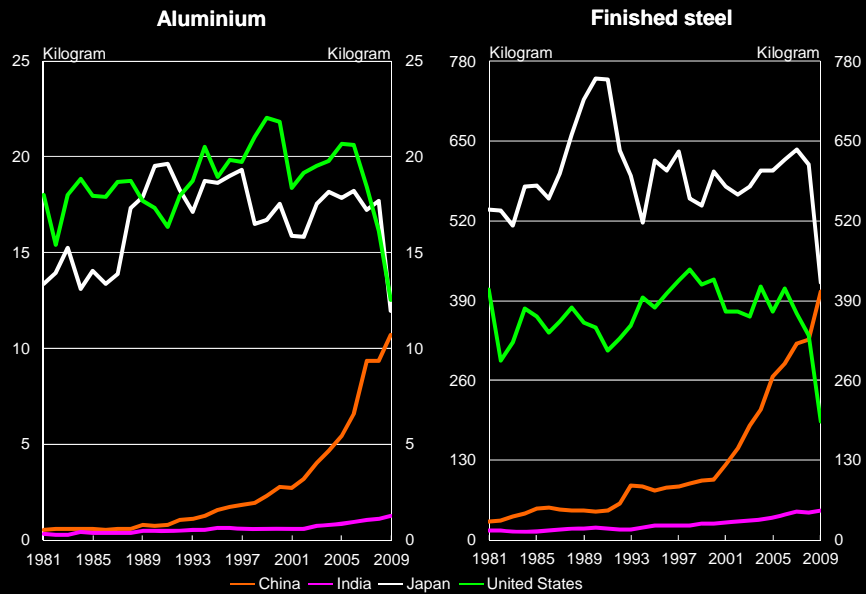
Note: OECD-15 = Australia, Austria, Belgium, Denmark, Finland, France, Iceland, Ireland, Netherlands, Norway, Sweden, Switzerland, UK, US and Canada.
Source: The Conference Board Total Economy Database and Treasury.

Urban population shares



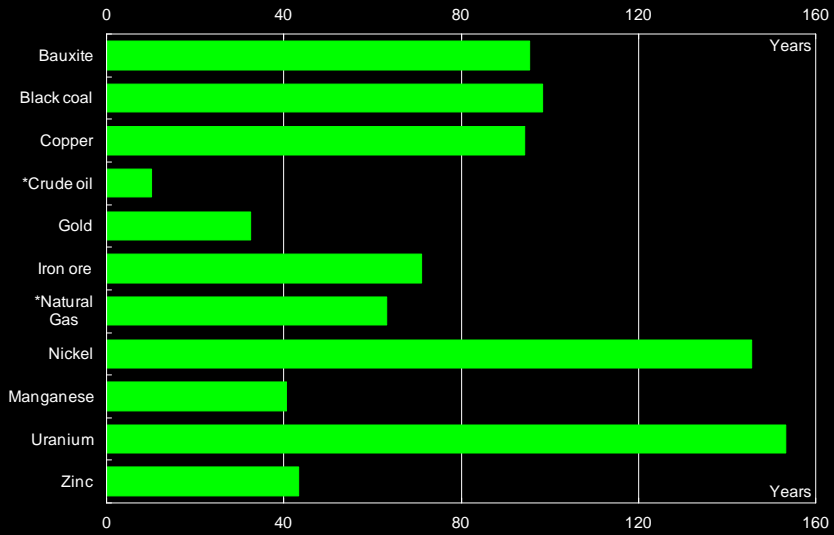
Source: United Nations population database.

Consumption per capita



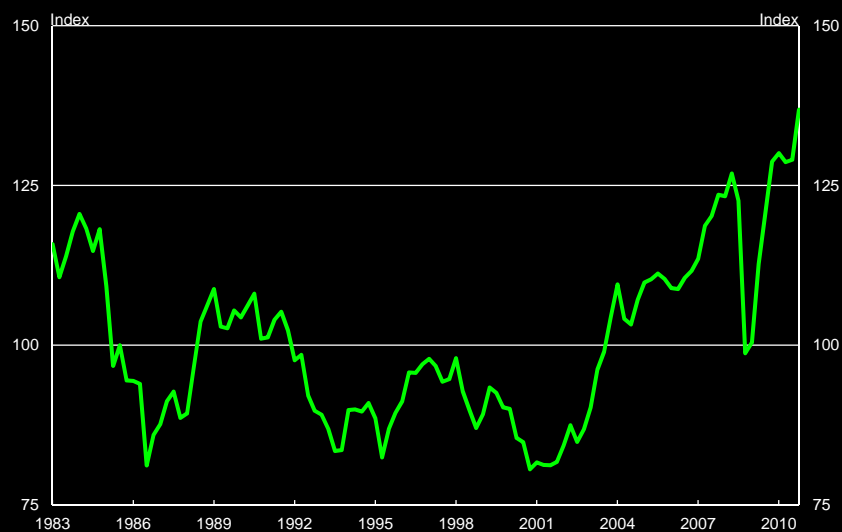
Source: ABARE, Steel Statistics Yearbooks and Treasury.

Indicative life of Australia's non-renewable resource stocks



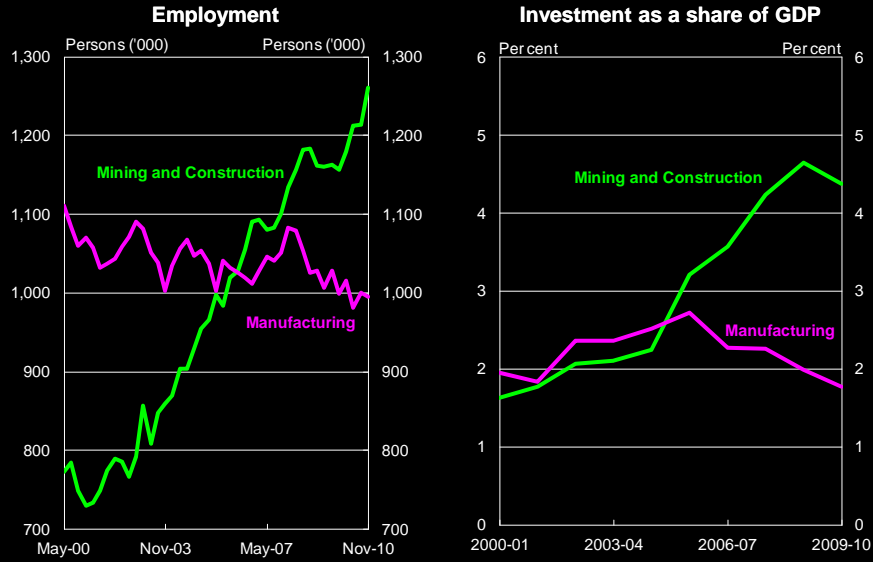
Note: Stock resources at end of 2009 and based on 2009 production. * indicates stock resources at end of 2008 and based on 2008 production.
Source: Geoscience Australia.

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

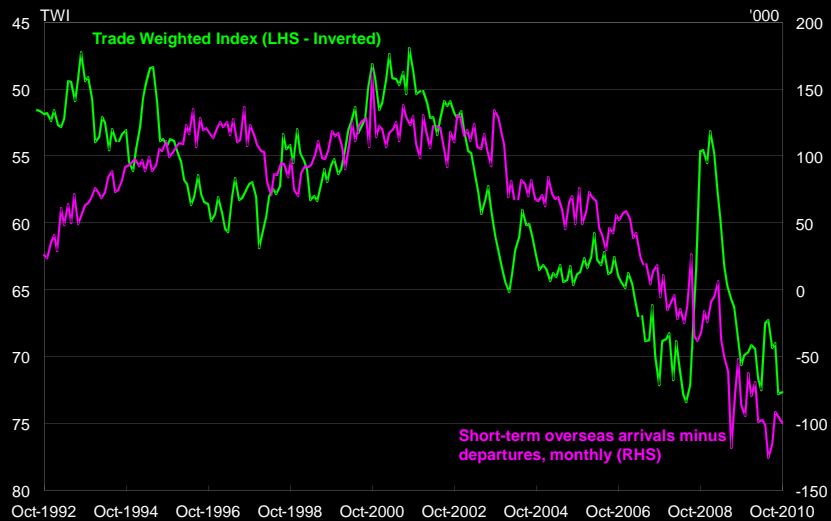


Source: Reserve Bank of Australia and Treasury.

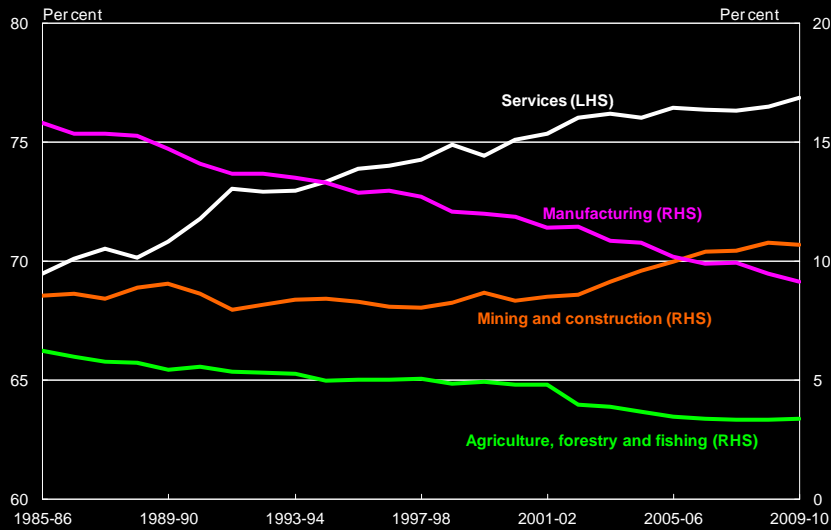
Australian employment and investment



Net tourism and the exchange rate

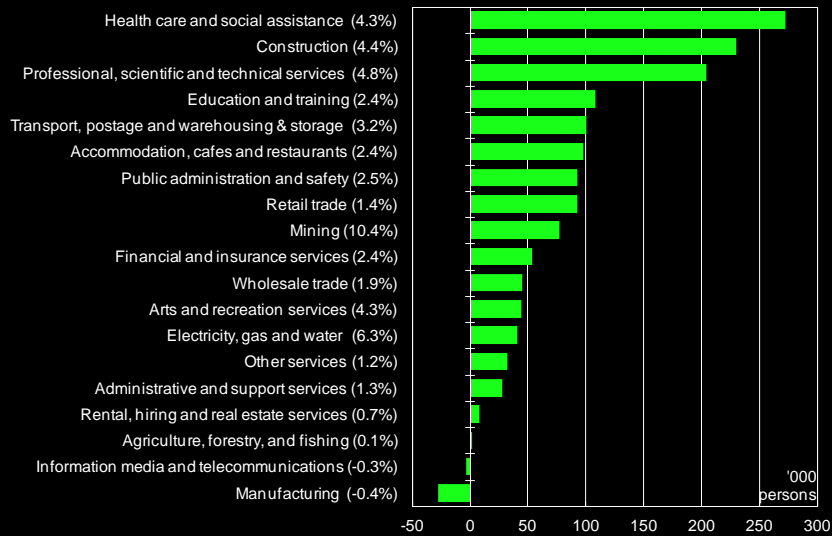


Three speed economy – employment share by industry



Source: ABS Catalogue Number 6291.0.55.003 and Treasury

Employment change by industry (2003-04 to 2009-10)



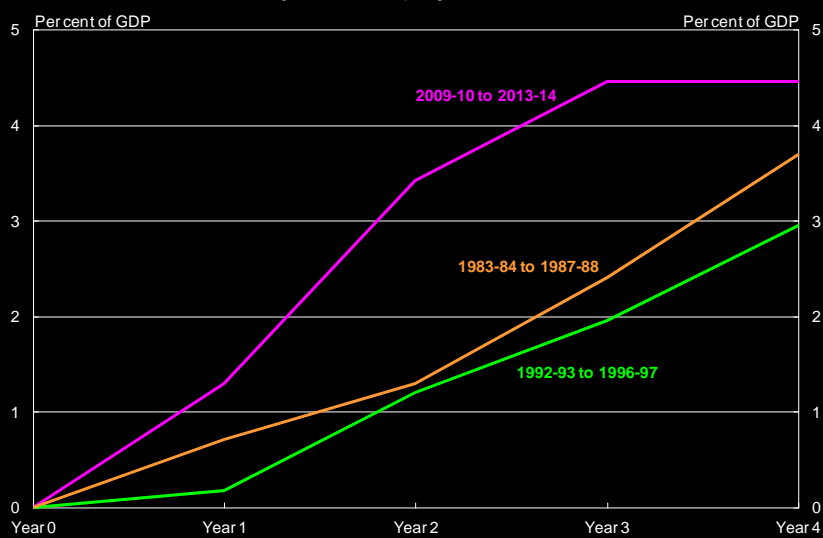
Note: Average annual growth in parentheses.
Source: ABS Catalogue Number 6291.0.55.003.

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?



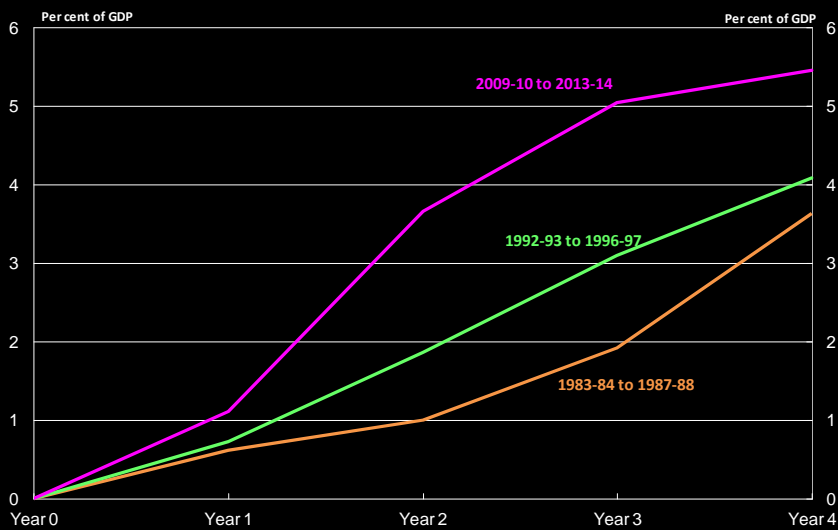
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Back pocket

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



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