The workshop was held at the University of Adelaide across Thursday the 1st and Friday the 2nd of December 2011. It featured key researchers from the University of Adelaide, Flinders University and UniSA, along with participation by members of the South Australian parliament, the Public Service and NGOs. The workshop was initiated by the Managing Diversity and Social Inclusion in a Time of Change research cluster (Constellation SA) in conjunction with the Indo-Pacific Governance Research Centre, University of Adelaide. The format included a series of panels with 20-minute presentations.

The workshop was designed to encourage cross-university research collaboration in SA, links with the public service and NGOs and links with key national researchers, with a view to developing longer term grant application and publication possibilities.

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Summary

With almost twenty distinguished speakers, both from the University of Adelaide and from across Australia, the views presented at this IPGRC event represent the forefront of research on the Two-Speed Economy in Australia. Although it was noted that unequal growth patterns are a natural part of growth, given the evidence presented at this workshop there can be no doubt that the current mining boom is having profound effects on the Australian economy and political system. The first panel for the day was successful in outlining the features which made the present mining boom distinct from earlier instances of unequal growth. In particular, the current approach to regulation and prominence transnational trade pose new challenges. The second panel discussed how government policy may act to address these challenges, paying particular attention to the problem of redistribution. The third panel offered important insight into the respective roles of state and federal governments in managing the two-speed economy. Several panellists offered optimistic messages here, though they emphasised the importance of informed policy change should South Australia hope to take full advantage of the resources boom. The final panel discussed the potential for increased workforce participation in the two-speed economy. An important theme to emerge was that although Indigenous employment may benefit significantly from the mining boom, it is far from a solution to disadvantage in this particular population. It is clear that further research will be necessary to understand the implications of Australia’s current two-speed economy, and the Indo-Pacific Governance Research Centre is happy to have brought together those leading in this field.

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Current differences in growth rates between economic sectors have led observers to describe Australia as having a ‘Patchwork Political Economy’. In particular, the strength of the mining sector has encouraged the term ‘two-speed economy’, suggesting that the mining boom is leaving many Australians behind. This first panel discussed the domestic implications of Australia’s ‘Patchwork Political Economy’, and provided a regional, resource and historical context for the phenomenon.

In his opening remarks for the panel, the University of Adelaide’s Professor Greg McCarthy was quick to point out that sectoral differences in growth are not unusual, and have in fact occurred throughout Australian history. The idea of a ‘patchwork’ economy has been widely used to describe Australian growth patterns since the era of former Queensland Premier Joh Bjelke-Petersen in the 1970s. This immediately raised the issue of determining what made the current mining boom deserving of so much attention – a topic picked up upon by later speakers. McCarthy’s discussion also suggested another consideration: that the present differences in growth rates between economic sectors should not be expected to decline in the future. The Australian economy will always be in a state of change, with some sectors experiencing growth while others dwindle.

Professor Brian Head from the University of Queensland was next to speak. He explained the vast divergence between state and federal government practices and policies in regard to economic development. Head also noted that the growth of non-state actors in the political and economic arena has caused friction. He stated that there has been a shift in economic thinking from the selection of industries where investment is undemanding and profit margins high to more difficult and underdeveloped yet long term solutions that will enable future economic growth for the state. Professor Head stated that while the focus may be on mining and mining employment, the service sector is currently the largest in the Australian economy. In terms of a future vision for the Australian political economy, the ‘Norway Solution’ was advocated, whereby the federal government redirects profits from lucrative industries to fund development in the future. However, while Professor Head explained that this has been attempted, with varying degrees of success, in the current political arena, it was not clear whether he was optimistic about further attempts with this policy.

Next, Professor Kanishka Jayasuriya from the University of Adelaide argued that the new set of foreign and political interests in the mining sector have created an unprecedented situation for Australia. Jayasuriya suggested this is in extreme contrast with the Hawke and Keating era, during which re-engagement of the ASEAN region and liberalisation of the economy occurred. The present consensus on market driven growth and deregulation has left the Australian government without the option of using the redistributive policies available to ‘spread the wealth’ following earlier economic
booms. Professor Jayasuriya also discussed how the rise of China and the nature of Chinese state-owned enterprises are causing difficulties for Australia, and the relationship between state and federal governments. The agreement between Chevron in Northern Western Australia, stating that it would only export to China, exemplifies the issue of nationalism versus market and resource liberalism in Australian politics and economics. Both Professors Head and Jayasuriya noted that Australia must avoid the ‘Dutch Disease’ as the current mineral resources boom forces new terms of trade upon Australia. During this boom, unlike those in the past, public expenditure has not increased, fiscal contraction has occurred, and the implementation of political measures to harness the growth has been difficult, shown by the failure of the Rudd Mining and Resources Tax. Furthermore, corporate interests are emerging; the nature of corporate entities from the ASEAN region as well as sub-state enterprises are causing structural changes and are producing unintended victims in the Australian economy.

Mr. Richard Leaver, Reader of International Relations at Flinders University, concluded the panel. He outlined the various problems that arise as sub-state and corporate entities encroach on previously Commonwealth and state resource interests. Leaver stated that foreign firms’ interests have conflicted with the policies of state governments in Western Australia, Queensland and South Australia, and that in the future, exports of both Liquefied Natural Gas and Coal Seam Gas - new fuels for China – will boost the Australian economy. Although coal is a major Australian export to China, Chinese purchases of iron ore have experienced a 12% growth rate during the past decade, overtaking coal. However, Leaver believes this will start to level off as the spot price of iron ore has declined rapidly over the past year and the market will remain ‘skittish’. The development of different energy products will produce a new minerals boom for the Australian economy, and, as both Professors Head and Jayasuriya argued, it is in the best interest of Australian governments to harness this and form policies that are shaped around the best interests of the future Australian state.

Panel 2: “National Politics Transformed”

Chaired by Professor Clement Macintyre, University of Adelaide

Speakers: Dr. Tom Conley (Griffith University), Nick Minchin, Sen. Penny Wright (Australian Greens), Prof. Carol Johnson (University of Adelaide).

This panel discussed the impact of the two-speed economy and the mining boom on national and party-politics. Dr. Tom Conley began by discussing the structural changes in the economy which make economic management difficult for the governing party. Nick Minchin believed that these structural changes meant inevitable departure from some Labor Party principles. He maintained however that Labor would nonetheless retain its distinctive approach to wealth redistribution. According to Penny Wright, Labor’s current system of wealth redistribution is inadequate, leaving behind those Australians who have not directly participated in the mining boom. Carol Johnson also
discussed the distribution of mining wealth, although from the perspective of industries as opposed to individual Australians.

Dr. Tom Conley, of Griffith University, outlined three structural changes occurring in the economy which make economic management increasingly difficult. The first of these was the growth of the natural resources sector and simultaneous decline in the manufacturing industry. This trend suggests that Australia is susceptible to a broader case of ‘Dutch Disease’ – a decline in domestic production due to currency-strengthening resource exports. Importantly however, Dr. Conley suggested that Australia will only become vulnerable to the Dutch Disease if the government fails to manage the resources appropriately. In fact, Dr. Conley was confident that sound economic management of resources could bring economic prosperity.

The second structural change discussed was the decrease in household debt as a percentage of disposable income. The emphasis placed on saving has been detrimental to the economy in that it drives interest rates up and prevents the consumption essential for economic growth.

The final structural change was the growth in environmentalism. Increased concern for the environment could signal a push away from the mining industry. This however, would have great ramifications for the Australian economy, given that Australia’s trade relationship with China relies heavily on the export of minerals. Conley suggested that rather than limiting mining exports and straining the trade relationship with China, the government should tax the mining industry heavily, as higher taxes are unlikely to cause mining companies any significant financial loss. If legislated correctly however, high taxes may discourage an environmentally destructive approach to mining.

Former Liberal Senator Nick Minchin followed Dr. Conley by discussing the impact of the current economic climate on Labor party politics. He claimed that Labor is unable to promote its traditional theoretical principles due to the reality of the two-speed economy and the lack of a strong majority in parliament. He argued that Labor has departed from its principles by resolving to work with and not against the two-speed economy. Despite this move away from a traditional ‘left’ position by Labor, there remain some fundamental differences between the parties, such as the degree of government interference in the market and conceptions of wealth distribution.

Senator Penny Wright took up the issue of wealth redistribution by highlighting the disparity in wealth between the richest percentile of the population, and the average Australian. Figures show that an unemployed individual living on social welfare in modest accommodation in Elizabeth would only have $16 of disposable income after paying rent and bills. As for employed Australians, they still earn on average 110 times less than CEO’s and other top earning employees. Wright argued that to date, the mining boom has done little to benefit these Australians.

Write continued, stating that the main beneficiaries of mining company profits are foreign investors who reap approximately 83% of mining profits according to the National Reserve Bank. Senator Wright argued that this indicates that the mining industry should be more heavily taxed, and that revenue needs to be redistributed to those individuals in society who are disadvantaged. Among the
disadvantaged are individuals not employed directly or involved in ancillary sectors living in mining towns who earn comparatively lower wages to miners and therefore have difficulty competing in the property and rental markets, and are also exposed to higher prices for goods and services due to the increased net income of the town.

Professor Carol Johnson agreed that mining wealth needs to be redistributed appropriately; however her focus is on wealth distribution between industries as opposed to individuals. She argued that the very success of the mining industry has caused the relative decline of other export industries such as steel and manufacturing. Accordingly, profits realised from the mining boom ought to be redistributed in such a way that supports the industries negatively affected by mining. She acknowledged, however, that the current method of distribution is problematic. The traditional compensatory mechanisms such as tax breaks for particular industries and protectionism are no longer feasible in the current economic climate. Johnson therefore agreed with Minchin that the patchwork economy has undermined the Labor Party’s image of social inclusion and equitable wealth distribution. Moreover, the decline of the manufacturing industry has meant that there is a decrease in the number of blue collar workers and consequently a loss of traditional support for the Labor party.

It is clear that structural economic changes have placed restraints around government policy making. Despite these restraints the two-speed economy can still be managed effectively thus increasing the nation’s net-wealth. It is important, however, that this wealth be distributed to the individuals and industries negatively affected by the mining boom in order to maintain social equality.

**Panel 3: “State and Regional Challenges”**

**Chaired by Professor Carol Johnson, the University of Adelaide**

**Guests: Hon. Michael O’Brien, Mr Martin Hamilton-Smith, Assoc. Prof. John Spoehr (Uni of Adelaide), Prof. Andrew Beer (Uni of Adelaide)**

This panel was intended to highlight how the two-speed economy is not effecting Australia in a uniform manner, but rather producing different outcomes and challenges between states and regions.

The panel began with remarks from the Honourable Michael O’Brien, Member for Napier, Minister of Finance and Minister for the Public Sector. Minister O’Brien suggested that all Australians should be happy with how the economy is currently faring – the question is whether this can be maintained. It was suggested that Australia may not reproduce its prior success in what he called the “Global Financial Crisis Stage One” when faced with a “Global Financial Crisis Stage Two”. The Minister expressed concern that in this later “Stage 2”, in which resource extraction begins to wind down, Australia will be vulnerable to the whims of the global economy. Further compounding this worry was concern that Australian agribusiness would not be so buoyant in the face of future downturn, as poor harvests in Russia and Canada had reduced competition for Australian produce in recent times.
In looking forward to meeting these challenges, Minister O’Brien offered an optimistic vision for both Australia and South Australia. As comparatively smaller economies—on the international scale for Australia, and the domestic for South Australia—both the state and the federation are in a position to adapt rapidly to changing circumstances. They have the “fleetness of foot” to take full advantage of new opportunities and reorient toward profitable industries. O’Brien identified some possible avenues for future growth, including supplying food security and a high-protein diet to the emerging middle classes in developing countries, and diversifying away from simple undifferentiated agricultural commodities, such as wheat and barley.

The floor was then opened to Mr. Martin Hamilton-Smith, State Member for Waite and Shadow Minister for Health, Aging, Mental Health and Substance Abuse. Hamilton-Smith stressed the importance of vigour and ingenuity in keeping the state economy healthy. He was worried about Australians lapsing back into a “lucky country” mentality and failing to make good use of the opportunities presently available. He noted that while South Australia’s economy is underpinned by several structural challenges – having little water, a small population and being isolated from other markets – the state also has several economic advantages, including a highly educated population, strong research establishment and solid primary production.

Given this context, Hamilton-Smith identified five key challenges for South Australia’s prosperity. First, working to optimise Australia’s comparative advantages – it is clear that production here cannot outcompete the low costs of overseas competitors, however, the state can still grow through skill and innovation, and capturing niche markets. Second, it is necessary to spread the benefits of mining. Hamilton-Smith considered the efforts made so far to be “clumsy”, but he acknowledged the importance of their intentions. Third, it is important to move our industries higher up the value chain – producing high valued-added goods that are not so vulnerable to competition from emerging economies. Hamilton-Smith also identified the challenges of federalism and tax reform as important determinants of growth in the South Australian economy.

Next to speak was Associate Professor John Spoehr, Executive Director of the Australian Institute for Social Research and the Centre for Labour Research at the University of Adelaide. Spoehr noted that although economies always exhibit a complex range of growth patterns, mining is having interesting and important distributional impacts in Australia, particularly at the local level. He also added that at present, much of the direct effects of mining are not visible in South Australia, which remains at the periphery of the mining industry. Nonetheless, the effects of current and projected resource activity in the state can be analysed. Spoehr identified both “Round One” and “Round Two” impacts. The main Round One impact was the effect of exchange rate appreciation, which exerts pressures on the tourism, manufacturing and education sectors. Spoehr claimed that most of the welfare gains from mining exports would take time to materialize, and called these Round 2 impacts. Also in Round 2, it was noted that the mining job boom would decline significantly. While many jobs are created in construction and other preparatory mining activities, little employment is generated by ongoing mining activity.
Drawing upon his research, Spoehr also noted that mining income creates “Insider/Outsider” effects in communities, where only those directly employed in the mining industry see the benefits of increased activity. Many of those employed in other areas have been disappointed with the effects of mining on their communities.

The final panellist was Professor Andrew Beer, Director of the Centre of Housing, Urban and Regional Planning at the University of Adelaide. Beer began with an illustrative case: that of Tampere in Finland. Tampere was the industrial heart of Finland for many years, but instead of declining it has re-invented itself and now specialises in niche high-tech products, in such fields as health and biotechnology, as well as engineering and communications technologies. Andrew Beer’s point was twofold. First, that it is important to reorient the economy to grow in changing circumstances, and second, that there is a role for government in thinking through these changes. The way forward, as Beer suggested, was not to see resource wealth as a curse, but as a source of investment funds with which to make Australia a knowledge-based economy.

The real challenge in doing this however, was claimed to be bridging the gaps between Industry, Universities and Government. While typically liaison between these spheres is limited, it was Beer’s view that increasing their communication is essential to encouraging knowledge transfer and targeted investment.

**Panel 4: “Workforce Participation: The Opportunity Boom?”**

*Chaired by Professor Kanishka Jayasuriya, the University of Adelaide*

*Speakers: Peter Burn (Australian Industry Group), Assoc. Prof. Sara Charlesworth (UniSA), Prof. Matthew Gray (Australian National University), Michael O’Neil (University of Adelaide).*

The differences in growth rates between economic sectors imply differing labour demands, and thus differing sources and patterns of employment. This final panel discussed the impact of the two-speed economy on workforce participation and the nature of employment.

The speakers agreed that many employment opportunities would arise out of the mining boom, and at the same time acknowledged that there would be many challenges in maintaining high workforce participation for some Australians. Peter Burn, the Public Policy Director of the Australia Industry Group, noted that the mining boom has caused a shift towards high-tech manufacturing. Mr. Michael O’Neil from the University of Adelaide discussed the implications of this on mature-age workers. The Australian National University’s Professor Matthew Gray argued that the mining boom has had a positive impact on indigenous workforce participation, however notes that other industries are falling behind in terms of indigenous employment rates. To close the panel, Associate Professor Sara Charlesworth of the University of South Australia discussed the importance of working conditions as opposed to employment rates.
Peter Burn began by noting that the growth of the natural resources industry has strengthened the Australian dollar and consequently severely weakened the manufacturing industry. Australia, with its high dollar and industrial relations regulations, is a high-cost country and thus unable to compete with countries such as China. In light of this, he argued, the manufacturing industry ought to shift its focus towards products requiring a high level of skill and technology, as this is an area in which Australia has an advantage over emerging economies. By shifting investment from raw-manufacturing to high-tech manufacturing, it may be possible to reduce the negative impacts of a high dollar and relatively high labour costs.

Michael O’Neil noted that as a result of the shift towards high-tech manufacturing, the unemployment rate of mature workers in the manufacturing industry is growing. This is primarily due to their unfamiliarity with new skills and technologies, many of which were not used when they were initially trained. O’Neil suggested emphasis be placed on mature-age education so as to re-engage those workers left behind by the shift to new technologies. In terms of preventing future generations from facing similar difficulties, the education and training system needs to teach students to be adaptive to change in the workplace, rather than simply teaching a particular set of skills which may become redundant in the future.

Whilst acknowledging the difficulties involved in maintaining mature-age workforce participation in the manufacturing industry, O’Neil asserted that the boom has a net positive impact on the Australian economy. Admittedly, it is the mining states that reap most of the benefits of the mining boom, however the other states will still benefit through profitable shareholdings in superannuation funds, redistribution of taxes, and bank interest.

Matthew Gray focused on the impact of the mining boom on Indigenous employment rates. Gray commends the mining industry's concerted efforts to include Indigenous Australians in their workforce. Companies such as BHP, Olympic, and Rio Tinto have strong social inclusion policies which have successfully recruited many Indigenous Australians living in rural areas. Thus any growth in mining will have a direct positive impact on Indigenous workforce participation.

There is, however, a greater demand for Indigenous labour in the mining industry than there is supply. Mining industry jobs are predominantly in rural areas, whereas the majority of Indigenous Australians live in metropolitan areas. Moreover, given that a strong sense of community is integral to Indigenous culture, the “fly-in fly-out” style of work is unsuitable for those living in urban areas. Gray argued that issues such as alcoholism, poor health, and historical stigmas also make it difficult for Indigenous Australians to secure employment. Although the mining industry is having a positive impact on Indigenous workforce participation, it cannot bridge the gap alone and the government and other industries must also focus on engaging Indigenous Australians.

Finally, Sara Charlesworth discussed workforce participation in the community services sector. The Productivity Commission’s recent inquiry into Disability Care and Support serves to highlight the particularly poor working conditions of the community services sector. The inquiry shows that whilst the employment rate has risen in recent years, the quality of employment has dropped. There is a
general rise in precarious employment such as casual work, and a lack of predictability regarding working hours, time arrangements, and the length of employment.

Wage rates for community services workers are generally lower than those for retail workers, despite the high level of skill required in the industry. Whilst a large portion of the work includes household duties and assistance to perform everyday tasks such as showering, nurse-like duties are also involved. Charlesworth suggests that there is a gendered hierarchy in the workforce, resulting in a devaluation of work that is considered ‘feminine’.

The precarious nature of employment in the care-worker industry is also of great concern. At least 24% have 2 or more jobs (compared with a national average of 6%), and 42% want more hours. Moreover, casual workers in the community services sector unlike those in other sectors, have no minimum engagement rules, leaving them with great uncertainty as to weekly working hours. Part-time workers are treated in a similar manner to casual workers, with no requirement for a written employment contract, no obligation to pay over-time unless they have worked more than 38 hours per week, and no casual loading. This makes part-time workers a more cost-effective alternative to casual employment. Attempts at unionisation have thus far been unsuccessful in improving working conditions, as workers are unlikely to punish vulnerable clients through industrial action. Charlesworth argued that this aspect of the workforce deserves more attention given that, according to the latest census, there are more workers in the care work sector than workers in the entire mining industry.

It is clear that the mining boom will bear increased employment opportunities for some, whilst taking away opportunities from others. The panellists suggested a number of initiatives to maintain workforce participation amongst all sectors of society. O’Neil emphasised importance of teaching workers to adapt to changing technologies, and increasing education and training opportunities for older labourers who have become redundant. While Gray noted the positive impact of the mining boom on Indigenous employment, he highlighted the need for other industries to improve their engagement of the Indigenous population. Finally, Charlesworth used the community services sector to highlight the risk of increasing the workforce participation rate at the expense of maintaining a reasonable working environment.
List of Participants

Professor Greg McCarthy  
The University of Adelaide

Professor Brian Head  
The University of Queensland

Richard Leaver  
Flinders University

Professor Kanishka Jayasuriya  
The University of Adelaide

Professor Clem Macintyre  
The University of Adelaide

Mr Nick Minchin

Senator Penny Wright  
Australian Greens

Professor Carol Johnson  
The University of Adelaide

Dr Tom Conley  
Griffith University

Honourable Michael O’Brien  
Minister for Finance and the Public Sector

Mr Martin Hamilton-Smith  
Deputy Leader of the Opposition & Shadow Minister for Defence Industries

Assoc. Prof. John Spoehr  
The University of Adelaide

Professor Andrew Beer  
The University of Adelaide

Mr Peter Burn  
Australian Industry Group

Assoc. Prof. Sara Charlesworth  
University of South Australia

Prof. Matthew Gray  
Australian National University

Mr Michael O’Neil  
The University of Adelaide

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**IPGRC Research Mission**

A primary focus of our research agenda is on political dynamics of governance and institutional innovations in the provision of public goods and regulation especially as it relates to economic and social development in the region.

This will address issues relating to the organisation of markets and politics, and their effectiveness and fairness in addressing complex economic and social problems. It will also include an examination of the transformations of political organisation and authority at various scales — global, national, and regional — which have a bearing on the complex multilevel governance of the delivery of public goods and regulations.

The centre has a particular focus on the global and regional challenges arising from the shifting tectonic plates of economic and political power to the Indo-Pacific region.