13 The lucky country syndrome in Australia

Resources, social democracy and regimes of development in historical political economy perspective

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Are there lucky and unlucky countries? The importance of historical contingency

The historical experience of economic and social development of the resource-dependent economies (especially the settler economies) has been "unbalanced" (in Hirschman (1958) terminology), to a greater or lesser extent, being heavily skewed towards commodity exports. But that has not necessarily meant they could not achieve developed, more balanced, modern, egalitarian societies. Part of the explanation for the differing experiences is the differing good or bad luck of factor endowments but that cannot get us very far. A simple materialist explanation is more or less meaningless without a socio-institutional-historical argument to frame it.[1] Another way to put it is that luck or good fortune has to be constructed through institutional and political processes rather than simply anticipated (Mehlum *et al.* 2006; Robinson *et al.* 2006). "Luck" is too limited a concept, of course, because national "good fortune" is a complex mixture of endowments, investments, institutions and, moreover, contingent historical events and processes. And, as is well known, natural resources are not necessary for economic development as many European and Asian countries have shown.

A rich material factor endowment, or, more precisely, a dominance in the economy and in exports of commodities such as agricultural, mineral or energy products, can lead to very uneven development and severe policy distortions and/or dysfunctional states, as the literature on resource curse tries to show. On the other hand, there have been marked successes of resource-based development. Furthermore, that a country's development process is always uneven and unbalanced has been recognized by economic historians ever since Adam Smith's observations of the unevenness of Scottish development in the mid-to-late eighteenth century, and was a central proposition in Hirschman (1958)'s theory of development. Regional, industrial, sectoral and class imbalances exist everywhere but in the early stages and during the process of development these differences are much more marked than in economically mature and modernized societies. Of course, such imbalances are incompatible ultimately with modernization in the long run for they can lead to political violence and dislocation.[2]

The problem has long been understood, in some theoretical traditions at least, as one of how to achieve national growth and development in an unbalanced way, at least to begin with, and then spread the development more widely. The variety of success and failure of "unbalanced countries" (most of which are former colonies or quasi-colonies) in achieving development and modernization over the past century, despite great variations in their factor endowments, should lead to scepticism about the value of resource-curse theorizing to explain the variations.[3] And good fortune in the senses of unpredicted, contingent, events and outcomes, such as mineral and energy discoveries, lack of natural disasters and enlightened leadership, could have something to do with it but perhaps not decisively so.

It might be considered that Australia, as a key example, has had a good "accident of history" to have a small-to-medium-sized population inhabiting a whole continent with all its supposed natural resources. A similar argument can be made about some other successful cases of large land areas with sparse populations and natural resource abundance, such as Canada and Western United States. But there are other cases of similar land-resource/population ratios (e.g. Argentina, Chile, Mongolia, Kazakhstan) that have not been so successful, at least so far, and other cases of large land areas and large natural resources but unsuccessful or only partially successful development, at least hitherto, such as Nigeria, Brazil and Russia.

The value, then, of the ironic Australian concept of "the lucky country"[4] is that it not only focuses attention on the developmental significance of commodity wealth in the particular Australian historical context but also its relevance to other similar societies that have experienced commodity dependence. Australia is not the only lucky country, in either the neutral or ironic senses of the term. On the other hand, there may well have been comparatively unlucky countries when viewed through a world-wide and historical perspective on commodity dependence. Commodity dependence, according to the Prebisch-Singer hypothesis, is supposed to lead to long-term relative decline because of the long-term adverse terms-of-trade problem (Toye and Toye 2003). But studying the short- and long-run economic, social and political effects of commodity dependence in any national context of the past two centuries or so is not simply a matter of examining the supposed negative effects of terms of trade or sudden natural resource booms à la "Dutch disease" or "resource curses". The literature on booming sectors, Dutch disease and resource curse/blessing is often too over-generalized, too ahistorical and focused too much on cursed cases rather than blessed cases to capture the full complexity of these phenomena and their effects.[5] And the terms of trade issue is related to the type of commodity and the time scale being examined (Ocampo and Parra-Lancourt 2010). A commodity price cycle rather than a secular long-run decline is perhaps the more fundamental phenomenon of the world economy in the long run (Erten and Ocampo 2012). Furthermore, being commodity dependent is not the same as experiencing a new booming sector, and which does not have to be a primary commodity sector, as the Japanese, South Korean and Chinese cases of booming industrial exports of the past 50 years shows. Booming sectors can, sooner or later, collapse or they can stabilize at a new structural normality.[6] And their effects are very much contextualized by institutional and political frameworks.

A historical political economy perspective, and one, moreover, that also takes into account social, cultural and ideological developments, à la Polanyi, Hirschman and Moore, focuses attention on wider issues than just economic factors in abstraction from the rest of the historical-societal context and focuses on actual historical conditions and experiences of particular societies. And such a more inclusive (less abstract) approach should also go beyond the New Institutionalist perspective for it too misses essential social and cultural elements in this complex history.[7]

Commodity dependence is actually fundamental to the entire history of economic and social development for, after all, just about every country and society has at some stage been "commodity dependent" in a general sense of reliance on commodity production as the foundation of the economy and also the export profile.[8] The history of the earliest economically developing countries and regions – Britain and the Low Countries and later the Rhine, Baltic and New England regions – was one of commodity dependence at the earliest stages of growth, whether it was wool, fish, marine animal oil, forestry, coal, minerals, grain, or meat and other animal products. Indeed, as the transformative process of economic growth and development has spread around the world from the eighteenth century it has often begun from a foundation in commodity exports. Over time, the central issue always became, of course, of how to achieve diversification, greater efficiency and sectoral change in order to achieve ongoing development, prosperity and modernization. And, furthermore, *developmental* success or failure has always been more than the achievement or absence of high average incomes per capita (Sen 1999; Stiglitz *et al.* 2009; HDI 2014). There have been many cases of high average incomes per capita from resource wealth that have not led to development and modernization.[9] The resource curse can, of course, take many forms, including persistent widespread poverty in the face of seeming plenty (i.e. great inequality), high average incomes but with lack of human social and political development, especially in post-colonial contexts.[10]

The centrality of a developmental state: the importance of linkages and political embeddedness

Even a casual observation of the political, institutional, social and cultural consequences of long-term primary export dependence, including booms and busts, in some developed countries, such as Australia, Canada, New Zealand, Finland, Sweden, Denmark, Norway and Iceland, reveals that it has indeed been possible to ride the commodities roller-coaster to beneficial effect with industrial-modernization outcomes,[11] despite the prevalence in many places at certain times of resource squatting, rent-seeking and cartelization. Importantly, the countries listed above comprise two distinctive groups – Anglo settler societies and Nordic societies – both of which shared in the nineteenth and early twentieth centuries the important characteristics of resource abundance, social egalitarianism, relative labour scarcity and emergent-to-actual democratic constitutions. Moreover, they all developed, out of this background, versions of a developmental state that was able, as an institutional structure, to engineer the transition from commodity dependence to developed modernization. Why and how such a state emerged in these countries and why it couldn't in other cases is a basic question (Auty 2001). And why such a state then successfully developed in other advanced societies, not always peacefully, such as most of Western Europe, Japan and now other countries in East Asia, is part of the larger problematic.[12]

The Anglo settler and Nordic regions seem to have little in common with other groups of commodity-dependent countries in the twenty-first century, such as the African oil-exporting LDCs (e.g. Angola, Nigeria), the Middle Eastern oil and gas exporters (e.g. Saudi Arabia, Kuwait, Qatar, UAE) and Russia and Central Eurasian (e.g. Azerbaijan, Kazahkstan) oil and gas exporters. Thus when the long-run, world-wide, history of commodity dependence and the successes and failures of transformations to prosperous modernization is viewed as a whole (which is actually the economic history of the world during the past several centuries), it's very obvious that over-generalized theory and inappropriate comparisons have been roadblocks to a better understanding of the experiences of particular groups of countries and individual countries. Many commodity exporters did make the transformation to modernity and high human development. Some LDC commodity-dependent countries are continuing to make that transformation (more or less successfully), such as Malaysia, Chile, Mauritius and Botswana. Thus the historical picture is one of both contrast and similarity such that certain generalizations can be made but only within a context that takes complexity, uniqueness and comparison seriously. Reliance on a rational/institutionalist, public choice and governance approach is not very helpful (see Robinson (2009) for an example), because it often avoids the very question it should be trying to answer, through a historical analysis, of why there is good governance or its lack in particular places.

Thus, key to understanding the current economic situation in Australia and elsewhere is to see the significance of the forces that determined the evolution of its political and social institutions in the long run, particularly the emergence of a "developmental state" ideology and organization from the early twentieth century. This grew out of the combination of the cultural and institutional inheritance and historical experience of the Australian settler process. The contingent intersection of British imperial influence and institutional framework (including Liberalism), the natural resource endowment, the indigenous presence and response, and the peculiar Australian settler colonization process, resulted by the early twentieth century in a home-grown and pioneering form of Social Democratic Welfare Capitalism (SDWC) that had an agenda of economic diversification and modernization and which has more or less survived until the twenty-first century. This form of capitalism has morphed through several regimes since the late nineteenth century but has retained certain key elements.

Whether this political economy can survive the recent resource boom and its aftermath and the Euro-American economic crisis is the subject of much current debate, addressed at the end of this chapter.

The resource/commodities curse argument can be summarized by the following propositions:

> The flow of export income from a rich commodity sector has the potential to cause fundamental distortions in economy, society and government and a failure of development because:
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> i Distortion of economic sectoral investment and employment – over-concentration in the resource export sector at the expense of other sectors, especially agriculture and import-replacing manufacturing. A very unbalanced economy results if the state is unable to redirect investment to other sectors.
>
> ii The distortion is caused partly by exchange rate appreciation caused by the high income-earning export sector.
>
> iii The flow of export income causes rent-seeking, corruption and criminality in the government sector, reducing state capacity to provide infrastructure and developmental assistance to other sectors. A rentier state can result that is captured by self-enriching elites who have no interest in national development.
>
> iv The over-dependence on a single or small number of commodity exports makes the country vulnerable to price shocks because commodity prices are highly volatile.
>
> v Ultimately, a resource export economy is vulnerable to the long-term terms of trade problem.

Five closely interconnected forces seem to be crucial in determining whether a commodity-dependent exporting country is characterized by resource curse or is able to avoid the problem to achieve a balanced developmental outcome. The history and situation of each state today is a consequence of this matrix of forces and a good understanding can only be had by examining all of them together. The relative influence of each differs in every case.

i The political and governance framework (including ideologies and cultures) that were inherited and have evolved from the distant past.

ii The material foundations of particular commodities, which affect the types and strength of linkages they have with the rest of the economy and society.

iii The strength of the linkages of particular commodities to the wider national and world economy.

iv The global context of economic regimes, policies and geopolitics, and their ideological justifications.

v Contingent historical events and processes within each polity, colony, nation and state.

Democratization, liberalization and the transparent rule of law are essential contexts for an institutional structure for avoiding resource curse for they are the only political framework that is more or less certain to prevent overwhelming corruption in the long run. The power of corruption in today's interlinked world is far greater than in earlier times.[13] "Benign" dictatorships have never succeeded in eliminating corruption and have always declined into a cycle of rent-seeking, inequality, violent repression and lack of dynamism or were forced to give way to democratic forces that enabled transparency and rule of law. In the early modern era of the nineteenth century it is noteworthy that those commodity-dependent countries that succeeded in transformative economic and social modernization did so within a framework of liberalizing constitutions and emergent de facto democracy. Civic engagement became possible and this in turn began to act as a break on corruption and rent-seeking by elites. Such a political context then enabled class pressure towards the establishment of a democratic developmental state and one, moreover, that engendered consensus about the possible nexus between growth, development, equality and social welfare. Emergence of such a consensus – a historic compromise around a "win-win" strategy rather than an ongoing class struggle – was highly successful in producing versions of a distinct form of SDWC (Lloyd 2011) in Australasia and the Nordic region.

A developmental state is essentially one in which democratic pressure from below and/or elite-driven policies from above are directed towards national economic development rather than just the elite rent-seeking, corruption and class exploitation that was the norm for most of civilizational history. The old hegemonic and exploitational elitist regimes were broken in various places and in various ways, often through violent revolutions in the eighteenth and nineteenth centuries. The emergence of states focused on development could only occur once "development" became a possibility in the nineteenth century with industrialization. Of course corruption and elitist enrichment can sometimes go hand-in-hand for a time with a developmental state and in fact may be the main motivation of developmental elites, especially in states that are not democratic or transparent. That has clearly been the case in many instances, notably Nazi Germany in the 1930s, the Soviet Union in the interwar decades, Peron's Argentina, Pinochet's Chile and Park's South Korea. But these were highly unstable situations and did not endure. CP-ruled China today, a developmental state, is also increasingly unstable. On the other hand, some developmental states (such as Australia and New Zealand) have pursued a democratic agenda of redistribution and equality. This began in the late nineteenth century and politicians of the era were very aware of their developmental and socio-political function in constructing "state experiments", as Reeves pointed out as early as 1902 (Reeves 1902). It could be hypothesized that autocratic developmental states have a tendency to evolve in the direction of democracy because of the democratic empowerment that can flow from the success of the developmental process. This seems to have been the case in, for example, South Korea and Taiwan in recent decades. But this is a highly controversial topic – the development/democratization nexus – and there is no space for a discussion here.

However, a developmental state cannot by itself guarantee the transformation of a commodity-dependent country or region. Some essential degree of market functionality and a dynamic interrelationship between markets and states should exist (as Polanyi (1944) argued) and economic linkages have to be possible and then institutionally fostered. Not all commodities are alike in their linkages to their wider economic contexts. The Innis/Hirschman[14] theory shows that the macroeconomic effects of particular staples or commodities are quite different, depending, *ceterus paribus* institutionally, on their material, technological and employment nature. Energy exports are quite different in terms of their backward, forward and final demand linkages from agriculture, base metals, forestry and fishing, all of which tend to promote greater in-country processing than energy production. And the backward and forward linkages from economically leading commodity sectors – commodity extraction, production and exports – are always significantly different from those from other leading sectors of manufacturing and services. Final demand linkages effects are also crucial – these depend on distribution of income, general wage levels and consumption patterns, which in turn are strongly affected by the institutionalization of the labour market.

Thus commodity dependence has certain basic effects on the structure of a domestic economy and society. Nevertheless, the strengths of these linkages and their potential for promoting development do depend, in turn, on institutional frameworks. For example, wheat export industries in Australia, Canada and Mid-West USA in the nineteenth century all had strong backward linkages to industrial development and stronger final demand linkages to consumption patterns because of wage structures, compared especially with other major wheat exporters such as Argentina and Poland. These differing linkages were the product of socio-institutional contexts in these regions and global geopolitical contexts affecting these regions. Land ownership patterns (independent family farmers versus tenants or serfs on large estates) were crucial as were regulated imperial trading connections, financial institutions and merchant networks. The stimulation of farm machinery manufacturing in Australia, Canada and Midwest USA in the late nineteenth and early twentieth centuries was instrumental in laying the foundations for industrial development in these places (Page and Walker 1997; Meyer 2010) thanks in part to protection of manufacturing. This development was also supported by the final demand linkage in the sense of the provision of an ever-cheaper food supply to urban industrial areas due to the technological revolutions in agriculture.

Another example is of the forestry products sector in Sweden and Finland in the nineteenth and early twentieth centuries, in which strong backward linkages to machinery manufacturing developed. The Nokia company is one striking instance of this backward linkage effect of a forestry company leading to the emergence over time of a major industrial conglomerate that then concentrated on high tech manufacturing by the late twentieth century.

Because of their seeming promise of riches but checkered history, "unbalanced" commodity-exporting countries have been perhaps the most affected by one or other of the two main ideological frameworks of development[15] that have influenced policy for most of the past century or more: (a) *laissez faire/free trade*, leading to specialization on grounds of comparative advantage, enabling high commodity productivity and dynamic efficiency, but with *unavoidable backwardness* in non-exporting sectors; or (b) *diversification through import replacement*, with wide-based self-sufficiency, state promotion of industrial development and growth of an urban middle class, through protection of industries, but with *unavoidable inefficiency* and probable gradual national comparative decline. How to steer a line between these ideologies has been a chief task for policy makers.[16]

Protectionist import-replacement and some form of active market interventionism was the preferred policy of almost all countries from the middle of the nineteenth century until the 1950s or even as late as the 1980s in some cases, but protectionism gave way in the 1970s and 1980s to neo-liberal inspired free-marketization and globalization, leading supposedly to specialization through comparative advantage and elimination of rent-seeking from state elites, a policy that was hoped would not only achieve higher growth but permit the benefits of greater (but specialized) trade to spread somehow through the wider society. Nevertheless, despite the ideological shift, much protectionism remained, even in the advanced heartlands of the world economy. For commodity-dependent exporters the effect of the neo-liberal strategy depended in turn on the strength of local institutions and the capacity to compete in the global trading system, a system, moreover, in which there were still many distortions and forms of protectionism, especially through agricultural subsidies in advanced countries and currency manipulation. State protectionist policy has long used such measures.

Indeed, one of the foundational components of policy ever since "economic growth policy" (rather than just mercantilism) was first seen to be a task of governments from the early nineteenth century, was currency regulation. Manipulations of metallic standards did enable governments to debase currencies until the more or less universal adoption of the gold standard in the late nineteenth century. This era of stable and fixed currency values and then the adoption of the Bretton Woods system of fixed exchange rates from the late 1940s, following the unregulated monetary turmoil of the interwar period, enabled governments to pursue protectionist policies within a developmental state agenda. Once the Bretton Woods system dissolved and was replaced with a supposedly free trade system of purely fiat currencies, widespread from the 1980s, the "self-adjustment" mechanism was supposed to prevent protectionist policies and enable commodity exporters, in particular, to avoid inflationary pressures flowing from booming sectors or to make orderly, automatic, adjustments when booms collapsed. Of course not all countries have joined the free currency system[17] and, moreover, it has become quite clear that the international forex market follows its own cyclical and stochastic logic without a close correlation with the fortunes of individual economies. The naïve exchange rate theory of market-driven convergence, according to international balance of payments and growth of particular economies, has been shown to be delusional by the experience of real world financialization and speculation in recent decades. All floated currencies are now open to speculation and several major currencies are now completely commoditized in the sense of being objects of trade and speculation more or less completely outside of the real economies that issue them.[18] Some countries have experimented with fixed exchange rates even during the post-Bretton Woods era, sometimes with spectacular failings (e.g. Argentina's dollarization) and at other times with much success for a period, such as China's pegged RMB and Hong Kong's pegged dollar.

Currency regulation and state manipulation as a form of strategic intervention is what Hirschman argued for in 1958, as has Krugman (1991, 1994) more recently. Central to both their theories is a concept of economic linkages. These linkages take the form of flows of capital investment, goods, labour and profits between industries and sectors within an economy conceived as a complex web or structure of exchanges. This structure is held together by sets of social relations that are expressed as a combinations of formal contracts, informal social relations, social norms, networks of social power and relatedness, and ideational expressions of all these formal and informal exchanges.

The Innis/Hirschman/Krugman theme of linkages can be conceptually related to the Polanyian idea of embeddedness in the sense that economic relations, decisions and behaviour are enveloped through linkages of a social relational kind such that the economic aspects take place within a larger social structure. The economy, in other words, is a *social* structure. This social structure is in part economic in its manifestation and socio-political in its framing of the context for economic exchange. Linkages of demand, supply and investment between sectors take place within institutional structures that are enabled and developed by social and political networks and governance institutions. Institutions are rarely invented *de novo* but almost always evolve out of prior structures and contexts. The settler societies, those neo-Europes or fragments of the Old World, born in the early modern period, are somewhat exceptional in the sense that they were newborn societies but even they carried the definite marks of their parentage. This was certainly the case with Australia, born within the British Empire and its evolving institutional structure of the late eighteenth and early nineteenth centuries, which had a profound effect on the subsequent history of the country.

Foundations of Australia: a settler capitalist society with special characteristics

Colonial Australia was founded as an urban service colony for the British Empire, in the sense of a state-directed and controlled establishment of a prison. The role of the state was fundamental from the beginning (Lloyd 2002, 2003). But a private entrepreneurial sector soon developed in a land of vast natural resources, beginning with seal and whale oil. Commodity dependence and export booms and busts have been a persistent feature of Australia's history ever since the late eighteenth century. The category of "commodities" includes agricultural, marine, mineral and energy products and flows and collectively these have always been the dominant component of exports, rarely falling below 50 per cent of the value of all exported goods and services and in 2011 constituting more than 67 per cent (as indicated in Figure 13.1 – DFAT 2014).

Furthermore, it can be argued that the ongoing primary export dependence has been key to Australia remaining in some respects as a settler society ever since European colonization in 1788 until the present. The settler legacy continues to dominate the economy and society and its politics and this has been the product, it is argued here, of the continuing commodity dependence. The reliance on large-scale immigration of skilled labour, the low household savings ratio (but now high compulsory private pension savings), high propensity to consume, high capital import needs, high commodity export ratio, and the unresolved indigenous impoverishment and marginalization problem, are all continuing features.

Squatting is a further feature that is still significant. Settler society processes in most of the world from the eighteenth century or earlier always had as a central dynamic the violent seizure and appropriation (or theft) of land and other resources, the monopolization of natural resources by the settler elite, a subsequent contestation for resource domination between these ruling elites and local and imperial states, a dependence henceforth on the export of commodities,

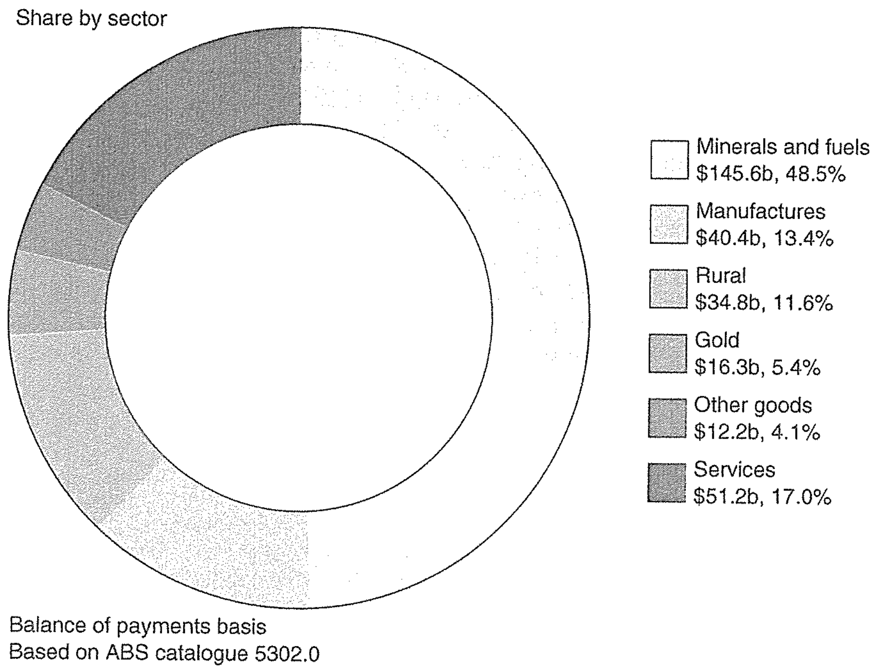

Figure 13.1 Australia's export profile 2013.

Note
Balance of payments basis.

and a consequent stunting of economic transformation towards modernization. Thus frontier squatting is fundamental to understanding these societies, not least Australia. Surprisingly perhaps, what is in effect squatting continues to be a crucial element in Australia's mineral and energy export sector today in the form of the virulent opposition to state regulation and taxation by the large oligopolistic mineral and energy corporations. Reaping the benefits of monopoly rents have been the *raison d'etre* of squatter settler capitalists for centuries.

However, the other side of the "Lucky Country" argument springs from the contingency of history for in spite of the power of the resource endowment and the other features of settlerism, including the atavistic squattocracy and the commodity export dependence, Australia did achieve economic and social modernization and was, indeed, for a time, a pioneer of the Social Democratization of capitalism as a regulatory regime and developmental strategy. How could that have come about, especially when Australia is compared with some other settler regions?

The political economy of Australia 1788–1914: emergence of an effective developmental state

Following the brief but spectacular marine oil era of the early nineteenth century there was the "pastoral age" of a rapidly expanding wool production economy, exploiting the natural grassland resource. The foundational *raison d'être* and the subsequent resource expansion with imported capital contributed to the engendering of a largely urbanized, port-city, society. That society was fed by immigration from British lower-middle-class society with values of social mobility and a growing sense of egalitarianism. The fact that all of Australia (occupied by several British colonizing foundations) remained as elements of the British Empire was significant for it meant that British Colonial Office policies drove the evolution of governance structures towards liberalization. Philosophic Radical/Wakefieldian ideas gained ascendancy in the Colonial Office by the early 1830s (Semmel 1961) and Chartist ideas were important among the immigrants arriving in the colonies. Wakefieldian systematic colonization was the central policy framework from the early 1830s in NSW, South Australia and later New Zealand. This policy met opposition among squatters and other atavistic elements in the colonies but by 1841 transportation of convict-labour to NSW ceased under the influence of liberal urban forces in Sydney and the atavistic frontier forces were eclipsed by the urban reformers. By the early 1840s the wool boom had collapsed. The depression of the early 1840s was a major turning point for not only were the political fortunes of the frontier defeated by the urban reformers but the wool producers lost economic power to the London-based merchants and banks (McMichael 1984).

The 1840s marked the consolidation of an effective local state in each of the colonies, one that was able henceforth to build a different kind of socio-political structure, moving away from the influence of landed interests and towards a society of family farmers, urban industries and promotion of middle-class suburban life by transferring frontier rents via high wages. The huge gold rushes from

1851 consolidated this emergent pattern and reinforced the push for liberal constitutions and electoral democracy. Once the gold began to decline in the 1860s political pressure grew for economic policies to promote employment and generate government revenue. The shift from laissez faire to protectionism was spreading around the world (except in Britain) and the Australian colonial dominions were no exception on the whole. New South Wales was an exception, remaining one of the few free trading regions in the world by the late nineteenth century. That case reflected the greater power of pastoral interests in the local parliament and also the greater abundance of good land for sale to small farmers as the chief source (rather than import duties) of government revenue.

The era from 1851 to 1891 witnessed the emergence in Australia of an effective, liberal constitutional state with *de jure* and de facto democracy, thanks to universal malehood suffrage, secret ballots and free and fair elections. This was crucial for what followed because the long, post-gold rush, mid-Victorian era of prosperity crashed in 1890–91 into a severe depression. The early 1890s crisis was fundamental for not only consolidating the local state structure but for the emergence of a new regime of capitalist regulation. The foundations for this regime were laid in the response to the depression and class-conflict of the early 1890s, thanks to the strength of liberalism and labourism that had developed in the preceding decades.[19]

Commodity dependence and regimes of development since 1914

The first decade of the twentieth century witnessed the development in Australia of a "state experiment", as Reeves put it in 1902, and which we should now call the development of a rudimentary form of Social Democratic Welfare Capitalism (SDWC), the central interlinked institutions of which were the Court of Arbitration and the industrial protection policy. The Harvester Judgment of that Court in 1907 established the principle of "wage justice" as being that "fair and reasonable wages" for workers in a "civilized society" were to be measured by family needs rather than capacity to pay or market conditions. Employers in the already large public sector adopted the principle and firms in the emerging import-replacing manufacturing sector (the sector was about 12 per cent of GDP in 1910) that wanted tariff protection had to pass on the implied higher profitability, resulting from the shelter, in the form of higher wages. This radical proposition, which became implemented throughout the labour market over subsequent decades, represented the conscious attempt to transfer via the industrial protection and wage-setting systems the wealth that had accumulated from the previous century of commodity export abundance into well-paid urban industrial and service employment. The highest average incomes per capita in the world of 1900 were to be made into the egalitarian reality via state action. In addition, the emergent welfare system was tied to the employment system in what Castles rightly called the "wage earners welfare state" (Castles 2002).

Together the two central institutions produced a system we can call labourist-protectionism (Lloyd 2002, 2003) which became an all-encompassing, hegemonic, regime of economic and social development throughout the period until the crisis of the 1970s. This regime, a form of SDWC, was explicitly designed by a loose coalition of Liberals and Labor as a developmental state response to the fundamental problems of diversification in a resource-dependent economy and the maintenance of the high standard of urbanized, middle-class, living that had already developed in the second half of the nineteenth century on the basis of resource-abundant exports, labour scarcity and capital inflows. The regime suffered a crisis during the Great Depression but a combination of protectionism, imperial preference and temporary wage suppression and, then, crucially, the full employment of the Second World War, enabled the regime to not only survive but be further developed by the Labor Party government of 1941–49. The conservative governments of 1949–72 did not abandon the regime, for it produced political and social stability and had a powerful political path dependency. Successive resource export booms in the 1950s and 1960s enabled the redistribution system, via higher wages and full employment, to continue to maintain the "suburban dream".

The other central institution invented in the early twentieth century was, of course, federation. But the federal system struggled in the early years to come to terms with fiscal federalism for the founders had not envisaged the central government being stronger than the states. The weakness of the centre threatened to destroy the federation because of states' rights and states' discontent. Unequal development and finance were the key problems. But solutions were found because the federal constitution was able to be subverted due to its complexity and sometimes contradictory provisions, despite the almost impossibility of revising it. The federal state was stabilized through key institutional developments in the late 1920s to 1940s era that consolidated the central fiscal authority and enabled horizontal fiscal equalization among the states while allowing vertical fiscal inequality.[20] The states have gradually become mere expenditure agents of the Commonwealth Treasury. The achievement of horizontal fiscal equality through the Commonwealth Grants Commission (CGC) was a crucial aspect of the stable development state structure that was designed to spread the wealth from the booming export sectors. Later in the twentieth century the poorer states erstwhile themselves experienced resource abundance and some of their wealth has been redistributed via the CGC process.

The current crisis of the Eurozone shows what can happen when there is the absence of a central developmental state. Europe introduced a common currency without the institutional framework of a centralized federal state that could regulate the economic behaviour and introduce stable growth policies in the regions (states or nations) within the union. The ten-year failure of institution and policy development leading up to the crisis of 2010–14, during which the EU papered over the lack of central authority to go with the common currency (with the important exception of the ECB) has now exposed the significance of developmental state power to go with a common currency. Other federations, including the US, Canada and Australia, had to learn this important lesson in their early history when implementing a new central system of currency with an emerging centralized monetary, fiscal and development management system. In Australia's case there were stumbling steps along the way but by the late 1920s the centralized framework of a stronger federal state began to emerge and by the early 1940s the whole structure of essential central control was in place with monetary and fiscal policy then more or less taken out of the hands of the states, which were and sometimes continue to be fiscally irresponsible, being much more prey to rent-seeking and pork barrelling than the federal government.

In two fundamental respects the labourist-protectionist system must be considered a success – industrialization and socio-political stability. Australia achieved full industrialization in the sense of sectoral shares of the domestic economy by the 1960s when the manufacturing sector reached about 28–30 per cent of GDP and the growth rate of the sector outstripped the rest of the economy in the postwar years (Attard 2010). Protection succeeded in the sense of industrial promotion of a full range of manufacturing, including a substantial motor vehicle industry.

By the 1970s the labourist-protectionism system was in crisis due to slow growth, stagflation and some Dutch disease effects from the new boom of the minerals and energy export sector.[21] Ad hoc arrangements to maintain the system failed and the hoped-for "rescue" of a new resource boom in the early 1980s also failed (the "lucky country" syndrome again) with the plunge into a severe recession in the early 1980s. The election of the Hawke/Keating government in 1983 saw the beginnings of the abandonment of the labourist-protectionist system to be replaced over the next decade by elements of a neo-liberal regime.

Commodity dependence, political economy and quality of life in the twenty-first century: from unbalanced development to a balanced outcome

Australia shared in the long boom of the 1992–2008 era with a rising standard of living, achieving near (official) full employment and continual growth, with no recession throughout the global crisis since 2008. By 2005 almost all public debt had been eliminated and Australia became a creditor nation. Commodity exports dominated the export profile on the eve of the financial crisis (Figure 13.2) and since then the commodity dependence has actually increased, thanks to the Chinese demand for raw materials (see Figure 13.1).

Australia has recently experienced an increased commodity dependence in terms of exports but not in terms of economic structure. The minerals and energy sector accounts for about 10 per cent of output but only 2 per cent of employment. Thus the question arises of whether Australia experienced a form of resource curse during the recent boom? Very substantial currency appreciation from 2010 impacted negatively on traditional exporting sectors (some parts of agriculture, most notably the wine industry) and more so on import-competing manufacturing. On the other hand, these are now so comparatively shrunken in sector shares of the total economy that the impact is much less than in earlier

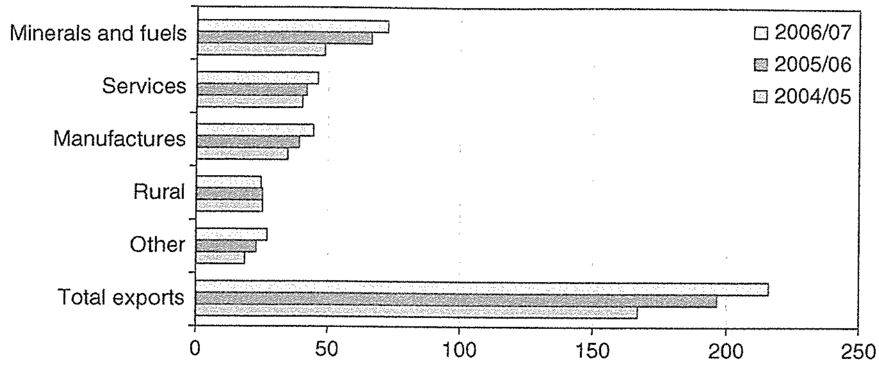

Figure 13.2 Australia's exports by sector 2004–07 (A$bn) (source: DFAT (2008)).

Note
Balance of payments basis.

resource booms. The highly efficient agricultural sector employs almost nobody and, as with all mature economies, the services sector now employs 80 per cent of the workforce and, with important exceptions, is not a highly trade-exposed sector (see Figure 13.4). Some parts of the services sector, notably higher education, one of the most dynamic and largest export sectors in recent decades, and tourism, have suffered from some loss of international competitiveness through the exchange rate effect but have proven resilient thanks to Chinese demand. Figure 13.5 shows the shift in composition of exports in recent years. With the decline in value of the A$ in 2015 export competitiveness has revived.

A fundamental point to make in conclusion, indeed made several times in this chapter, with regard to the whole international trading context of the mining "boom" in Australia in the twenty-first century, is the power of the linkage effect. Some attempts have been made to measure this effect and estimate its future potential in terms of employment generation in backward linkage industries (Figure 13.3). This shows that the linkage effect has great potential to grow just as mining is overtaking manufacturing as a share of GDP, the first time this has been the case for more than a century. The backward linkage effect is largely into highly skilled services and it is that area that has the most potential, along with the high-wage mining employment itself, to generate significant final demand linkages (Taylor 2011).

These structural considerations go some of the way towards explaining the "puzzle" of Australia's relatively slow growth in 2011 in the midst of a supposed resources boom. In their excellent discussion of this phenomenon, Gregory and Sheehan (2011) argue that the rise in the exchange from 2010 has had the effect of redistributing incomes towards households via lower import prices but that, on the other hand, the deleterious effect of traditional exporting and import-replacing sectors of agriculture, higher education, tourism and manufacturing, has been significant but probably not producing a full-blown case of Dutch

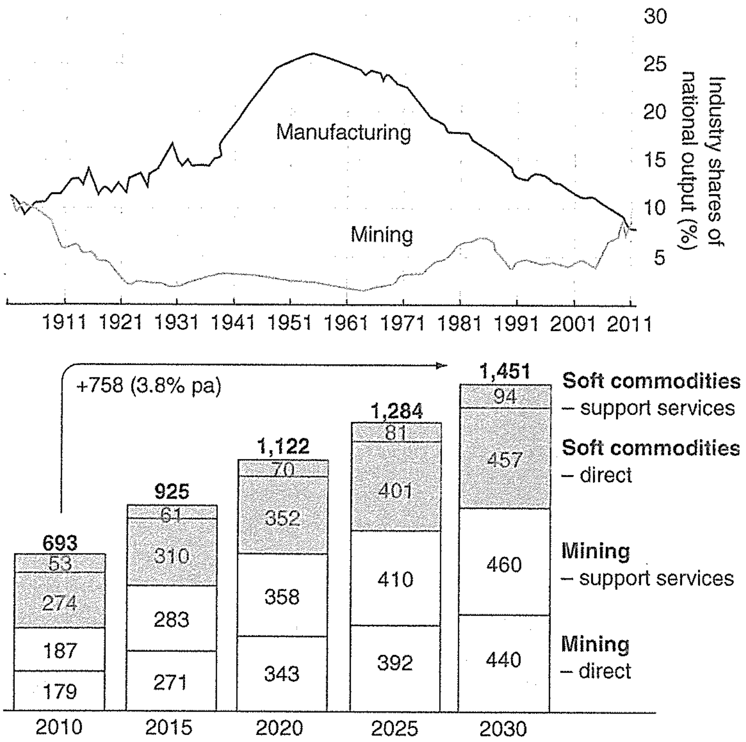

Figure 13.3 Mining overtakes manufacturing; employment generation in mining backward linkage industries (source: Kehoe *et al.* (2012), based on Taylor (2011)).

disease. The long-run shift in the Australian economy, as with all mature post-industrial economies, towards tertiary and particularly quaternary sectors has meant that there is less of a dislocational employment shock, à la Dutch disease, than in earlier eras. The finance sector now provides more than 10 per cent of GDP, thanks in part to the growth of the superannuation funds industry. It seems, then, that Australia is riding its luck again but ensuring the final demand linkage and productivity increases play their full role is partly a matter of public policy, especially regarding taxation and investment in infrastructure. But that's another story (Lloyd 2012).

Australia in 2015 presents a mixed picture of a mature economy with an advanced, "balanced" institutional structure very comparable with alike OECD countries, but again with an "unbalanced" export profile compared with other OECD countries. The trajectory of development over the past 120 years has been one of similarity to other countries that achieved development from a similar starting point in "unbalanced" commodity dependence (Anglo settler societies and Nordic societies) but a contrast with those (Hispanic settler

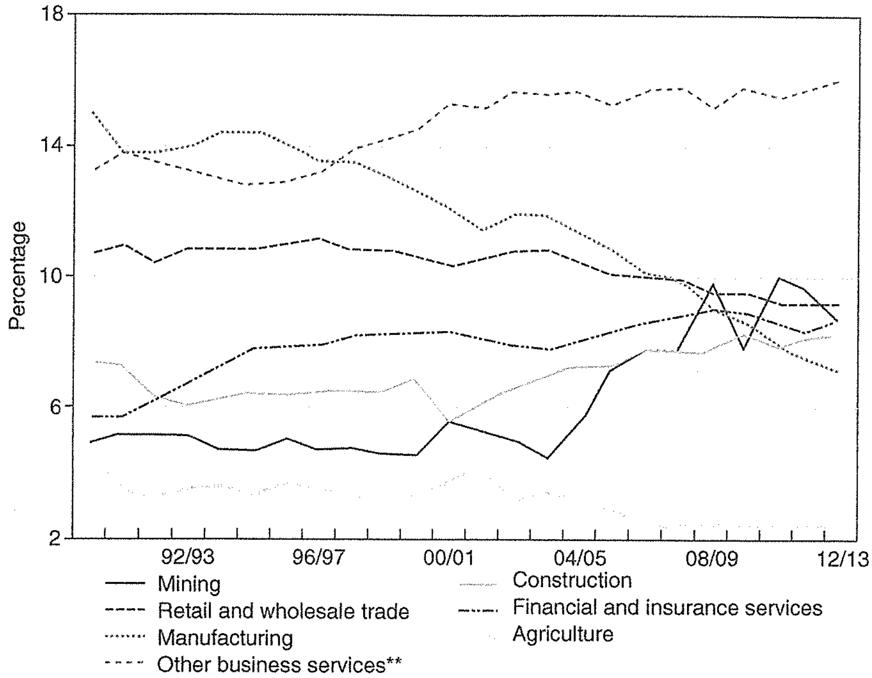

Figure 13.4 Australian industry share of output (source: RBA (2014, p. 13)).

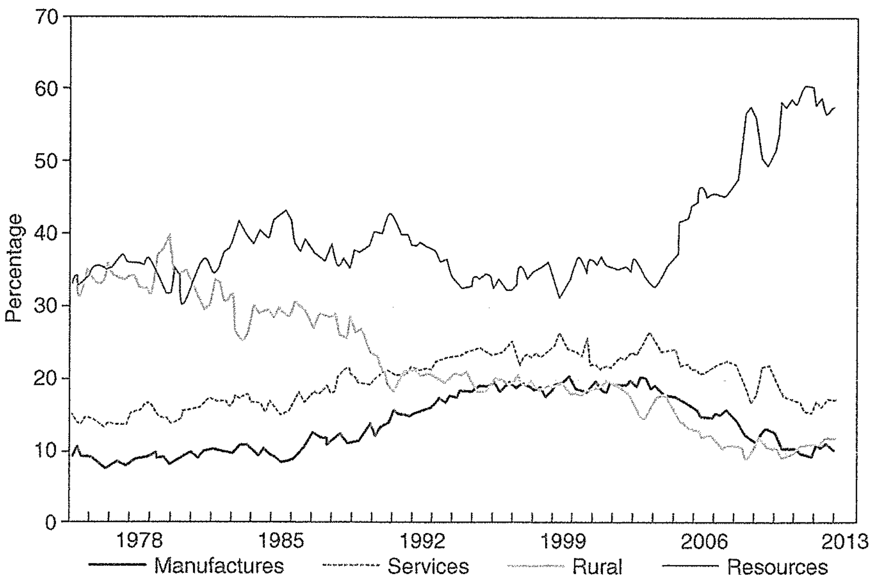

Figure 13.5 Australian exports (source: (Atkin and Connolly (2013)).

societies, especially) who did not make such a transformation for most of the twentieth century (especially the 1930s–1980s period). The inability to move towards a successful developmental state model after the early twentieth century seems to have been crucial there but in the twenty-first century that now seems to be happening. It can be argued (Lloyd 2013) that indeed the Anglo and Hispanic settler societies are actually on the same long-term path of institutional development. That one group is well ahead of the other does not mean that convergence is not happening. Good government, strong de facto civic participation, de facto democracy, equality, welfare and economic development seem to form an embedded structure of mutually reinforcing elements that are difficult to create but can emerge out of contingent historical experiences and institutional good fortune. Once they have developed and matured they are almost impossible to destroy.

Notes

1 This chapter is in the spirit of the critical realist socio-political-economy tradition of historical research into past and present of Karl Polanyi, Albert Hirschman and Barrington Moore, a tradition that was eclipsed some decades ago by rational choice, ahistorical, political economy, but which still has much to offer. Polanyi's rejection of economic abstractionism and his conceptualization of the formal/substantive distinction seems to be essential to the study of long-run socio-economic history. Attempts to understand the present crisis of the world economy could do worse than adopt the interdisciplinary outlook of Polanyi and of Hirschman, neither of whom could ever have been pigeon-holed into a single box such as economic development theorist or political theorist or economic historian. Hirschman's attempts to understand the complexities of macro-social processes over time showed an exemplary scepticism about simplistic models and spurious quantification of over-aggregate variables, and a constant concern to study the local specifics of cases within a theoretical framework that rejected the abstraction of the economy from culture, society and politics. Similarly, Moore was a theorist and historian of routes to development and modernity who was concerned with the intersection of social and political systems in producing alternative historical trajectories (Moore 1966). An approach in the tradition of these thinkers focuses on the role of social classes, the state and policy in the process of socio-economic change and development. In particular, the concept of the "developmental state" is now an essential component of theorizing the comparative history of commodity-dependent countries as much as of other types of countries, such as those in the Nordic region and in East Asia. Moreover, the uni-linear thinking of much development literature has been blinkered about the several alternative paths that have succeeded in producing modern, rich, societies and the possibilities that many developing countries still have open to them. Much of the "resource curse" literature exhibits uni-linear, ahistorical, thinking. The varied histories of types of capitalist development is still an under-researched project. The argument that material conditions, including labour and capital supply, have been very important, within an institutional framework, in the comparative history of the settler capitalist societies, has been made in Lloyd (2013).

2 "Modernization" is a key concept when it refers to institutional, political and cultural development that is centred on democracy, pluralism, tolerance and social stability. Modernity also contains the idea of individualism, which in turn is closely interrelated with the aforementioned characteristics of modernization.

3 The rapid development of China is repeating the pattern with very large imbalances

now between development and standard of living in urban and rural areas and coastal and hinterland regions. But the rapidity and scale of transformation and the possibility of massive migration, the largest in history, is perhaps the largest case of "the great transformation" ever experienced, greater even than the North Atlantic in the late nineteenth to early twentieth centuries. Whether and how the economic transformation will result in socio-political modernization is becoming one of the great questions of our time. That some other East Asian cases (Japan, South Korea, Taiwan, Singapore) have become or are becoming modern, not always peacefully or to a full extent, is significant.

4 The term "The Lucky Country" was coined by Horne (1964) to describe, in an ironic and critical manner, the syndrome whereby Australia remained rich due to successive waves of resource discoveries, which had the effect of always postponing the motivation and will to reform institutions, policies and attitudes, and which was, therefore, in his eyes, industrially, socially and politically backward in the early 1960s. In other words, the "luck" of constant resource windfalls was not luck at all but a stultifying influence that hindered progress. Nevertheless, he understood that Australia was a wealthy country; but one squandering its wealth, in his eyes. Forty years later (Horne 2004) he saw that significant change had occurred in the direction he hoped for. From today's perspective we can see that Horne's analysis was superficial and lacking in theoretical and scientific analysis but nevertheless was perceptive about what we would now call "resource curse". A similar argument has recently been made by Cleary (2011), trying to update Horne's classic, with a similar journalistic and unrigorous tenor, explicitly emphasizing what he takes to be resource curse and proposing policies to overcome it.

5 The seminal Sachs and Warner writings (1995, 2001) could be understood as hindering the debate because of their lack of a long-term perspective going back to the nineteenth century and their focus on the poorest countries. Moreover, an approach that uses only aggregated, short-term data and regression analyses of supposedly purely quantifiable variables is bound to miss what could be some fundamentally important factors, such as local power structures, formal and informal institutions, ethnic conflicts, cultures, corruption, criminality, and so on. Orthodox economics does not provide, in my view, the best approach to historical questions of socio-economic-institutional experience and change in the long run. Furthermore, the Dutch disease phenomenon, which, actually, turned out to be not a lasting illness but one which the Netherlands and later the UK overcame quite quickly, is very specifically the result of a booming new commodity export sector (such as oil and gas) within an already industrially mature (non-commodity-dependent) advanced economy. Such specificity means the phenomenon is not actually found in traditionally commodity-exporting economies that have always been commodity dependent.

6 Stabilization seems to be the case with Australia in 2014. That is, the boom investment phase in iron ore, coal, gold, CSG and LNG moderated and there seemed to be a new stability at a much higher level of mineral and energy exports, higher terms of trade and a higher exchange rate (Stevens 2010; Connolly and Orsmond 2011; Kearns and Lowe 2011). However, the collapse in raw materials prices in late 2014 has impacted greatly on Australia and similar countries. From then a new phase has begun of lower exchange rates and structural adjustment.

7 New Institutionalism, deriving from the work of Douglass North, is too imbued with the Rational Choice and Public Choice nostrums to capture the real complexities of the Polanyian substantive structures of power, decision-making and collective behaviour.

8 Edward Barbier's extensive work has developed this argument (Barbier 2011).

9 One of the most notorious and saddest cases is that of Nauru, which for a time had one of the highest average incomes per capita from its phosphate exports but is now a completely failed society and state. More pertinent are several oil-rich exporters with very high average incomes but low socio-political development (HDI 2014).

10 The conclusion by Easterly and Levine (2003, p. 37) of their econometric study of endowments, tropics and germs, among many other factors, is a telling one:

> These kinds of cross-country results are only a beginning to telling the story of colonial experiences, political conflict and consensus, institution-building, and economic development for each unique case. Still, we are struck by the way that endowments and policies have no independent effect once we control for institutions, contrary to a number of stories, and that institutional quality seems to be a sufficient statistic for accounting for economic development.

Of course what they could have added is that, in turn, institutional quality is itself the result of the long-run historical experience of each unique case, especially during the European colonial era that affected the whole world and had such a long-lasting and often quite damaging effect on most of the LDCs today. Furthermore, institutions are certainly not unchanging, including in the poorest LDCs, and that process is itself a consequence of the unique experience of each country, albeit within an increasingly globalized context.

11 The UN HDI has consistently ranked Australia, Norway, Canada and Finland at or near the top. The OECD's How's Life Index (OECD 2011) has Australia in first place, closely followed by Canada, if all 11 variables are rated equally. Various other international rankings (some more objective than others) of countries and cities always have Australia at or near the top in terms of quality of life.

12 Most likely the spread of a SDWC regime to all advanced capitalist economies during the second half of the twentieth century was a product of a combination of institutional transmission and more fundamental socio-political processes originating in mature democratic societies (Lloyd 2011).

13 Abjorensen (2011) quotes disturbing data from African Union and UN sources to the effect that 25 per cent of GDP is wasted in Africa each year through corruption; and illicit outflows from the global south amount to 1.3 trillion dollars or more each year. Most of these illicit flows are to the benefit of developed countries through their banking, property and consumption systems. Banking privacy in developed countries is partly to blame.

14 Innis (1930) and Hirschman (1958) developed the linkages argument in different ways. Innis' staple theory showed how export commodities linked with the wider economy and Hirschman took this further in a political economy perspective.

15 These are rightly called ideologies rather than theories for they are ex-cathedra-type statements of a quasi-philosophical kind that express a priori faith rather than inductively derived general concepts of causal connections.

16 A rich commodity export industry, such as wool, wheat, gold, oil, coal, iron ore or gas, has always been a magnet for ambitious politicians and other elites who wish to engineer national and/or personal outcomes.

17 Even Switzerland, a supposed bastion of the free market ideology, until January 2015 semi-pegged its currency to the Euro from September 2011.

18 The Australian dollar is one of the most notorious examples, 97 per cent of trades in which are for speculative/investment purposes. Currency trading requires volatility to be profitable, but volatility is detrimental to international trading in goods and services because of the added uncertainty and consequent risky necessity to hedge against price fluctuations, due to currency fluctuations, by many internationally trading corporations, such as airlines.

19 The 1890s development in Australia contrasted markedly with the US, both of which had witnessed a significant development of labour organization and mobilization in the prior decades. American labour suffered a historic defeat in the late nineteenth and early twentieth centuries from which it never fully recovered. The much greater scale and power of corporations in the US is part of the explanation.

20 The Loans Council and Financial Agreement of 1927 centralized and regulated public

borrowing, the 1933 Commonwealth Grants Commission guaranteed horizontal fiscal equalization, the Commonwealth Bank took on growing central banking powers from the late 1920s, the federal government became fiscally dominant with the uniform income tax of 1942, and in 1945 the Commonwealth Bank became a fully fledged central bank.

21 The 1965–75 decade witnessed a massive increase in minerals and energy exports from under 10 per cent to over 50 per cent of exports.

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