

Australia Dossier by Robert Barwick

The bubble will soon pop

Australia's world-beating GDP growth is simply a last-minute credit card splurge.

Australia's alleged exceptional economic performance in the face of the global financial upheavals that began with the Asian crisis in 1997, has long confounded the experts. While the so-called Asian Tiger economies dropped like flies following the currency crises of late 1997 and early 1998, their trade partner Australia, according to the latter's government indicators, powered ahead with consistently high economic growth rates, and a steadily rising stock market. On June 1, Australian Treasurer Peter Costello gloatingly proclaimed an annualized Gross Domestic Product growth of 4.8% based on the first quarter of 1999—the highest rate in the developed world. But, buried within the Australian Bureau of Statistics (ABS) figures, is all the evidence one needs to show that the "growth" in the Australian economy is simply a debt-fed bubble, which is expanding so rapidly that it is going to burst.

Australia's 4.8% growth came despite a massive 3% contraction in national economic output, as measured in GDP terms. The so-called "growth" was fuelled almost entirely by *consumer spending*—which is in turn driven by the mysterious force called "confidence." Real consumer spending has grown by more than 10% in the two years to March. According to the ABS, this breaks down into 23% more motor vehicles being bought compared to 1997, and 22% more telephone calls, 16% more alcohol, 15% more clothes, 14% more education, entertainment, and non-car transport, 13% more restaurant meals, and 12% more household energy.

Yet, while spending has surged,

household savings have collapsed, from 5.6% of after-tax income in 1997, to just 0.4% this year! In dollar terms, this is a drop in household savings from \$18 billion in 1997, to just \$2 billion now. (These, and all following figures are quoted in the Australian dollar, which is US\$0.64.) While savings have collapsed, debt has skyrocketed: In the past six months alone, housing mortgages grew by an annual rate of 12%, personal loans grew by 20%, and credit card debt grew by 24%.

Nationally, all of this debt-driven consumer spending has produced record levels of foreign debt, and record trade and current account deficits. In December 1997, the Australian government stopped keeping monthly current account deficit (CAD) figures, probably in anticipation of the impending record deterioration. The quarterly CAD (which is the trade deficit, or excess of imports over exports, plus the net income deficit) for the first quarter of 1999 was \$8.9 billion, or 5.9% of GDP.

Last year, Opposition Treasury spokesman Gareth Evans was attacked for "undermining consumer confidence," when he observed that a current account deficit of 6% of GDP was regarded as "Banana Republic" levels. Today, 5.9% is seen as just the beginning: A massive monthly trade deficit in April of \$1.9 billion is certain to push the CAD well above 6%.

The April record trade deficit brought the trade deficit for the first four months of 1999 to \$6.35 billion, compared with \$2.85 billion for the same period last year, and just \$55 million in 1997. At this rate, Australia is

heading for an annual trade deficit of around \$20 billion, and a current account deficit of about \$40 billion.

Forced to address the stark reality of the CAD figures, Treasurer Costello tried to put on a brave face: "You would expect at a time when your domestic economy is strong and your export opportunities are weak, because of a downturn in the rest of the world, you would expect pressure on your current account deficit," he said lamely.

Spurred by the trade deficit, foreign debt has ballooned. In the year to March, net foreign debt (total foreign borrowings minus total foreign lending, government and private) rose by \$17 billion, or 7.5%, to \$241.6 billion. This was only half of the increase in total net foreign liabilities to owners, shareholders, and lenders over the same period, which rose by \$36 billion, to \$354 billion. Almost 80% of Australia's foreign debt is owed by corporations, and more than half of it by banks, which, stretched to the limit, have been forced to borrow overseas to finance the consumer spending spree on foreign imports. For the two and one half years from mid-1996 to the end of 1998, the foreign debt of Australia's banks rose nearly \$60 billion, going from \$75 billion to \$134 billion.

So, even in orthodox economic terms, Australia's economy is in dire straits. In physical economic terms, it is much worse, as the rural sector has been devastated, and the all-important manufacturing sector is evaporating. Since 1996, roughly 30,000 manufacturing jobs have been lost in the state of Victoria alone, which is historically the heart of manufacturing in Australia, while more than 300,000 well-paid manufacturing jobs have disappeared nationally since the late 1980s—a huge number, especially in a nation of only 18 million people.