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EFFECTS OF ECONOMIC INTEGRATION AND LIBERALIZATION IN AUSTRALIA:
(1980 TO PRESENT)

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Abstract

Beginning in the 1980s Australia underwent economic integration and liberalization to increase competitiveness globally as well as construct a productive and efficient economy. This analysis provides a succinct background of Australia, a study of their economy of from the 1980s to present day, an inspection of the effects of economic events changes during the time period mentioned, and plans for the economic future of Australia. The hope is to provide readers with an overall understanding of Australia’s economic structure, which can be used by potential investors to make critical investment decisions about businesses/stocks.

Australia showed strong ties of government and economy leading into the 1980s, which proved to hinder their ability to grow as an economy at a higher level (outlined by GDP growth, inflation rate and other economic factors). Strong ties of government and economy led to a limited ability to fully integrate with the rest of the world. However, with changes in economic policies and changes to the internal structure of the economic procedures within Australia, Australia’s economy grew immensely. Large increases in total GDP (Gross Domestic Product), stabilization in the inflation rate and a strong Australian dollar have given proof that Australia is capable of being an investment safe haven in the future for global investors.
# Table of Contents

Introduction

- Purpose ......................................................................................................................... 1
- Motivation for Study ..................................................................................................... 1-2

Australia in 1980

- Australian Economic Society by 1980 ................................................................. 3-6
- Economic and Financial Factors .............................................................................. 6-10

Australia: 1980-2010

Economic and Societal Events

- 1980s ..................................................................................................................... 11-18
- 1990s ..................................................................................................................... 18-21
- 2000s ..................................................................................................................... 21-26


Present-Day Australia: Changes from 1980

- 1980 vs. 2010: Similarities and Differences .......................................................... 36-37
- Global Standing .................................................................................................... 37-38
- Future of Australia: Economic Outlook ............................................................... 38-40

Conclusion .................................................................................................................... 41

References .................................................................................................................. 42-43
Introduction

Purpose

This analysis will provide an examination of the changes in Australia’s economy during the period of 1980 to 2010 due in large part to the modifications of policies relating to economic integration and liberalization within the country. The purpose of this thesis is to provide an analysis of the effects of economic integration on Australia in the past 30 years and to gauge whether Australia is a viable option for future investors. Australia has always been known for its passive and isolationist nature in the world's economy and international trade. However, in the past 30 years, Australia's policies have moved towards global economic integration and economic liberalization within the country, which has led to many changes in the Australian economy.

In order to determine the value of the Australian economy, I will conduct an economic analysis and a meta-analysis of the trends that have changed in Australia and the changes in overall economic efficiency in Australia. Economic indicators such as inflation rates, GDP growth, foreign direct investments and other such tools will be used to identify changes from the 1980s to the present day. The analysis will conclude with a look at the economic outlook of Australia for the future: the positives to look forward to and the concerns that Australia must account for.

Motivation for Study

The beginning of the 21st century has been noted as a time of increased financial investment, by firms, by corporations, and by private investors. These investments led to the growth of economies around the world and provided a stabilized economic outlook for many countries. However, with global economic crises, such as the 2008 financial crisis, investors
have begun to look for new potential investments to move their money into. In order to improve the flow of investments around the world, investors must look for new areas and new possibilities that seemed before to be concerning but now may have become investment havens.

The interest for this research endeavor came from the studies I had done in my finance and economics classes along with the ever growing concerns for economic stability throughout the world. Two classes during my time in college that really relate to this are Finance 407 (Multinational Financial Management) and Economics 434 (International Finance and Open Economy Microeconomics). In each of these classes, we explored the methods behind measuring financial and economic efficiency, identified many reasons for the economic lapses that occurred in the world, and even looked at possible ways of restoring solidarity within the world’s economies.

I used my knowledge from these classes along with my own growing concerns with the economic outlook of the world in order to formulate this thesis. My plans in the beginning were to do a review of the world’s top economies and see their changes in the past couple of years and identify methods of improvement, however it was too broad. I decided to narrow my thesis towards Australia in order to make a more defined review of a country that has gone through many changes in its past 30 years and I wanted to see how Australia has improved/declined and to see whether it really was a legitimate source for future investment, for even someone like myself.
For many years Australia was considered a country that chose to provide an isolationist method to global economics. This meant that they felt the need to stay distant from global economic interactions and believed that they could maintain self-sufficiency. The main cause of this was government intervention. The government had a large hand in the economy and many other areas of the country. Large government intervention began in the early parts of the 20th century and was supported by both political parties in Australia: the Liberal Party of Australia and the National Party (Krieger, p. 55). Post-World War II, both parties noticed significant improvements in economy once government had taken complete control. In reality, World War II had accelerated the manufacturing industry greatly, sharply reducing unemployment and increasing the amount of women in the workplace. Nonetheless, each party pushed for increases in the government’s role in the regulation of economy and provision of social welfare.

Government intervention continued into the 1970s with more emphasis on domestic market than exports. The Australian economy began to weaken as European countries such as Spain and France and Asian countries such as China and Japan took advantage of export markets and grew rapidly, while Australia remained sluggish. The most Australia exported during these times was primary commodities, such as wool and minerals. This led to weakening terms of trade, consistent account deficits and rises in foreign debt (Krieger, pg. 56). The isolationist methods of Australia were slowly decreasing in support from the Australian people and the Liberal and National Party felt a need for more interaction with the rest of the world in order to stay a strong competitor with the rest of the world.
In 1975, an even bigger crisis occurred, known as the Australian Constitutional Crisis. In 1972, Gough Whitlam of the Australian Labor Party (formerly the National Party) was elected Prime Minister of Australia with a small majority in the House of Representatives but no control in the Senate. The Whitlam Government presented many new policies and programs that gave Australians hope for stability. However, Whitlam made poor political decisions, which ultimately led to the Constitutions Crisis. One of the biggest political mistakes was the 1975 Overseas Loan Affair (Kelly, pg. 21).

In December 1974, the Whitlam Government looked for methods to raise money to finance development plans, mainly natural resources and energy projects. However, the Senate shot each appropriation bill down. The Whitlam Government, along with three current ministers (Deputy Prime Minister and Treasurer Jim Cairns, Attorney-General Senator Lionel Murphy, and Minister for Minerals and Energy Rex Connor) met together and signed a letter of authority for Connor to borrow up to $4 billion overseas in order to fund the projects mentioned, including the construction of a pipeline, the electrification of interstate railways and a uranium enrichment plant (Kelly, pg. 22).

In July 1975, the House of Representatives sat down to review the Whitlam loan documents and during this meeting, Whitlam defended his position on the loan. The economic difficulties that Australia was facing at the time, coupled with this very large overseas loan, caused the Whitlam Government to be susceptible to damage from the media along with creating internal problems for the government. Rex Connor was forced to resign after all of the documents of the loan agreement fully surfaced. A series of constitutional and political issues came up in the following months, where Whitlam and the Australian Labor Party verbally fought against the Australian Liberal/National Coalition (formerly Liberal Party of Australia).
In November 1975, Paul Kerr, Governor-General of Australia, chose to intervene in these political affairs and provided means of compromise for the Whitlam Government in their current state of breakdown. Kerr’s hopes were that the Whitlam Government would correct their mistakes and return Australia to its current state of economy. One plan was to provide a re-election to determine the Prime Minister after the crisis that had occurred. However, Whitlam rejected the notion believing he was still the voice that the Government. The Governor-General, who by Australian law has the ability to dismiss a Prime Minister for acts that are detrimental to the country of Australia, dismissed Gough Whitlam on November 11th, 1975. Malcolm Fraser, leader of the Australian Liberal/National Coalition, became the temporary Prime Minister and later became the permanent Prime Minister after the elections of 1977 (Kelly, pg. 29).

From 1975 to 1980, the Fraser Government set many goals in the attempt to begin the process of rebuilding and recreating a strong Australian economy. However, by 1980, none of these goals were achieved: inflation was still in double digits; increases in interest rates occurred instead of decreases; taxes for overseas affairs began to escalate, even though new laws requiring decreases in tariffs had been instituted; public sector spending increased greatly; and, the education system was in a state of disorder (Kelly, pg. 29). All of these problems led Australians to believe that their country was in an economic state of turmoil. The Institute of Public Affairs (IPA) of Australia, in their Australia report for October/ December 1980, said,

“The Government might start by thinking afresh its basic philosophy on the place and role of government as such in the community. ‘Big Government’ is not just a matter of the size of government, measured by the expenditures of the public sector contrasted with those of the private sector. It has to do with the prevailing attitudes of mind, on the one hand, of the Government itself and, on the other, of the people. At this point of time the people have come to expect government to solve all their problems, big and little, and government has unwisely allowed itself to be jockeyed into accepting this role. A government is not God. It has no power to work miracles. It consists of ordinary fallible human beings just like ourselves. The new
Government should now get out from under. It should frankly confess that its ability to affect big improvements, great advances, is severely limited, that improvements are dependent, in the main, on the people themselves (Agenda, pg. 70).”

As Australia moved into the 1980s, Australia’s inflation rates were at all-time highs, GDP growth was minimal, and a need for a laissez-faire governmental policy was ever looming.

**Economic and Financial Factors**

To fully identify economic deficiencies and areas of concern for Australia as they approached the period of 1980 to 2010, economic and financial factors such as inflation, GDP growth, unemployment rate, exchange rate, and trade balance are useful in providing financial information for future analyses. Other factors will be used in these analyses, as they are also crucial in making inferences from the data.

Inflation is a key statistic in recognizing economic deficiencies within a country. Inflation, by definition, is the change in prices over an extended period of time. Chart I below shows the inflation changes from decade to decade, from 1901-2000.

**Chart I: Decade Average Inflation, 1901-2000**

Throughout the 20th century, inflation remained generally low, with an average inflation of 4.2 percent. However, the 1970s and 1980s showed much higher levels of inflation (10.4 percent in the 1970s and 8.1% in the 1980s); more than double the average of the century. These high levels of inflation were caused by domestic inflationary pressures along with oil price shocks that affected the entire world (Centenary).

GDP growth is a primary determinant of economic growth for a country. In order to understand changes within GDP growth, GDP must be measured over a large period of time. Changes in GDP in a small period of time, such as three to six months, can be attributed to changes in the business cycle of the country. Chart II shows the annual GDP growth from 1901-2000.

**Chart II: Annual GDP Growth, 1901-2000**

GDP growth was volatile in the early parts of the century but as the century progressed, GDP steadily grew. The average GDP throughout the century was 3.4% and the 1970s and 1980s showed signs of around average GDP growth, mainly due to the aftershocks of the post-war boom, as seen above.

The unemployment rate is a gauge of joblessness within a country. In this way, the unemployment rate gives economists the ability to make assumptions regarding economic growth. However, the unemployment rate is a lagging indicator, an economic function that fluctuates after a whole economy goes through a significant event. For example, if an upturn in the general economy occurs, the unemployment rate would take about two to three quarters to decrease. Chart III shows Australia’s unemployment rate from 1901-2000.

Chart III: Australia’s Unemployment Rate, 1901-2000

The unemployment rate in the 20th century deviated greatly from one economic occurrence after another. During times of war, unemployment was low and during times of great economic
recessions (i.e. The Great Depression), unemployment was high. It is important to note the increase in unemployment as Australia moved towards the beginning of the 1980s, with unemployment rates above century average. Although these numbers are slightly elevated, they show signs of a slowing economy, and confirm the changes that occurred with GDP growth.

Exchange rates of a country provide a basis from which investors can make sound investments. Exchange rates also help determine the value of a foreign currency and allow countries to increase or decrease foreign spending. Exchange rates are affected in part by the international demand for a given currency. Lagging indicators, such as the unemployment rate mentioned before, and leading indicators (an economic function that usually changes months before an economy goes through a significant event) affect the trading decisions of participants in the foreign exchange market. For example, if a country was to experience an expansion in the economy, traders would increase their purchasing of that country’s currency. This increase in the country’s currency demand would cause an increase in the exchange rate, making the exchange rate more valuable to the rest of the world.

Chart IV below shows the Australian exchange rate from July 1969 to December 2010. This chart shows the amount of Australian Dollars (AUD) that one can receive for every one US Dollar given (USD). If the AUD/USD were to increase, USD would strengthen and AUD would weaken because a US investor would receive more money for one USD. If the AUD/USD were to decrease, USD would weaken and AUD would strengthen because a US investor would receive less money for one USD.
During the early 1970s, the exchange rate soared and reached its peak of approximately 1.5AUD/USD in 1973. This can be attributed to the peak of the manufacturing boom that Australia reached in the early 1970s. However, there is a sharp decline after 1973, derived from the deteriorating economy, high levels of inflation, and the inability of government to handle the economic problems facing the country. It is important to note that up until 1983 the Australian dollar was maintained under the Bretton Woods System, a fixed exchange rate system using a U.S. dollar standard. However, the AUD was effectively pegged to the British pound. By 1983, the AUD became a free floating exchange rate, an event discussed in the next section.

An analysis of Australia up to 1980 illustrates the financial, political, and societal problems that the country was experiencing as it moved into a new decade. High inflation marked with depreciating exchange rates, reduced GDP growth and other economic factors are significant indicators of economic problems in Australia.
Australia: 1980-2010

Economic and Societal Events

Progressing into the 1980s and onwards, Australia was struggling to find ways of moving out of recessionary nature. Each decade from 1980 to present-day Australia provided different events that helped liberalize Australia and economically integrate the country with the rest of the world.

1980s

The 1980s were known by many as the “last great period of reform”, in part to the overhaul that Australia went through in terms of politics and economics. In 1980, the Fraser Government had won re-election for a second term in office. Fraser upheld some of the social reforms that Whitlam had instituted during his term in the early 1970s, but chose to increase fiscal restraint in Australia. Most of this fiscal restraint was due to Fraser’s government’s theory on protectionism. Protectionism is the economic policy of restraining trade between states through methods such as tariffs on imported goods, restrictive quotas, and other government regulations. Each regulation’s purpose is to discourage trade and restrict exports/imports.

Fraser’s treasurer, John Howard (future Prime Minister), presented five federal budgets during his time as treasurer. Throughout the six years in government, Howard began to change his beliefs on economy and budgeting from a protectionist to a free trade position (Howard).

In 1988, Fraser was pushing to introduce an expansionary budget proposal which increased tax cuts, increased spending in civil aviation and roads, and provided tax rebates for home mortgage interest payments over 10 percent. Howard, and many other Australian economists, believed that this expansionary budget would put the economy into a large deficit since the increase in spending would yield little change in output. This would put stress on
Australia’s economy and push Australia into a recession. Even though re-election was looming in 1983 for the Coalition Party, Howard formally disagreed with Fraser on introducing this budget, explaining the harmful effects that it would have on the economy. In the end, the expansionary budget was approved and many of the economic reforms mentioned in the budget proposal were not pursued. This put the Australian economy, as forecasted, into a $4 billion deficit, which led to the recession of 1983 (Fraser).

1983 was an important year for Australia, especially with the arrival of a new government, the Hawke-Keating Government of the Australian Labor Party. The Hawke-Keating Government, led by Prime Minister Bob Hawke and Treasurer Paul Keating (future Prime Minister), entered 1983 with a recession and faced difficult hardships, especially with the expansionary budget that was delivered by the Fraser government the year before. In order to alleviate some of the budget deficit, the Hawke-Keating Government chose to defer many of their election commitments that they promised during their campaign. Economic reform was the main highlight of the Hawke Government, with many improvements executed: the floating of the Australian dollar, the deregulation of the financial system, the dismantling of the tariff system, the privatization of state sector industries, the ending of subsidization of loss-making industries, and the sale of the state-owned Commonwealth Bank of Australia (Kelly, pg. 57).

As mentioned before, the Australian dollar was maintained by the Bretton Woods system, which was pegged to the British pound. The US, with one of the strongest economies in the 1970s, utilized the Bretton Woods system just like many other countries. However once the US dollar began to fail in the 1970s, the other countries who were pegged to the dollar or practiced the Bretton Woods system began to fail as well, such as Australia (Kelly, pg. 79). Countries began to implement a floating exchange rate, an exchange rate regime where a currency’s value
is allowed to fluctuate according to the foreign exchange market. In essence, the exchange rate would change depending on how supply and demand was affected within the international money markets (Kelly, pg. 81).

The Hawke-Keating Government, with its own recession, had very limited options for ways to stimulate their economy. In the end, Hawke decided to float the exchange rate in December 1983, but did it in an unorthodox manner. The exchange rate of the AUD reflected the balance of payments, an accounting record of all monetary transactions between a country and the rest of the world. Due to this, changes in the exchange rates of the AUD would occur opposite to those of many other currencies. Australia’s balance of payments is unique because a large portion of the accounts are based off of commodity exports. This means that the relative value of the AUD would vary significantly during the business cycle, depreciating when commodity prices fall and appreciating during global booms. Other currencies are more popular during slumps because traders move value from declining stocks into cash. The reliance on commodities made the exchange rate highly volatile and created unorthodox movement, allowing for increased financial freedom in the markets (McClelland).

The Hawke-Keating Government’s decision to move into a floating exchange rate regime helped build upon two economic reforms: the deregulation of the financial system and the dismantling of the tariff system (Kelly, pg. 76). The deregulation of the financial system required four main developments – removal of a fixed exchange rate, elimination of exchange control over movements of capital inside and outside Australia, deregulation of interest rates and the removal of barriers against foreign bank entry. These developments would allow for an open and globally integrated economy that could grow at a faster pace and become globally competitive.
Hawke and Keating believed that with financial deregulation, the market would help set domestic interest rates and would also help set the price at which Australia’s currency exchanged with the world. They also believed that Australian banks would not only compete with one another within the country, but compete with overseas banks that would enter Australia and establish themselves. Finally, the exchange controls on capital flows, which prevented Australian acquisition of significant overseas assets, would be lifted. This would provide Australia with a more diversified portfolio of investments and greatly reduce the risk that they would carry (Kelly, pg. 77).

The timeline for the Hawke-Keating Government to implement these reforms was swift. As mentioned before, the floating of the AUD was done at the end of 1983. The removal of remaining interest rate ceilings occurred in 1984 and 1985 and the removal of barriers against foreign bank entry occurred in 1985. Financial deregulation provided more of a boom than that of the floating, enough to bring Australia out of recession and into a new scope of the world, the international markets (Kelly, pg. 84). However, the deregulation came with some consequences that defied Hawke and Keating’s ability to predict.

Australia’s competitive weakness with the rest of the world was shown through a series of sharp depreciations in exchange rate during the mid-1980s. This forced Hawke and Keating to economically restructure Australia once more, something that the Hawke-Keating Government was comfortable with after implementing the float. The economic restructuring occurred through alterations in the taxation system. The taxation system within Australia was becoming more of a concern to the Australian economy and was causing more concerns for the current account deficits that were occurring. In June of 1985, The White Paper was submitted to the Australian government by Keating and the Treasury. The White Paper outlined problems within the
Australian taxation system and proposed possible solutions towards resolution. In the document, Keating noted the large increases in marginal tax rate and average tax rate as well as making the point that the upper class was paying less proportionately while the middle class was paying far more. The main highlight that Keating pointed out was that many sources of income, such as capital gains and fringe benefits, were being untaxed and causing more of the tax burden to be placed on wage and salary-earners (Kelly pgs. 163-164).

There were many proposed solutions to these events and much heated debate that went into the decisions on these tax reforms. At one point, it was believed that there was a complete divide between Keating and Hawke and that the Australian Labor Party was starting to crumble from within. However, Hawke and Keating continuously assured the public of complete stability within the government even though they could not come to a decision regarding a tax reform package (Kelly, pg. 172). In August of 1985, the Hawke-Keating Government officially approved a revised tax reform package.

The package provided many provisions and combined many of the proposed solutions of the White Paper. Keating introduced a fringe benefits tax levied on the employer at the company rate directed towards cars, cheap loans, free housing and other benefits. Requirements for substantiation of employment-related spending deductions were also included, as well as a prospective tax on realized capital gains discounted for inflation with the main exemption being the family home. Keating also lifted the company tax to 49 percent from 46 percent, which helped finance the removal of double taxation of company dividends. The package was a bold move for Keating on entrenched tax protections, which would strike at business and capital-conscious middle-Australia. The provisions, however, provided much needed relief to the Australian tax system (Kelly, pg. 176).
Although, the financial deregulation and the increase in tax provisions fed into the increase in investment and share-market value, there were side-effects to the increase. The financial deregulation gave rise to unsustainable debt, as well as a decline in corporate standards (Kelly, pg. 90). With financial deregulation established, more freedom was given to corporations and they immaturesly handled the freedom of overseas affairs. Corporations who were previously restricted to conduct business within the country were given the opportunity to invest and buy into the foreign market and chose to commit many poor commercial decisions, which led to corporate crashes and damaged the reputation of Australian companies overseas. Deregulation also changed the rules of monetary policy management by authorities. Deregulation allowed monetary targets to be abandoned as strict policy objectives. This caused world central banks to struggle to devise new guidelines for dealing with this international financial market integration that Australia was implementing globally. (Kelly, pg. 92)

Hawke and Keating were at first congratulated for their remarkable ability to turn around a terrible situation with the Fraser Government and build a booming economy that was diverse and able to grow at a large rate. However, there was one problem: Australia was growing at too fast of a pace, a pace that much of the Australian economy could not handle. The corporate crashes that occurred along with the Great Commodities Depression of the late 1980s and the US stock market crash in 1987 led to a second recession for Australia in a decade.

By the mid to late 1980s, Australia’s expansionary tactics left Australia overstretched in numerous areas of economy and government. The financial excesses of the 1980s had made Australia vulnerable to even the smallest contractionary shocks. The first contractionary shock was the Great Commodities Depression of the late 1980s. With volatility very high and interest rates rising, commodities began to take a fall in value and were depreciating. Since the AUD
exchange rate was based off of Australia’s balance of payments and the balance of payments were mainly composed of commodity exports, Australia’s exchange rate took a dive as well.

Another problem that arose was the rise in asset prices and interest prices in the late 1980s. When the interest rate ceilings were removed in 1984 and 1985, the goal was to have increased growth in the microfinance sectors of Australia, which did end up happening. However, the increase in interest rates along with the high levels of debt that accumulated halted the asset price boom, constraining the cash flow and limiting the ability of companies to undertake investments and increase employment. The high interest rates also reduced households’ disposable income, which led to a decrease in household consumption.

The downside of the asset price boom was that the surge in prices was financed by a large increase in borrowing. With Australia, asset prices hit a high by 1986-1987 and began to fall dramatically. This forced investors to sell as much of their investments as possible before their losses would increase. Banks who lent these loans would increase the damage of the fall by calling in loan payments or rejecting to roll the loans over as they responded to the falling asset values.

As the recession developed, the fall in asset prices led to many unpaid loans, which affected the financial institutions, creating the recessionary environment. It did not help that across the world in the United States, the U.S. economy was dealing with its own recession. A stock market crash in 1987 dropped the Dow Jones Industrial Average by 22.6 percent (World). It was handled well by the U.S. economy, however those countries who were closely integrated with the United States, such as Australia, Canada and the United Kingdom, felt the effects of the crash. Australia’s stock exchange fell 41.8 percent, a huge hit to their economic system and added to the problems that Australia was dealing with (Corbett). For Australia, it was the first
real contractionary shock to the economy after they had deregulated the economy. Australia’s recession officially began in 1990, and as Keating said, “This recession was the recession that Australia had to have.” (Age)

1990s

As Australia entered the 1990s, the country was in the midst of its second recession in seven years, something Australian citizens and government officials did not want to experience again. But the Australian government, along with many economists, believed that the recession was a necessary effect of the expansion that the Australian economy had in the mid to late 1980s. Consequently, Australia was not the only country to be in a recession in the same time period. Countries such as Finland, Sweden, Canada, Spain, Switzerland and many others fell victim to the recession and suffered great economic losses, damaging their growth. All of these countries, including Australia, faced the effects of the recession because each country had benefitted from the assets price boom of the late 1980s (Reserve).

The recession lasted for roughly one year (September 1990 to September 1991) and created much economic distress for Australia, as per the symptoms of a recession. However, there was one strong benefit of the recession for Australia: a sharp decrease in inflation. Inflation, which had increased to very high levels, had fallen to about two percent, a number that rivaled rates in some of the most developed economies. There were two general reasons for this sharp decline. The one obvious reason was the change in asset prices. The sharp decline in asset prices along with other price levels (housing, automobiles, etc.) decreased the inflation rate considerably.

The other reason was the change in government policies that occurred from the 1980s to the 1990s. In the 1980s, the Hawke-Keating Government was motivated to enhance the
Australian economy and expand immediately after the recession in 1983. However, with the recession of 1990, the Hawke-Keating government chose to operate in a more practical manner by reducing interest rates and monitoring the budget deficit more closely. The Hawke-Keating government learned from this recession that in order to obtain a healthier inflation result, demand management must be handled more effectively, especially with monetary policy. This did not mean a completely conservative monetary policy system, but to be semi-conservative and be more mindful of the impacts of high inflation and high interest rates (Eslake).

The aftermath of the Australian economy was pre-determined to be a slow rise back to normal levels of output, growth, unemployment and other factors. However, Australia’s ability to strengthen monetary policy was pivotal to its ability to grow while other countries were still dealing with recessionary aftershocks. One of the important effects of monetary policy was the decrease in unemployment by establishing an inflation target, an economic policy where central banks identify a target inflation rate and, over time, keep within the general range with the use of interest rate changes (Eslake). Australia’s post-war history had shown positive correlation between unemployment rates and inflation (referenced by Charts I and III). The notion was that if a country were to set an inflation target at a lower percentage and keep the rate within a certain range, then employment would stay low as well.

The Reserve Bank of Australia, in 1993, first introduced the idea of inflation targeting as a “good thing” for the Australian Economy. The new Keating Government (newly elected at the end of 1991) did not endorse the inflation target at first but did not oppose it either, allowing for government agencies to possibly move ahead with inflation targeting in the future. As the concept of inflation targeting became popular around the world in the early 1990s, the Keating government reconsidered their position on inflation targeting, realizing that it may be an
important monetary policy objective to administer. In 1996, the Keating government formally committed to the support of the inflation target, showing that it was both the policy of the government and the Reserve Bank. This was one of the most important economic policy developments of the 1990s for Australia and helped usher in a stronger Australian economic structure for the future (Bell, pg. 123).

Australia’s progression through the 1990s was encouraging, with annual economic growth and rises in consumer confidence and consumption. Productivity and national wealth increased greatly and deficits, that were the concern of the Australian government before, were decreasing by the end of the 1990s. Labor productivity growth also developed, which was a positive sign for employment within Australia. Fiscal policy was seen by many as a primary catalyst to the expansion. The Australian fiscal policy, as mentioned before, was tied very closely to the business cycle (similar to that of the U.S.). With decreases in unemployment and the inflation target becoming a financial anchor for the country, Australia was able to thrive and gain some recognition around the world for their economic successes (Roundup).

Another reason for the expansion in Australia was the relatively stable world climate in the latter half of the 1990s. The US was leading a very strong economy and there were no major economic shocks that affected the world. The largest of shocks was the Asian crisis of 1997, but Australia was not severely affected by the crisis as some countries were. The Asian crisis was a period of financial crisis within Asia that cultivated with the financial collapse of the Thailand baht, the Thai currency. Thailand had chosen to float the exchange rate and cut its peg from the US dollar, which, along with its burden of foreign debt at the time, bankrupted the country (Yellen).
This had a trickle-down effect and effectively pushed other Asian currencies into a decline, devaluing the stock markets and increasing private debt. It was a tough period for Asian countries, especially developing countries, as these countries were in the midst of their own economic booms. The crisis lasted for about two years before Asian countries began to recover (Yellen). It was a testament to the strength of Australia’s economy to not be affected by the Asian crisis, even though Australia relied greatly on Asia for exports. It was also a sign of how Australia had come along in the past 10-15 years. In the 1980s, Australian performance was almost completely based on how the U.S. did as an economy. As said by the Australian Productivity Commission Chairman Gary Banks in 2003, “…when the USA sneezed Australia caught cold.” (Gary Banks) However, at the end of the 1990s, Australia became an independent country that was tough enough to handle foreign economic shocks.

The 1990s were considered by many to be the creation of the “miracle economy”, and by the end of the decade, Australia was reaching a state of economy that rivaled that of the US. As it pushed towards the 21st century, Australia was primed for even more expansion.

2000s

The rise in economic stability and growth for Australia was a comforting sign for Australian citizens entering the new century. Consumer confidence was at an all-time high and the Australian economy was robust. As the new century commenced, economists began to predict a recession in the world economy due to the large increases that the world had seen in terms of GDP growth, productivity and output. Economists were able to predict this small recession in the early 2000s after seeing the Asian crisis occur and also due to the Dot-com bubble, a period of time during which the Internet sector companies vastly improved their market value and stock prices shot up rapidly.
In early 2000, the Dot-com bubble had burst in part to the effects of the technology switchover after “Y2K” and the designation of Microsoft as a monopoly within the technological software world. The bubble burst led to the crash of the NASDAQ, a US Stock Exchange that is an equity securities trading market, creating speculation for possible worldwide impacts. The recession got impacted even further with the attacks of September 11, 2001, plunging stock values and putting the world into a state of shock and fear. However, the developed economies of the world remained resilient to the recessionary effects and did not have significant losses in their own economies. Australia especially did not waiver in terms of economic growth, showing improved signs of a diverse and independent economy (Lim, pg. 1).

The Howard Government, led by former Treasurer John Howard, was entering its third and fourth terms in the new 2000 decade with a strong economy and a bright outlook on the future. Howard’s ability to stay in office for four terms (1996-2008) attested to the economic stability that was instituted by the Hawke-Keating and Keating Governments. Trade increased immensely for Australia, especially with Asian countries, and Australia’s current account was becoming more profitable (profitable investments through current account deficits). The world was also experiencing a large economic boom of its own, with market values at all-time highs and businesses seeing some of their best profits historically.

With all of these economic booms happening around the world, economists became concerned of a significant global financial collapse. General economics shows that economies run in a cyclical fashion with highs and lows occurring consistently over time. This can be thought of as a roller-coaster. There will be high periods where expansion occurs and the economies of countries will grow and there will be low periods where retraction will occur and economic growth will slow down. When high periods have even higher peaks, they will follow
with low periods with even lower troughs. Even though economists could easily identify this nature of economies, no one believed that the world would experience the financial catastrophes that occurred in 2008.

The financial crisis in 2008 took place in large part to risky moves made by investment banks. Investment banks had considerable portions of their money invested within housing markets, expecting to make huge dividends on their investments during the peak of the housing boom. But as the housing markets started to plunge, financial institutions who relied so heavily on the mortgage-backed securities started to crash and file for bankruptcy. The U.S. Federal Reserve was forced to help bail out many of these banks causing the stock markets to crash not only in the US but also around the world (Lim, pg. 2). This downfall was felt greatly within consumer confidence, income, consumption, etc., since many of these factors fell substantially. Consumers began to save immense amounts of money as precautionary measures for a possible second Great Depression.

At the end of 2008, the crisis started to expand and began to affect currencies as investors transferred large capital resources into strong currencies, crippling developing countries greatly. Governments around the world tried to find ways to reduce the massive effects of the crisis, whether it was through capital injection or cutting interest rates to help increase borrowing and consumption. The recession lasted about a year and a half and when it finished, the 2008 financial crisis was the worst recession the world had seen since the Great Depression of the late 1920s.

The steps leading into the financial recession in Australia were very similar to that of the US. As the housing bubble started to expand within the US, so did the housing bubble in Australia, as housing prices were reaching all-time highs, borrowers were facing consistent
interest rate rises on their growing debt, and household savings rates had been negative since 2003. Two differences, however, must be noted. Australia was facing a housing supply shortage while the US was dealing with a large surplus. Also, the percentage of mortgages that made up the sub-prime market was much lower in Australia than the US, possibly due to the population amounts within each country. Because of these two differences, Australia avoided having the housing bubble burst when the US did. (Lim, pg. 4)

Even though Australia may have avoided their own housing bubble burst, Australian investors who had large investments in US along with investments in financially-crippled countries created more problems for the Australian economy. Australian investors held many securities with direct exposure to the ailing US sub-prime mortgage-backed market. Most investors around the world also had similar portfolios because of their profitability in the short run (Lim, pg. 5). These investments were returning such high dividends to investors during the housing boom that it was hard not to invest. When the investments plummeted, investors were unable to pay off loans that they had taken out in order to finance their investment endeavors and because of this a credit crunch transpired.

In Australia, it was even worse because the biggest borrowers in the country were institutional banks. Due to Australia’s growing borrowing habits, banks were forced to rely on offshore markets as ways of funding the borrowing surge. A liquidity crisis, which is the loss of liquidity within a country’s markets, emerged because Australian banks had given up liquid assets in order to attain profits from illiquid, risky assets (i.e. mortgage-backed securities). Australia’s net foreign debt, because of this, rose greatly and became a larger portion of the nation’s GDP, increasing the concerns of the Australian government even more (Lim, pg. 2).
As per any financial crisis, the Reserve Bank responded to the effects of the crisis by injecting cash into the system. In October 2008, the Rudd Government, led by Kevin Rudd of the Australian Labor Party, implemented an economic stimulus package of $10.4 billion. The Australian treasury was forced to raise the inflation target four times during the financial crisis in order to subdue the effects of loss of income from households around the country. Market confidence dipped lower each time a new international bank had to be bailed out, filed for bankruptcy or was simply deteriorating due to poor investment decisions, which yielded large decreases in consumption and large increases in private savings (Lim, pg. 3)

A larger concern for Australian citizens was guarantees on bank deposits. After many governments around the world were starting to guarantee their citizens’ bank deposits, Australians realized that their own deposits were not guaranteed, spreading fear amongst the general population. In October 2008, The Rudd Government made a swift move by guaranteeing all bank deposits, with a premium needed for deposits greater than $1 million (Lim, pg. 3). The Rudd Government later on, in February 2009, announced the passing of a second economic stimulus package worth $42 billion, in an even more drastic attempt to increase household consumption and decrease the current account deficit. The second economic stimulus package, when broken down, included help to small business for tax breaks, money for cash bonuses and money for taxpayers who made less than $80,000 the previous year (OECD).

As the recession regressed in the US, Australia began to pull itself out of its slowest period in nearly 25 years. National accounts showed an economic growth above zero, with large falls in the current account deficit and large increases in household consumption. From a statistical point of view, Australia never went through a recession, just a slowdown in growth. The credit and money markets in Australia proved to be more resilient than in most other
countries, as shown by less intervention of the Reserve Bank of Australia than by other countries. As written by the Reserve Bank of Australia in their Annual Report 2008-2009,

“The health of the Australian banking system facilitated the effectiveness of the monetary and fiscal response, particularly by allowing much of the large easing in monetary policy to be passed through to interest rates on loans to households and businesses, in stark contrast to the outcome in other developed economies (RBA Annual Report).”

The 2008 financial crisis was the largest and greatest shock that Australia had faced since the recession in 1990-1991. Even through the depths of the crisis, Australia was able to provide resiliency and dodge the bullet of the recession while other economies around the world, developed and developing, were suffering the effects of the housing bubble burst and the collapse of financial institutions around the world.

**Economic and Financial Factors: 1980-2010**

Inflation played a pivotal role in the economic environment of Australia, with events such as the high inflation rates of the late 1980s and the setting of inflation targets in the middle of the 1990s. Chart V below shows inflation rates for Australia from 1973 to 2010.

**Chart V: Inflation Rate, June 1973 – December 2010**

As seen above, inflation rates dropped greatly after the Hawke-Keating Government introduced deregulation into the Australian economic system in 1983. However, as the Australian economy began to grow rapidly, the inflation rate began to rise as well, hitting a level of about ten percent by 1987. The 1990-1991 recession in Australia dropped inflation rates significantly, as low as zero percent in 1992. When the concept of inflation targeting was enforced, inflation rates remained within a range of zero to four percent between 1995 and 2010. There were two major discrepancies that hit outside of the range: a period of deflation in 1997 caused by the Asian crisis; and in 2001, when the world was being hit with the US stock market crash. Since Asia was Australia’s biggest trade partner in the late 1990s, a crash of epic proportions for Asian countries caused Australia’s value of goods to decrease and decreased price levels in turn.

Chart VI below shows annual GDP growth from 1980 to 2010. It is critical to note that Australia experienced a retraction in growth for only two out of the thirty years, a remarkable statistic for Australia.

**Chart VI: Annual GDP Growth, 1980-2010**

The graph shows the highlights of the 1980s, 1990s and 2000s, with each event’s impact on the output of Australia. The large drop in GDP from 1981 to 1982 (3.5% to -2.1%) can be attributed to the recession that Australia was beginning to encounter in 1983. Similarly, the rapid boom that Australia faced in the mid to late 1980s can be shown by the large increases in GDP, including in 1987, when annual GDP growth was at an all-time high. After the recession in 1990-1991, the annual GDP growth rate stayed above zero, highlighting the long period of expansion Australia was able to maintain. The only low points for Australia, during this stretch of GDP growth, was in 2000 when the Dot-com bubble burst, and in 2008, when the global financial crisis hit.

Australia’s unemployment rate, as mentioned before, is a lagging indicator, meaning that it will show the effects of large economic and financial phenomenon. Chart VII below shows the unemployment rate for Australia from 1980 to 2010.

**Chart VII: Unemployment Rate, 1980-2010**

The rise in unemployment to around ten percent in 1983 draws a parallel with the recession that occurred in that year. The economic boom in the late 1980s is shown through the deep decrease in unemployment to about 5.2 percent. The very large increase in unemployment to around 12
percent relates with the aftermath effects of the 1990-1991 recession. From 1993 to 2008, the unemployment rate saw a consistent decline, proving the growth in Australia was in fact helping Australians financially. The last rise in the unemployment rate, in 2009, can be associated with the aftershocks of the 2008 global financial crisis.

The exchange rate for Australia, for every one dollar US, also provided promising signs of strength during the years of expansion in the 1990s as well as increases in the 2000s, with shocks to the exchange rate during the normal economic events of the time period. The exchange rate is also important to note because as Australia began to grow as a nation, it became more integrated within the rest of the world’s markets. This led to the perception that the AUD would become stronger as Australia began to deregulate and open up trade barriers. Referring back to Chart IV, the Australian exchange rate in terms of US dollars remained steady from 1983, when the exchange rate was floated, to about 1997, when the Asian crisis occurred.

In the late 1980s, both the US and Australia experienced economic booms that increased their output, productivity, and investment, yielding a standoff in terms of strength of their currency. When the Asian crisis occurred, the Australian dollar weakened due in large part to the Australian dollar’s large involvement with Asian exports/imports. During this time, Australia’s exchange rate was at around .5 AUD/USD, the lowest the Australian dollar had ever been in its history. However, as the US began to go through its roller-coaster decade of the 2000s, the Australian dollar began to grow even stronger and increased at the expense of the US dollar. The only interruption in the growth of the strength of the Australian dollar was the 2008 financial crisis, which crippled most countries’ currencies. By the end of 2010, Australia’s exchange rate was at a 30 year high of about 1.03 AUD/USD.
The current account balance, which is the sum of trade balance (exports-imports), net factor income from abroad (such as interest and dividends), and net unilateral transfers (one-way flows by individuals, governments, and businesses), shows the activity of a country’s foreign trade. A current account deficit, which may seem like a harmful economic factor for a country, may not always be that damaging. The “Pitchford Thesis”, created by economist John Pitchford, argues that the current account balance is the result of net savings and investment decisions made by economic agents. In essence, the current account deficit is simply the outcome of sensible decisions made between adults in Australia and the rest of the world. If, however, an investment is deemed not profitable or damaging for a country, then there is cause for action (Pitchford, pg. 20). Chart VIII displays Australia’s current account balances from 1980-2010.

Chart VIII: Australia Current Account Deficit, 1980-2010

![Chart VIII: Australia Current Account Deficit, 1980-2010](chart)


As deregulation in the economic system of Australia began to occur, with the removal of trade barriers and increased investment overseas, the current account deficit began to grow, but a steady and healthy rate. The high points in this graph, particularly from 2006-2009, mark the peak of the economic boom happening in both the US and in Australia. Encouraging signs are
the drops in CA after the deficit reaches a very high level, such as the drop in 2000, as well as
the drop in 2010. Chart IX below shows the current account deficit as a percentage of GDP, a
sign of the cyclical growth in Australia as it occurred in most developed countries.

**Chart IX: Current Account Deficit (as percentage of GDP), 1980-2010**

As seen from the graph above, the current account balance (or in this case, deficit) as a
percentage of GDP is a leading indicator. For example, from 1987 to 1989, the current account
deficit had risen to around four percent, which signaled the beginning of the Australia recession
in 1990/1991. The same rise happened in 2007, with the current account deficit hitting its all-
time high of 6.5 percent, right before the beginning of the 2008 global financial crisis. The falls
that occurred such as the ones in 1997 and 2001 are associated with the events that occurred to
foreign countries in those years. The Asian crisis of 1997 affected the current account deficit,
helping Australia slow down on its investing overseas for a brief period. The 2000 market crash
had many investors turn into savers, radically changing the current account deficit and dropping
the deficit to about one percent of GDP. In the aftermath of the 2008 financial crisis, the current
account deficit dropped to less than one percent, which is a sign of change for investors in Australia and helped slow down the rapid growth that was occurring in the mid-2000s.

Foreign direct investment (FDI) is regarded as a stable form of capital inflow because it involves large commitments from investors in acquiring business facilities and hiring staff. FDI is an important financial factor to observe because it identifies Australia’s openness for foreign investment within its country along with Australia’s interest in investment overseas. For years, Australia’s stance on foreign investment was rigid, remaining in an isolationist state. The Australian government would thoroughly screen potential investors before they actually committed to investing within Australia. With the deregulations of the economic system in the 1980s, foreign direct investment rose, albeit at a slow rate of growth. The Government, however, chose to continue its pre-screening process, believing that the mechanism provided a clear and simple way of reviewing the operations of foreign investors in Australia whenever they seek to establish businesses within the country. The Government, would be able to, through the screening process, encourage foreign investors to act as “good corporate citizens” if they wish to invest within Australia. (Sanyal)

When looking at FDI, it is of greater importance to see the inflows of FDI of Australia. This is the statistic that shows the amount of investment from foreign investors investing in Australia. Chart X shows the net FDI inflows of Australia from 1970-2009.
The graph of FDI inflows shows the willingness of foreign investors to invest in Australia. The graph clearly identifies the period in time when Australian government did not allow many investments into Australia, with net inflows below $10 billion until 1994. Net FDI inflows began to increase greatly as the Australian economy became a more prominent figure in the global economic environment. FDI increased for the most part in the 2000s, except in 2005 where FDI radically dropped $35 billion.

Table I shows the FDI Stock Inflows of each country into Australia from 2004-2009, identified by the Australian Trade Commission. Note that stock inflows are different than FDI inflows as they take a look at the total stock that an investing country has within the country (Trade).
Table I: FDI Stock in Australia by Source Countries (AUD Million)

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</thead>
<tbody>
<tr>
<td>United States of America</td>
<td>145,230</td>
<td>75,554</td>
<td>86,599</td>
<td>100,511</td>
<td>99,161</td>
<td>22.7%</td>
<td>1</td>
<td>-31.7</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>43,972</td>
<td>52,501</td>
<td>55,622</td>
<td>64,458</td>
<td>61,390</td>
<td>14.5%</td>
<td>2</td>
<td>45.0</td>
</tr>
<tr>
<td>Japan</td>
<td>18,110</td>
<td>21,403</td>
<td>23,819</td>
<td>31,100</td>
<td>36,676</td>
<td>10.3%</td>
<td>3</td>
<td>148.3</td>
</tr>
<tr>
<td>Netherlands</td>
<td>17,997</td>
<td>21,365</td>
<td>24,633</td>
<td>25,273</td>
<td>20,691</td>
<td>7.7%</td>
<td>4</td>
<td>66.9</td>
</tr>
<tr>
<td>Switzerland</td>
<td>9,940</td>
<td>11,821</td>
<td>16,646</td>
<td>16,363</td>
<td>19,512</td>
<td>4.0%</td>
<td>5</td>
<td>76.5</td>
</tr>
<tr>
<td>Germany</td>
<td>8,418</td>
<td>7,544</td>
<td>10,556</td>
<td>17,615</td>
<td>13,667</td>
<td>3.8%</td>
<td>6</td>
<td>94.7</td>
</tr>
<tr>
<td>Singapore</td>
<td>5,137</td>
<td>4,201</td>
<td>5,590</td>
<td>14,169</td>
<td>10,415</td>
<td>3.6%</td>
<td>7</td>
<td>77.1</td>
</tr>
<tr>
<td>France</td>
<td>np</td>
<td>9,468</td>
<td>11,743</td>
<td>12,514</td>
<td>12,644</td>
<td>2.9%</td>
<td>8</td>
<td>NA</td>
</tr>
<tr>
<td>Canada</td>
<td>6,469</td>
<td>6,070</td>
<td>7,661</td>
<td>10,992</td>
<td>9,456</td>
<td>2.5%</td>
<td>9</td>
<td>68.4</td>
</tr>
<tr>
<td>People’s Republic of China</td>
<td>np</td>
<td>np</td>
<td>550</td>
<td>np</td>
<td>3,643</td>
<td>2.1%</td>
<td>10</td>
<td>NA</td>
</tr>
<tr>
<td>Hong Kong (SAR of China)</td>
<td>np</td>
<td>np</td>
<td>4,756</td>
<td>7,211</td>
<td>9,093</td>
<td>1.3%</td>
<td>NA</td>
<td>-39.9</td>
</tr>
</tbody>
</table>

Total all countries: 337,938 297,641 336,886 396,882 396,516 436,068 100.0% 29.0

APEC: 187,815 123,324 144,528 177,391 181,628 198,567 45.5% 5.7
ASEAN: 7,771 9,027 10,489 17,715 16,132 21,132 4.8% 171.9
EU: 90,615 105,295 114,383 136,195 126,947 146,597 33.6% 61.8
OECD: 279,075 229,643 261,620 306,213 302,560 327,844 75.2% 17.5

*Chinese FDI has tripled to A$9.2 billion, while FDI from Hong Kong fell 40 per cent to A$5.5 billion which indicates FDI is coming more directly from China. FDI therefore from China (including Hong Kong) equated to 3.4 per cent of total FDI stock in Australia in 2009 up from 3.2 per cent in 2008.

As seen in the table, the US’s FDI inflow reduction from AUD 145,230 million in 2004 to AUD 75,554 million in 2005 caused the large decrease in net FDI inflows in 2005. This stock inflow reduction was believed to be caused by the moving of assets of News Corporation, the world’s third largest media conglomerate, from Australia to the United States (News Corporation). 2005 was considered by economists to be an anomaly, and the data shows this, as net FDI inflows rose above $45 billion in 2008 before they decreased by half in 2009, due in large part to the 2008 financial crisis. These large increases show the willingness of investors abroad to put investments in Australia.

The ground-breaking events that occurred between the period of 1980 and 2010 showed much expansion and change within Australia. The liberalization of government from the economy through the floating of the exchange rate, deregulation through the removal of trade barriers, creation of inflation targeting, and also the government’s ability to monitor economic...
growth instead of control growth, showed that Australia truly became an open market and reaped the rewards of doing so.

The integration that Australia began to implement by investing overseas, utilizing foreign debt and diversifying their portfolios helped Australia strengthen and become one of the most developed and sophisticated economies in the world. All of these changes in the Australian economic environment can be seen through the growth of the GDP, the strength of the Australian dollar, inflation control, and large increases of foreign investment in Australia. It is a testament to the government of Australia and to the people of Australia that Australia was able to pull itself out of the depths of recession and turmoil and bring about a period of expansion that has lasted to this day.
Present-Day Australia: Changes from 1980

1980 vs. 2010: Similarities/Differences

When looking at the changes that Australia has gone through from 1980 to present day, it is easy to highlight the large variety of differences between the two years in history. In terms of economic policy, 1980 was a completely different world than what it is now. Government had a hand in everything: trade barriers, exchange rate, a poor taxation system, and left inflation completely free to rise and fall at the will of the people.

By 2010, trade barriers were completely removed in order to increase integration in the world. This helped Australia’s economic standing with the rest of the world, because Australia chose to move from an isolationist stance to a free trade economy. The exchange rate was floated in the early stages of the 1980s in order to allow for increased output, allowing for a stronger currency and more overseas investments. The taxation system, constructed in the late 1980s, helped increased revenue and created a fair method of taxing for the people of Australia.

Inflation, the most essential factor of concern for Australia, was put into an inflation target regime in the early parts of 1990s, permitting the Treasury to control and manipulate the inflation within a certain range. This new concept allowed Australia to grow even further and expand as a country into the 21st century.

The numbers correlate well with the advancement that Australia has made in the past 30 years. Over a 30 year period, GDP is expected to grow at a reasonable rate due to changes in economic policies and procedures. In 1980, the GDP for Australia was AUD $121,839 million, whereas at the end of 2010, the GDP was AUD $328,229 million. This is an increase of 169 percent, which is astounding and speaks volumes of Australia’s expansionary tactics and ability to grow so fast in a 30 year span (World).
The unemployment rate of Australia was also a key development for Australia as the expansion led to an increase in jobs and a decrease in unemployment. In 1980, the unemployment rate was at 6.7 percent before it rose to approximately ten percent in 1983. The unemployment rate in 2010 was 4.8 percent, which compared to the average world rate in 2010 of 8.8 percent, shows a strong workforce for Australia. The decline in unemployment rate is a solid indication of strength of the economy (World).

The current account balance has also grown quite considerably over the past 30 years, due in large part to the huge expansion that Australia went through. In January of 1980, the current account deficit as a percentage of GDP was .2 percent, whereas in 2010, the deficit was at 2.7 percent. This increase is due in large part to the integration and liberalization that Australia went through in the 1980s and 1990s. In comparison, the US and United Kingdom had a current account deficit percentage of 3.2 percent and 2.3 percent, respectively (World).

**Global Standing**

In terms of global standing, Australia is in the middle of the pack of developed countries around the world. Australia is currently 17th in the world in terms of total GDP, however in terms of total GDP per capita (per person), Australia is ranked 10th in the world (World). Australia’s public debt, the total government borrowings of Australia minus the repayments that are in Australian dollars, is ranked 21st overall with a public debt as a percentage of GDP rate of 22.4 percent. Compared to other countries such as the United States (58.9 percent), China (17.5 percent), Japan (225.8 percent), Germany (78.8 percent) and United Kingdom (76.5 percent), Australia is doing well by keeping public debt low and making free trade markets a priority (Debt).
Another form of rankings is the Index of Economic Freedom, created by The Wall Street Journal and The Heritage Foundation. The index is a series of ten economic measurements that are used to assess the degree to which their economy is “free.” James Gwartney and Robert Lawson, writers of the book *Economic Freedom of the World: 1996 Annual Report*, provide a concise definition of economic freedom.

“Individuals have economic freedom when property they acquire without the use of force, fraud, or theft is protected from physical invasions by others and they are free to use, exchange, or give their property as long as their actions do not violate the identical rights of others. An index of economic freedom should measure the extent to which rightly acquired property is protected and individuals are engaged in voluntary transactions.”

The ten economic measures that are discussed by the index are: business freedom, trade freedom, fiscal freedom, government spending, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption, and labor freedom.

With these measurements, Australia ranked third in the world, with scores well above regional and world averages. Australia received high scores in eight of the ten economic measures, while receiving average scores in two areas: fiscal freedom and government spending. However, with Australia’s history of isolationism, government spending and fiscal freedom were the last things that the government could control and is fair to be criticized (Index). The sophistication, the developments and the freedoms of the Australian economy have caught the attention of the world and countries have begun to model many of the advancements that Australia has gone through in its pursuit of long-lasting economic strength.

**Future of Australia: Economic Outlook**

There are positive and negative aspects of the Australian economy as it moves forward into new decades. As with all countries around the world, the population of Australia will start to
age greatly because of the late years of the baby boom generation. This implies a slower growth rate as well as a reduction in labor force participation. Chart XI below shows the participation rates up until today and the Treasury’s projections for participation rates up until 2050. (Gruen)

Chart XI: Historical and projected participation rates (people aged 15 and over), 1980-2050

Source: ABS cat. no. 6291.0.55.001 and Treasury projections.

Although these are just preliminary projections, the line will not be as straight going downward towards the year 2050. However, it is a point of concern that the labor force participation rate will drop because it can potentially lead to a decrease in GDP along with other effects in economic factors.

Another concern is the effects of having to “take care of” the ageing population. The US is currently going through its problems with Social Security and Australia will eventually be faced with similar difficulties. The Treasury has outlined possible ways of dealing with the fiscal gap that would be created in their intergenerational report, Australia to 2050: future challenges (Gruen).

It is also important to note the effects of increased national investments leading to a greater current account deficit. With an expanding economy such as Australia’s, investment is
most likely to increase in the future. Much investment will be put into the resources sector, since oil will become much more expensive as time progresses and supply of oil decreases. It is hard to predict how savings will be in the future, because savings is based mainly on consumer confidence as well as pressures from the rest of the world. Savings can easily fluctuate with an economic phenomenon or with a change in prices within a country. (Gruen)

The future of Australia, whether marked by expansion in the past two decades, must still be looked at cautiously due to external forces that can easily change the landscape of the Australian economy. In a speech given to the American Chamber of Commerce, Dr. David Gruen of the Treasury said,

“The Australian economy has thus far proved remarkably resilient to the global financial crisis and the global recession. The near-term outlook is positive. Internationally, there remains much to be done to guard against the possibility of another crisis, including in the medium-term. For that reason, Australia’s prospects support a somewhat guarded optimism.”

Strength in fiscal and monetary policy for Australia has kept Australia resilient throughout major economic and financial crises and it should remain the same as long as it is monitored and does not return to a state of complete government control.
Conclusion

The purpose of this thesis is to provide an examination of the changes in the economy of Australia between the years of 1980 and 2010, due to changes in economic integration and liberalization within the country, and to gauge whether Australia is a viable option for future investors to invest in. In this 30 year period, Australia's economic policies moved towards global economic integration and economic liberalization within the country, which has led to many changes in the Australian economy.

In order to determine the value of the Australian economy, economic indicators such as exchange rates, GDP growth, FDI, and other financial instruments were used to identify changes from the 1980s to the present day. Each indicator identified strong growth in Australia, even during the face of many crises such as the 1997 Asian crisis, the 2000 US stock market crash and the Housing bubble burst which led to the 2008 global financial crisis. It is with resiliency that Australia has made its move into the upper-echelon of countries in the world and has made itself a strong, diverse, and economically powerful country for years to come.
References


42


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Education

The Pennsylvania State University, Schreyer Honors College
Degrees: Finance (BS), Economics (BA)
Honors in Finance
Thesis: “Effects of Economic Integration and Liberalization in Australia: 1980 to Present”

Honors

3rd place in Financial Analysis and Decision Making in the state (Phi Beta Lambda state conference)
Dewling Trustee Undergraduate Scholarship
Schreyer Honors College Academic Excellence Scholarship
Scholarship America Academic Scholars
Male RA of the Year for 2009-2010

Relevant Experience

PricewaterhouseCoopers, LLC

Transfer Pricing Intern
Philadelphia, PA
Summer 2010

- Researched clients and compiled detailed reports on the processes of the companies
- Conducted economic analysis on sets of companies similar to client in the market to provide a means of comparison and to offer different approaches to fixing the costs of the companies
- Went on client sites and sat down with actual directors/managers of firms to assess their needs and provide detailed reports
- Accepted Full-Time Employment starting June 2011

Rockwood Wealth Management (Formerly Triton Wealth Management)

Investment Consultant Intern
New Hope, PA
Summer 2008 - Summer 2009

- Created financial plans for clients based on meetings and family characteristics
- Used advanced financial planning and customer relationship management software to formulate plans and organize client information and client assets
- Helped manage the rebalancing of portfolios at the end of the fiscal quarter (July)
- Afforded the opportunity to learn about the operation and practices of a small business wealth management firm
- Developed increase in efficiency of the work environment by completing portfolios in shorter amount of times

Comprehensive Insurance Services

Customer Service and Company Manager
Fairless Hills, PA
May 2002 – May 2005

- Directed family insurance business for a 4-month period upon untimely death of CEO (father)
- Managed the sale of the company while ensuring seamless operation
- Assisted clients with policy changes, policy renewals, collected payments, and organized the client database

Penn State University – International Business Department

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University Park, PA
February 2010 – Present

- Worked with Professor Terrence Guay in helping him complete his book, The Business Environment of Europe: Firms, Governments, Institutions
- Compiled research throughout the semester and composed sections of the book on the banking industry and the privatization of firms in Europe

Leadership

Phi Beta Lambda, Professional Business Fraternity

Treasurer/WeAreCustom Head Manager
University Park, PA
February 2008 – Present

- Manage a $8,000/semester budget of a 60 member organization including all fund allocation
- Collect dues from members and allocate money for events, fundraisers, socials, etc.
- Instituted new savings method to create better security for the fraternity’s money and ease of transfer and holding of funds
- Initiated a business venture in collaboration with business fraternity selling over 600,000 customizable products to students, organizations, local business and schools; teamed with other managers on accounting, sales and cash flow issues

Penn State Residence Life

Resident Assistant
University Park, PA
December 2008 – Present

- Manage the health, safety, and social environment of 2 floors (86 residents) of a residence hall
- Trained in areas such as leadership, team building, conflict resolution, safety procedures, policy education, etc.
- Develop activities and programs to engage students and build a community to facilitate pride in the facility; role model for students

Co-Instructor: CN ED 302
January 2010 – May 2010

- Helped teach the class alongside current RA coordinator; taught classes when coordinator was ill, out of town, etc.
- Graded papers, gave insight to students about the RA experience and also evaluated students who could become future RA’s

Skills

- Proficient skills in: Microsoft Office, Bloomberg, Reuters, Financial software (MoneyGuidePro, Loringward, etc.), STATA
- Semi-fluent in Urdu and Hindi