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Prosperity along Australia's Eastern Seaboard: Sydney and the geopolitics of urban and economic change

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Abstract

Throughout the last decade, the Australian economy has experienced its second longest period of uninterrupted prosperity in recorded history. The paper argues that this prosperity is sourced from an extraordinary surge in finance-based economic activity along Australia's eastern seaboard, especially in the Sydney region. Population growth in the Sydney basin has further fuelled the region's economic growth. The spatialised nature of this prosperity has produced a major shift in distributional outcomes across Australian regions and among households. Sydney-based households, especially those in inner 'global Sydney' neighbourhoods, have had access to high rates of job creation and sustained increases in income and house values. On the other hand, non-metropolitan households away from Sydney--those in regional and rural Australia--have experienced largely negative consequences as historical inter-sectoral and spatial redistribution mechanisms have been dismantled. The paper shows how divergent experiences of the new prosperity have produced an unstable political landscape in regional and rural Australia. It concludes by urging further research into the spatialised nature of economic changes in Australia, especially research that is conscious of distributional flows and outcomes.

Keywords

urban, geopolitics, sydney, seaboard, eastern, australia, along, change, prosperity, economic

Disciplines

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Prosperity along Australia's eastern seaboard: Sydney and the geopolitics of urban and economic change

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Introduction

During the last decade there have been profound changes in Australia's spatial economy and the nation's demography. These economic and demographic changes are driven by economic, socio-cultural and political changes that are centred on Sydney. First, new growth sectors in the Australian economy are Sydney-centred and these have propelled enduring prosperity for many households through rising incomes and property values. Second, population numbers in the Sydney basin continue to burgeon as Australia households drift to the east-coast and international migrants target Sydney as both their gateway and destination (see McDonald this issue). Third, cultural and political behaviours and attitudes in Australia are increasingly propelled by Sydney-based communities of interest or by reactions to them.

Of course, each of these drivers is over-determined by the others just as the nation's economic and demographic changes are mutually constituted. Yet this paper artificially separates the economic from the demographic in its first two sections in order to provide clarity to the processes under consideration. The third section discusses the political shifts that arise from the economic and demographic changes especially in so far as major changes to historically negotiated socio-spatial distributional pathways can be observed. Here we show how there has been major shifts in distributional mechanisms as a shift to a new accumulation strategy has been engineered. Finally, the paper urges an invigorated inter-disciplinary and engaged research and policy development agenda.

The 'new' prosperity

Australia enjoyed a long period of sustained economic prosperity throughout the 1990s and into 2000, the second longest period of prosperity since economic recording commenced, a period which also produced low inflation and high productivity growth. The boom started in September 1991 and continued each quarter until what was a mild slowdown from the middle of 2000 (figure 1). However, there is scant evidence of awareness in Australia during these years that the good times had taken hold. Growth was spatially and sectorally concentrated just as income and asset growth were spatially and socially concentrated. Many communities and households continued to experience major uncertainty and stress as jobs and services were eroded. Many questions arise in considering an analysis of the long period of 1990s prosperity: Why did it happen? Where did it take place? Who were the winners and losers?

Figure 1: GDP Growth in Australia 1962-2001

There are *seven* distinct reasons for the 1990s decade of prosperity. *First*, it seems that Australia really did get some gain from the pain of the 1980s. For example, while there have been major job loss and capacity shedding in once heavily protected manufacturing sectors especially textiles, clothing and footwear (TCF) and passenger motor vehicles (PMV), new investments and competitive production and marketing strategies have helped surviving companies to grow and export. So, in 2001 there were still 855,500 manufacturing workers in Australia compared with 980,000 in 1983; apart from TCF and PMV, output volumes increased in every manufacturing sub-sector across the last decade; and, after discounting for job losses in the TCF and PMV sub-sectors, manufacturing employment actually rose in the three main eastern seaboard states (Victoria, New South Wales, Queensland) between 1994 and 2001, the biggest job growth being in all higher value added manufacturing activities[1]: food and beverages, machinery and petrochemicals.

Second, Australia experienced major economic growth in the finance and business services sector. In November 1984, there were 670,100 jobs in the finance, insurance, property and business services area. By November 2001 this number rose to 1,383,300 representing an increase from 10.2% to 15.0% of all jobs[2]. As is shown below, the increase was engineered by joint actions involving state and federal governments and the finance and business services capital.

Third, the Australian corporate scene was drastically recomposed with a rise in importance of corporations in the finance, property and business services sectors, and the decline of corporations seen as manufacturing conglomerates and general industrials. A study by Port Jackson Partners (*AFR* 7 August 2001, p.56) shows that of Australia's top 100 companies in 1991, 49 disappeared altogether by 2001 while another 15 dropped out of the top 100 list. And only 13 of the new entrants were in existence as smaller listed companies a decade ago. Australia's share register became dominated by corporations from non-traditional sectors, notably newcomers formed by the privatisation of public assets including the Commonwealth Bank, Telstra, Commonwealth Serum Laboratories, Qantas, Suncorp Metway and Tabcorp. These newcomers have grown strongly in capitalization, revenues and gross profits throughout the last decade.

Fourth, Australia's public utilities have been reformed within guidelines set by the nation's National Competition Policy (NCP) in a drive for increased national efficiency and competitiveness. While the implementation of NCP has produced negative regional impacts in some instances (O'Connor *et al*, 2001), there is strong evidence that the program has contributed markedly to economic growth with the Hughes report for the Australian Industry Group (AIG) isolating the Hilmer[3] reforms as singularly the most powerful contributor to 1990s productivity gains (AIG 2000). Hughes attached two caveats. *First*, in contrast to US productivity gains which were seen to derive from enduring multi-factor productivity improvements, the Hilmer reforms were seen to yield benefits only once. They were not reproducing. *Second*, there is much to suggest that the gains from the NCP flowed almost exclusively to firms, governments and communities in and around the eastern seaboard, especially in the Sydney basin, to the detriment of regional and rural Australia. Thus there were two sides to programs led by the NCP: one side (and the side most promoted) involved the enhancement of productivity and competitiveness within the nation's public sector enterprises; while the other (blind) side required the elimination of previously embedded distributional outcomes (which were inherently spatial, as is discussed below). It is highly probable, then, that the spatial outcomes of NCP have been Sydney-positive and non-Sydney-negative.

Fifth, labour productivity soared during the 1990s across all economic sectors (Gruen 2001). In the City of Sydney, for instance the proportion of the labour force working more than 40 hours per week rose from 30.5 to 36.9 per cent between 1991 and 1996 while those working more than 48 hours per week rose from 13.0 to 16.3 per cent (Sydney City Council 2000). Australian workers increasingly worked harder, longer and smarter, despite growing concern about whether this increased effort could endure the stresses produced for families and communities.

Sixth, these contributions to growing national competitiveness were further enhanced by the decade-long decline in the value of the Australia dollar (relative to the US dollar) giving bonus rents to exporters and import-competitors. Miners and rural exporters have been especially advantaged here although there is ample evidence that the winners have been particular types of primary producers rather than the rural community as a whole (Austrade 2002).

Finally, Australia benefited directly from an economic mimicry of the US economy (Edwards 2001). The two nations have increasingly shared the same discursive terrain (de Roos and Russell 1996). Narratives of production, consumption and finance are transmitted every minute across the Pacific: technology take-ups, labour practices, consumer behaviour and sentiment, interest rate settings, portfolio mixes, shareholder value added (SVA) hurdle rates. Australia increasingly replicates the economic rhetoric of US agencies and individuals (corporations, institutional investors, reserve banks, government treasuries, business managers, travellers, consumers). In many cases these conversations are held internally to single organisations: Merrill Lynch, KPMG, News Ltd, Lend Lease, and so on. Actors within the Australian economy gained enormous confidence during the 1990s from tales of optimism and success originating in the US. A European-based outlook may have produced more dampened economic behaviours.

Financialisation and its spatial manifestations

The process of financialisation is directly responsible for the latest sets of commonality in information flows, norms and behaviours, even personnel, among corporations, institutional funds, broking houses and financial and management consultancy firms, across national economic boundaries. It is also directly related to the dramatic rise in importance of the finance, property and business services sectors that have driven prosperity along Australia's eastern seaboard. Financialisation is the shift in corporate behaviour from a focus on growth in corporate worth to a focus on maximising net shareholder returns. Financialisation can be seen as the latest step in a series of attempts to rejig the corporation as a profit generating device following crises in corporate profitability since the 1970s (Fligstein 2001). The financialisation process involves managing both assets and value-creating transactions to maximise the generation and appropriation of value and, thereafter, to transfer as much of this value as possible to shareholders (see Jameson 2000, O'Neill 2000, O'Neill 2001, Aglietta 2000, Grahl and Teague 2000, Lazonick and O'Sullivan 2000, Williams 2000, Fligstein 2001).

Four factors have driven the widespread adoption of financialisation practices. *First*, the end of nationally confined capital markets has brought a new intensity of competition for finance

(Tickell 2000) requiring risk management to be mainstreamed, quantifiable and comparable across sectors and nations. *Second*, massive expansions in the quality and quantity of information have made it possible for a wider range of institutions, even individuals, to explore investment opportunities in foreign markets. *Third*, there has been a search for new modes of corporate governance arising from the destruction of corporate value through mismanagement of corporate wealth during the 1980s (for Australian examples see Sykes 2000) or through ignorance of methods (however strident or anti-labour) available for the unlocking of corporate wealth such as exhibited by corporate raiders such as Kohlberg Kravis Roberts and the like (Baker & Smith 1998, Fligstein 2001). *Fourth*, the rise of institutional investors such as mutual funds and pension funds, independent from interlocking post-war capital structures, has seen the expansion of external surveillance of earnings creation and distribution within corporations, growing capital mobility (even volatility) between financial instruments and a dissatisfaction with under performing financial assets however short term or justifiable on other grounds (Aglietta 2000, Clark 2000).

The processes of financialisation have had particular consequences for the contemporary Australian *spatial* economy in its experience of prosperity over the last decade. *First*, a successful, prosperous set of financialised economies has emerged based in the larger cities especially Sydney and Melbourne (but notably Sydney). We argue that while the financialisation process has been enormously successful as an economic growth strategy, the spatial concentration of rents[4] generated by the strategy within Sydney have been so pronounced that—up until the end of 2001 coinciding with the re-election of the ultra-conservative Howard-Anderson Coalition Government and subsequent analysis of the Australian Labour Party's poor electoral performance in western Sydney—no politician dare speak the city's name nor praise its economic success. *Second*, financialisation has also produced disinvestment, typically from regionally-based (but not necessarily unprofitable) manufacturing corporations and from assets accumulated throughout decades of government-sponsored growth projects. An historical feature of these investments was the (conscious) spread of their location across regional areas and to lesser state capitals. Not surprisingly, downsizing, sell-offs and abandonment of productive assets have had major negative impacts on rural and regional Australia (Sinclair 2001).

This spatial divide is now examined in more detail.

Sydney

> *She, of Australian cities*
> *The least Australian of all*
> *Greedy, luxurious, corrupting her sisters one by one*
> Henry Lawson

Sydney has always been Australia's biggest city and currently houses 21 per cent of the nation's population. Yet Sydney has only recently (and spectacularly) taken over from Melbourne as the nation's site of financial, corporate and political power. Most head offices of Australia's largest listed companies are housed in Sydney, as are the regional headquarters of 250 global corporations operating in the Asia-Pacific (compared to Melbourne's 83). Sydney, especially inner Sydney, has become Australia's leading switching point into a globalised financial capitalism. By 1996, 54.6 per cent of the Sydney City workforce was employed either in financial or business services. Of all national employment in the financial sector, 20 per cent is located in Sydney City. The CBD employs 22.4 per cent of those

Australians employed in legal services and 12.4 per cent of those employed in accountancy. Between 1986 and 1997, the amount of floorspace in Sydney City[5] dedicated to property and business services increased by 72.1 per cent, while finance and insurance floorspace increased by 36 per cent (Sydney City Council 2000). In other words, finance and business services, based predominantly in Sydney, have been huge drivers of the nation's economic growth and prosperity. The Sydney basin now produces 23 per cent of the nation's GDP. (Melbourne produces 18 per cent and the other capital cities record single digits). Sydney is Australia's gateway city for finance, people, trade and information.

Sydney City's leading employment sector is property and business services (17.6 per cent of all City workers) followed by accommodation, restaurants and cafes (12.3), retail trade (9.3) and finance and insurance (8.6), these four sectors totaling nearly half of the City's workforce. And the financial economy is not just an inner city event: for the entire Sydney metropolitan area, these four sectors account for a hefty 35.7 per cent of all workers. Moreover, reflecting Sydney's business services role, more than half of the City workforce falls into the top three high-skill occupation categories: 26.1 per cent being professionals, 15.5 per cent associate professionals and 10.3 per cent managers or administrators (Sydney City Council 2000).

Of significance to our argument here is the observation that Sydney-based investments have been concentrated in those sectors where productivity growth in Australia has been strongest (AIG 2000, Gruen & Stevens 2000). As well, shifts within these sectors have been to Sydney's advantage[6]. For instance, funds management activity in Sydney increased almost three-fold between 1990 and 1999 and was expected to double again by 2005 (Sydney City Council 2000). Similarly, institutional funds now play an increasingly important role as both occupiers of CBD space and as CBD property investors (Coakley 1994). In other words, financialisation processes have emerged as major jobs generators in Sydney's leading sectors. Moreover these jobs are performed in ways that further strengthen concentrations of jobs in inner Sydney. The work required in the financialisation process takes place largely outside the commissioning firm and involves the use of analysts, brokers, financial advisors, taxation lawyers and other specialists invariably sourced from the Sydney-based consulting offices of global firms such as Accenture, KPMG, Ernst and Young, ABN Amro, Minter Ellison and Clayton Utz. These high-order service providers are concentrated in and around Sydney's CBD.

Demographic change

Sectoral economic change, spatially manifest in and around inner Sydney, is not the only reason for a booming Sydney economy, nor is it the only source of social change along the eastern seaboard. Demographic processes are also important. Sydney's economic boom and Sydney's continued population growth are mutually constitutive. The NSW Department of Urban Affairs and Planning (DUAP) estimated in 2000 that Sydney would add nearly a million people in the next twenty years reaching a total of five million people around 2025. This is an addition to Sydney of about 35,000 people each year. Yet NIER (2000) argues that this estimate may understate Sydney's growth. In 2000, Sydney grew by 60,000 people and there is much to suggest that, even as the hype of the Olympics fades, Sydney's globally-linked economy continues to surge and so does its population size. Sydney is Australia's most successful city containing the highest rates of job creation. It is a huge issue which seems to seriously overwhelm planners' attentions. A decade ago there was great hope by planners that Sydney's population growth could be contained largely within its existing borders by urban consolidation policies—filling the established parts of the city with apartments and town houses thereby stopping urban sprawl. Yet while there has been substantial building of residential apartments in Sydney's inner suburbs, these are typically occupied by one and two person households with less than hoped for increases in population densities. According to NIER (2000), the limited success of urban consolidation policies will mean that 80 to 90 per cent of Sydney's one million new residents will need to be housed on Sydney's perimeters. Most will go to the west and the northwest and along the Central Coast stretching to the lower Hunter. A solution based on current housing behaviours requires the development of two or three new ADI sites each year[7].

Yet Sydney’s micro-demographics are poorly understood. (Childless) couples with rising incomes dominate the inner city alongside low-income households filled with successful young law and accounting students. The north shore ages rapidly while maintaining hold on some of Sydney’s best family houses, their bedrooms mostly empty[8]. The new St Ives is at Cherrybrook, once part of the western suburbs. Parramatta attracts aspirational families and Liberal voters. The eastern suburbs secedes from the city altogether. Ethnicity breaks free from socio-economic status in producing suburban divides; Chatswood is overwhelmed by rich Chinese, for instance. And so it goes. The simple social divides of the first social atlases, polarisations along a Parramatta River axis, are now hugely muddied. Rather than a simple north-south, east-west divide, it is clear that Sydney’s micro socio-demographics have become hugely overdetermined by processes within the city’s property and labour markets—both of which have performed positively in the last decade, at least in dollar values.

And there have been record falls in unemployment across the city. Ten years ago, areas like Liverpool and Fairfield in Sydney's south-west were commonly described as economic and social basket cases with unemployment rates around 20 per cent. In mid 2000 (just before the Olympics) the unemployment rate for Liverpool-Fairfield was just 6.2 per cent. Nearby Parramatta was down to 3 percent, from nearly 17 percent in the early 1990s. Employers complained of a shortage of both workers and commercial premises throughout Sydney's western suburbs. Yet we know little about the characteristics of these labour markets. Likewise there have been record rises in property asset values. But what are the distributional consequences here? And what vulnerabilities in accessing both labour and property markets will emerge from downturn? These questions are revisited throughout the paper.

Government engineering for growth and prosperity, and its distributive consequences

Of course, Sydney’s dramatic changes in recent decades are also attributable to other economic and non-economic processes. Internal-Australian and international migrations have produced ongoing population growth alongside significant demographic change. So too, the city has developed cosmopolitan modes of consumption with consequences for the nature and location of the city’s retailing and entertainment establishments. Just as in all major cities, social, cultural and political processes that overdetermine Sydney as an urban settlement. These processes are being examined in a number of broad research programs alongside our own (e.g. Bridge & Dowling 2001, M^c^Guirk 2002, Dunn 2001). Here, we draw attention to an important Sydney history of political intervention; to the power exchanges and compromises which have framed the development of a finance-based Sydney economy; and to the distributional outcomes, deliberate or otherwise, which have been generated.

For much of the twentieth century Sydney was the primate city within the state of NSW, the site of state government, the key administrative centre, a key manufacturing site involving fabrication and assembly activities and food processing. It was also the state's highest order retailing centre, the top of its urban hierarchy. Yet Sydney and the territory of NSW were in turn embedded in national territory created by a political state and a national economy (as observed for western nations in general by Taylor 1999). The political and economic norms of modernity stabilised the city, inscribed its purpose and confined its ambition to state boundaries.

The sacking of the Whitlam Labor Government in 1975 produced massive political division in Australia including the return of political power to Melbourne-based elites (Kelly 1976). The sacking prefaced a national rout of the Labor movement, except in NSW where a Labor government was returned in 1976 under Premier Neville Wran. Coinciding with rising international financial flows and shifts in the nature and location of circuits of capital, Wran commenced a long process of re-positioning Sydney with a key strategic role in the national and later the global economy. Successive NSW governments, Labor and Coalition (conservative) built on the Wran initiative capturing sectoral shifts away from Melbourne-controlled manufacturing and old mining companies towards new resources companies and ventures in property, insurance and finance. When New-South-Wales-based federal treasurer, (Sydney boy) Paul Keating, steered the Hawke Labor Government towards programs of financial market liberalisation, a resuscitated Sydney was ready to capture the head offices of new foreign banks alongside the range of financial and business services generated by Australia's new locus of commerce.

Important here, too, was the ease with which local planners and development agencies 'read off' the internationalisation script: fluid funds in a globalising world would surely flow most handsomely to accommodating cities. Sydney's agents were (and remain) keen for the city to head the queue of potential hosts. From the mid 1990s, for instance, the NSW Department of State and Regional Development (DSRD), the state government's primary economic development agency, developed a series of promotional initiatives and marketing strategies to promote NSW internationally. In these materials, Sydney has been distinguished from the rest of the state, a site where, according to DSRD, footloose investors could find competitive advantage in financial and business services (DSRD n.d., 21) and where 'new economy' operators would find beneficial conditions for activity in finance, IT & T and corporate call centres (DSRD 1998).

And, Sydney knows how important it has become. The Committee for Sydney, for instance, is directly involved in the distributional argument over public funds and argues for greater infrastructure spending on inner Sydney by all levels of government (Allen 2001). Through groups like The Committee for Sydney and the Property Council of Australia (see PCA 2000) the Sydney business community projects the city's economy as an exemplar of new economy growth based around high value added, technology intensive, professional services activities. Reflecting such self-awareness and self-confidence, Sydney is ever talking of Sydney: its food, fashion, football, news, style, architecture, language, film, schooling, health, books, religion, sexuality, drugs, music. This talk is propelled in and around the conversation creators and leaders: electronic media presenters, articulate popular politicians, business leaders, community activists, newspaper columnists and those who run the arts. These are the agents of the inner Sydney's creation and re-creation as a spatial community of practice (Brown and Duguid 1991), reinforcing Sydney as the nation's key economic and cultural centre. Sydney wasn't always this dominant but having achieved economic and urban primacy in Australia it has set in place a mix of social and cultural practices which have quickly (and arrogantly) naturalised this position. In many ways, the city has not so much had global status awarded to it as taken the label confidently unto itself.

Creating and managing the regional impacts of prosperity

Place of residence has been critical to sharing in the rewards of 1990s prosperity in Australia. It is important to observe that Sydney has maintained its pace of growth and its rising levels of prosperity across three decades; and this enduring economic performance has significantly altered the direction and extent of income flows between households and across Australian regions. For Sydneysiders the news has been very, very good. In 1999, the 240,000 workers in inner Sydney earned on average 40 per cent more income than equivalent workers in other capital cities. High and rising Sydney real estate prices reflect the demand for quality housing by well remunerated households. Between 1987 and 1999, Sydney's median house price at sale increased three times. For the same period, the Sydney Prosperity Index, a measure of the change in a typical Sydney household income plus assets less cost of living rises, increased by 50 per cent (Burrel 2001). Reflecting the strength of the wider city labour market, the unemployment rate for the Sydney metropolitan area at the end of 1999 was 4.7 per cent, fifty per cent below the national average, the largest gap in Australian history (Sydney City Council 2000).

Australian Bureau of Statistics data suggests that prosperity has raised real income levels across all groups in Australia, although there is a preponderance of evidence from welfare and practitioner groups that disputes this (Harding et al 2001). Figure 2 shows income rise for lower and higher percentile groups. Yet these income increases have not reduced income inequalities, since rates of income growth have been dramatically higher for upper percentile groups compared to poorer groups (ABS *Social Trends 2000*, 145-6). And, as we have seen, these groups are more likely to be concentrated in Sydney than elsewhere. Non-Sydney Australians have not enjoyed the same prosperity that the Sydney economy has generated for its average resident. NSW, once proud of its egalitarian outlook compared to more conservative Victoria, is now Australia's most unequal state with the nation's highest differentials between income levels in the capital city compared to elsewhere in the state (*ibid*, 157).

Figure 2: Index of Real Full-Time Weekly Earnings

So powerful have been the economic pulses generated from within the Sydney regional economy, there is much to suggest that their distributional consequences operate at a variety of other scales. In particular, the Sydney-centred sectoral shifts described above have has significant negative impacts on vulnerable social groups, especially those residing outside the Sydney basin. Work by Gregory (2000) and analysis of ABS data (ABS *Social Trends 2000* cat. 4102.0) suggest a highly notable trend in poverty and income inequality across Australian households. Gregory argues that there has been a disproportionate change in the level of welfare recipiency than would be expected by changes in labour market experiences among poorer groups. He cites data (Gregory 2000, 374) which show that whereas the greatest explanation for increased welfare dependency from 1970-80 was the rise in unemployment, the major explanation for increase in welfare dependency in the 1990s decade of prosperity was the increase in allowances for single parents and widows. Based on recalculations of ABS data (ABS *Social Trends 2000* cat. 4102.0, 161) for this paper, figure 3 shows that within households with dependent children, 64.8 per cent of households relied on government transfers for more than 50 per cent of household income. Further, 55.8 per cent of these households relied on government transfers for more than 90 per cent of their total income!

Figure 3 Proportion of households with dependent children having greater than 50% of income from government transfers

Together, the Gregory data and our analysis represent significant evidence that the 1990s decade of prosperity produced a dramatic uncoupling of the links between labour market performance and the level of welfare dependency. The evidence leads to a conclusion that there is unlikely to be an economic solution to poverty and that unequal regionalism in Australia in terms of access to contemporary accumulation processes and the distributive flows that they generate is a major contributor to the uncoupling. In other words, there are strong spatial links between household poverty, where people live and the operation of the national economy. This has serious implications for both macro-economic management and regional and industry policies.

Changing national accumulation and redistribution strategies, and the political fallout

Once upon a time in Australia there was a consciousness about the need to build strong, positive links between residence and economy. This consciousness seems now to have evaporated. Sydney's economic and cultural rise since the mid-1970s coincided with purposeful economic change driven by the Australian governments' internationalisation strategies. These strategies date from about the Whitlam-Labor Government (1972-5) following the collapse of the national accumulation strategies of the long boom. These had been based on an historical accretion of state actions since early this century and are summarised by many commentators as the *triad* of state policies: protectionism, the centralised regulation of labour market conditions and controlled immigration. The triad policies used protection as an income ratchet. Product market protection guaranteed profitability to Australian manufacturers while the centralised arbitration system ensured that part of the surplus value created was directed to the maintenance and growth of real wages. Likewise, higher cost structures endured by manufacturers arising from higher real wages were accepted as legitimate arguments for enhanced market protection. The ratchet ensured that incomes were distributed across the nation's economic sectors, including the most inefficient.

Immigration and the maintenance of real wages secured realisation for capital. Critically, high rural commodity prices ensured the availability of economic rents to fund protected sectors and workers and, in return, the compliance of politically conservative non-urban regions was secured through schemes which socialised the periodic losses of rural producers, heavily protected rural processing industries, and cross-subsidised non-metropolitan economic and social infrastructure. The state's demand-management policies during the long boom ensured each recessionary crisis was resolved by Keynesian fiscal stimulation. Thus the triad of policies underpinned consensus between the interests of rural and urban communities, agricultural and manufacturing sectors, and capital and organised labour. The strategy had *inherent redistribution* mechanisms, for example, towards unionised workers, into protected sectors and industries, and for non-metropolitan regions. Further, because protectionism involved a political consensus around the distribution of economic rents, it was common for federal politicians to work actively to ensure maximum diversion into those economic activities spatially concentrated in particular electorates. In this way regional redistribution became embedded in the protectionism strategy.

Market liberalisation in Australia unravelled both the protection and the spatial redistribution strategies. In particular, the Hawke- and Keating-led Labor governments of the 1980s and early 1990s pursued aggressive liberalisation and deregulation policies in financial, product and, to a lesser extent, labour markets alongside vigorous micro-economic reforms to public enterprises and public service providers. The crucial point here is that the Australian economy did not then lapse into a series of deregulations with a loss of national economic sovereignty. The breakdown of protectionism and the collapse of income-ratchets within the triad policies was followed by the conscious adoption by the Australian nation state of a new accumulation strategy. Since the early 1980s, there has been remarkable consensus between governments, business groups, corporations and trade unions in pursuit of a new national accumulation strategy based on *international competitiveness*. The strategy has involved major deregulatory and re-regulatory measures affecting the *structure* and *operation* of product, financial and labour markets. Universally, the criterion for change in these markets has been the delivery of financial, production and marketing advantages to national and local production systems in the search for international competitiveness.

Ironically, radical, state-led reforms to Australia's product, capital and labour markets in the 1980s were accompanied by the neo-liberalist assumption that the internationalisation of the world economy severely curbs a national government's *redistribution* powers by limiting its ability to tax mobile factors of production, especially capital. Unlike the triad strategy, the international competitiveness strategy failed to include an inherent redistribution mechanism save for the liberalist argument that a renewed strength in the Australian economy could withstand progressive removal of protection to manufacturing industry, increase exposure to international competition, produce surplus incomes for consumption in new production sectors and subsidise the relocation and retraining of displaced workers. The cost of restructuring was seen to be capable of being funded by new economic rents earned in international markets while redistribution was left to allocation mechanisms within private markets. In a novel twist, while growth was very much state engineered, free market forces were assumed to look after the redistribution process.

However, economic growth in Australia was inhibited during the 1980s by the failure of the financial system to deliver capital efficiently to productive systems, the continued expansion of current account deficits and foreign debt, and inappropriate monetary policy settings. Recession coincided with the years when falls in protection were greatest, leading to declining real incomes and rising levels of unemployment. Sufficient new employment growth sectors did not emerge, and displaced labour and capital had nowhere to go. The fastest growing manufacturing sub-sectors measured by output, for instance, were dominated by large firms which generated little or no employment growth as elevated productivity levels were sought from domestic production systems newly exposed to international competition.

In the early 1990s, considerable political disquiet resulted from the failure of the internationalisation strategy to deliver rising real incomes and lower unemployment levels. The legitimacy of the internationalisation strategy was increasingly challenged alongside growing disenchantment with an apparent obsession by government with *homo economicus* and economic rationalism (see Pusey, 1991). Consequently, the Hawke-Keating strategy of international competitiveness was amended by the Keating Government with the *appendage* of spatial redistribution measures via *Working Nation*, a package of welfare-to-work and regional work creation programs (for a full account see O’Neill 1996).

The diversion of national attention to a redistributional package, *Working Nation*, after nearly a decade of subjection to an accumulation strategy bought the Keating Government a second term in power. Paul Kelly, a journalist and an incisive public commentator and writer on economic change, provides a detailed evaluation of the links between economic change and national and community political sentiment since the election of the federal Howard Coalition government in 1996 (Kelly 2000). According to Kelly, a major change in Australian politics occurred in the 1993 election following the *Working Nation* interventions. At this election, Prime Minister Paul Keating was confronted by an aggressive neo-liberalist leader of the Coalition parties, John Hewson, with proposals to accelerate the pace of liberalisation in a manifesto entitled *Fightback!*. The electorate, disillusioned by recession, showed its weariness with economic rationalism by voting against another bout of economic reform. The election result had a clear message: that economics was not enough to sustain political success.

As in America, however, the 1980s reforms led to major improvements in productivity during the 1990s[9]. Aggregate income and employment growth have been more than handsome suggesting opportunities for a neo-liberalist government to pursue aggressive reform programs. Except in the case of taxation reform (involving the shift to an indirect tax base), though, John Howard's approach in government has been "…to ameliorate the backlash against economic change and globalisation driven typically by the notion that its dividends have been unfairly distributed" (Kelly 2000, 229). This has involved three quite atypical neo-liberal responses. *First*, the nation's social safety net has been largely kept as sacrosanct (see also Hoggett 2001). *Second*, a number of longstanding reform programs have been curtailed under the guise of "protecting the battlers". These have included brakes on protection reforms, opposition to bank mergers, slowing the pace of privatisation of public enterprises, granting special deals to displaced workers (especially those who gain prominent media coverage) and cutting immigration intakes (a populist response to the anti-Asian sentiments promoted by Pauline Hanson's One Nation Party supporters). *Third*, Howard has maintained key elements of the social programs forged by the ALP-ACTU social wage accords of the 1990s notably the retention of the national health care scheme *Medicare*.[10]

In summary, then, a bi-partisan brake on *state-led* economic reform has been applied in Australia arising from concerns over the community impacts of micro-economic reforms to the public sector in particular and the re-engineering of the private economy to a form which delivers more prosperity yet greater inequality. This mood is reflected in a rare unity between left-wing-led critical economic thought and conservative-led moral judgments, a coincidence of feeling across universities, unions, the arts community, churches and welfare groups. And community discontent has in turn generated a volatile electoral politics.

Electoral contest and contrast

A central proposition to this paper has been that the spatial distributional outcomes of the nation's contemporary economic growth strategy privilege a group of highly inter-dependent social and cultural elites based in Sydney while dismantling the spatial interdependencies that were previously enacted by Australia's post-war economic strategies. These processes of social division have been manifest in recent electoral outcomes in Australia. Three instances of voting in Australia are cited to show how social, economic and political change in Australia, produced by a new Sydney-centred accumulation strategy, have become embedded in voting behaviour.

i. voting for a republic
Australians went to the polls in November 1999 to consider a referendum proposing a reform to the constitution which would install an elected Australian as the nation's head of state. The referendum question was rejected, the nation's citizens collectively deciding to keep Queen Elizabeth II in the top job. A detailed examination of the geography of voting results in the referendum shows a strangely divided nation. NSW was typical.

There are 50 federal electorates in NSW, traditionally Australia's strongest Labor-supporting state and, one would reasonably expect, strongly pro-republican in its political outlook as a consequence. Yet only 14 of NSW's federal electorates had a majority of voters in support of a republic in the 1999 referendum. These supporting electorates are shown on the attached map and the distribution is quite bizarre (figure 4). Eleven of the republican electorates are clumped in and around the centre of Sydney. The others are Fowler, centred on the large migrant communities of Cabramatta and Fairfield and the provincial city electorates of Newcastle and Cunningham (Wollongong).

Figure 4 NSW electorates which supported the 1999 republican referendum

This clump of voters might be called "the republicans". Intriguingly, they include both safe Labor and safe Liberal seats demonstrating that strong republican feelings in 1999 could not be explained by traditional political divisions. What we surmise is that the republicans are a new breed of Australian voters. Aside from Newcastle, Cunningham and Fowler, they are the ones that have done very well out of Sydney's decade-long boom. In the last 10 years their incomes rose handsomely and their house values soared. The republicans are confident about their future and so are more willing to embrace radical change, especially of the global-led variety. Not only do they seek an Australian head of state, they are prepared to engage with globalisation both by boldly contesting their skills in international arenas and by embracing the impacts of cultural globalisation: ethnic and household diversity, a cosmopolitan lifestyle brew, sensitivity to environmentalism and a concern for social issues particularly issues relating to ethical behaviours and human rights.

ii. state elections and Pauline Hanson's One Nation Party
Two of Australia's states held parliamentary elections during 2001. In late January 2001, Pauline Hanson and her *One Nation Party* began to be noticed in opinion polling. By election days in Western Australia and Queensland, her supporters from regional and rural Australia had destroyed both conservative coalition governments with One Nation's securing more than ten per cent of the primary vote in each election. In Western Australia, traditionally one of the nation's right-wing heartlands, the ruling Nationals lost power unexpectedly on 10 February 2001 to the Labor Party. A week later in Queensland, an anomalous minority-Labor Government, forced to an early election by resignations of government parliamentarians embroiled in vote rigging and corruption inquiries, emerged victorious in a 10.4 per cent swing landslide. By the end of March, Howard's ruling national coalition government trailed Labor by over ten per cent and across Australia the Conservatives were in crisis.

Pauline Hanson was the Liberal candidate for Ipswich in the 1996 federal election until her calls for an end to differential welfare schemes for Aboriginal Australians and her attacks on Asian immigration led to her being disendorsed. Nevertheless, she ran as an independent and was duly elected. The victory of a single parent running a fish and chip shop in a struggling Queensland town was almost the classic underdog tale[11], except that she quickly led the establishment of the One Nation political party, a right wing coalition of disaffected rural and regional voters. While Hanson's racist attacks on welfare payments to the Aboriginal community and what she saw as rising Asian immigration attracted international condemnation, the One Nation agenda was broad, however ill-defined. It included support for gun possession, it was anti-green, pro-protection, anti-big business, anti-government. It appealed directly to people in non-metropolitan areas where the impacts of a newly internationalised economy were seen to be evidenced in things like public service cut backs, school and hospital closures, bank and retailing branch closures. Aborigines were seen as somehow protected by government largesse while Asians represented the collapse of barriers to imported goods and non-white immigrants, policies seen as underpinning Australia's long post-war boom.

One Nation enjoyed quick and spectacular success especially in Queensland where it secured significant parliamentary representation in the state legislature at the expense of the conservative National Party. More significantly, it gave voice not only to racist and extreme right wing elements across the nation but also to what has become known as *regional and rural Australia,* non-metropolitan and rural communities left behind by rising levels of national prosperity. And then almost as quickly as it started, it seemed to end. One Nation dissolved into a mess of leadership in-fighting, administrative incompetence and unceasing strident attacks by national media outlets. A newly formed *Pauline Hanson's One Nation Party* seemed altogether a hastily configured sequel with few prospects, until early 2001 when One Nation's campaigns in Western Australia and Queensland produced devastating results for the orthodox conservative parties.

It is important to observe the significant shift in the political rhetoric which accompanied Pauline Hanson's re-emergence in 2001. Hanson recognised she had become a symbol of discontent in rural and regional Australia. Writer Bob Ellis observed that: "Hanson expresses a kind of political road rage of people suffering hard times" (*Sun-Herald* 18 Feb. 2001, 54). Racism and irrational comments, especially involving international issues, still pervaded Hanson's conversations but these arose during on-the-road media interviews, spontaneous outpourings to (deceptively) tongue-in-cheek journalists. Meanwhile, Hanson's set-piece addresses were now firmly pitched at the *battler,* the mythologised Australian victims of globalisation, those cast aside by big banks, big business, big government. The rhetoric was heavily xenophobic and reactionary; and mixed with hatred of the new enemy, the latte sipping Sydneysiders.

iii. electoral reconciliation (10 November 2001)

Despite the massive destablisations of the conservative parties in the Western Australian and Queensland state elections, the Coalition parties were easily returned to a third term in office at the November 10 federal election. In the months leading to this election the Australian Labor Party had deliberately adopted a strategy of playing the role of a small target opposition, hoping that in the absence of negative publicity Labor would sneak into office on the basis of anti-government sentiment. But politics is rarely predictable. At 6pm on Sunday, August 27, Captain Arne Rinnan, captain of the Norwegian vessel *Tampa,* sailed across large swell into Australian waters carrying 430 asylum seekers, mainly Afghans and Iranians rescued from a leaking chartered Indonesian fishing boat. A stand off followed as the asylum seekers were refused landing rights by Australian authorities following government direction. The situation produced bitter national debate about Australian attitudes to refugee intakes, and about the nature and level of immigration in general. Many of the intolerances encouraged earlier in the year by Pauline Hanson's political campaigns re-surfaced with considerable intensity. Then on September 11, 15 days after the commencement of the

Tampa crisis, later disaster struck in New York, Washington and Pennsylvania. Suddenly, the ongoing concerns of the *battlers*—employment security, decent public services, viable regional communities—were over whelmed by new political concerns and broadened debates about border protection and national security. And, as South Australian Senator Chris Schacht reminded federal parliament, it was easy for Coalition leaders to turn feelings of fear and anxiety into feelings of paranoia and mean-spiritedness, and then seek to convert these into electoral gain (*Senate Hansard*, 24 September 2001, p.27689).

Analysis of Labor's federal defeat focused chiefly on the incapacity of Labor's message, a message undersold following its small target strategy, to counter the surge in support for Coalition parties who campaigned stridently for strong anti-terrorist measures and firm resistance to increased immigration, especially via a more compassionate approach to refugees from Afghanistan, Iran and Iraq. Our argument in this paper, is that Labor's small target strategy coincided with an economic policy paralysis. This paralysis flowed directly from Labor's failure, *first*, to acknowledge the nature of the accumulation process which drove prosperity along Australia's eastern seaboard during the 1990s and, *second*, take account of the distributive consequences of this prosperity. Householders/voters had direct experience of each of these dimensions of the contemporary Australian economy. Those negatively affected failed to locate Labor policies which addressed their concerns.

In contrast, the republicans—the voters in federal seats in inner, eastern and northern Sydney that supported the 1999 referendum question—found themselves sidelined in the 2001 federal election. Labor needed six or seven more seats to win power (depending on how one interpreted the pre-election redistribution), so long as it retained the 67 it already held. Only one republican electorate in NSW, Lowe, a Labor-held seat in Sydney's inner west, was a marginal seat. Apart from Lowe, there were 13 marginal electorates in NSW, concentrated in Sydney's outer western suburbs and in the regions. These might be called the electorates of the battlers. Only two of these seats were held by Labor; three were held by the Nationals and six by the Liberals. If Labor had secured the smallest of swings in these seats and held its ground elsewhere, then Kim Beazley would have been Australia's 26th Prime Minister. Yet none of these seats was transferred from Coalition to Labor hands in the 2001 election. In fact, National Public Leadership Centre analysis shows that Labor failed to capture the votes of the traditional swinging voters living in the mortgage belts of capital and major provincial cities; failed to retain the support of skilled and unskilled blue collar workers; and, instead, gained the support of traditionally conservative occupation groups, particularly those with higher education qualifications (though support from these groups was via preferences from minor parties (National Public Leadership Centre, 2001).

Conclusions

This paper shows the links between these electoral outcomes, the sectoral shifts within the Australian economy, the multiple scales at which they have been manifest, and the spatialised income and wealth divisions that have been generated. We wish to insert these discussions inside a political economy of distribution.

The analysis of the 1999 referendum and the 2001 state and federal elections demonstrates that spatial divisions in the Australian economy are being reflected in national voting patterns. A prime influence flows directly from marked divisions between the battlers and the republicans. Few battlers have benefited from the massive changes to Australian society over the last two decades. A newly open trading economy saw the battlers' local textiles mills closed. Corporate rationalisations led to closure of their abattoirs, dairies, flour mills, bank branches and stock and station agents. NCP saw their post offices, railway workshops and telephone exchanges disappear. Like the republicans, the battlers come from both Labor and non-Labor backgrounds. What the battlers now have in common is a lack of confidence in their own futures, a nostalgia for the good old days and an intense distrust of politicians. Labor's hope was that the 2001 election campaign would focus on the day-to-day concerns of the battlers. It was going to be a time when the battlers could exchange personal and community anger for political gain. For once, the battlers were going to have more political power than the republicans. The republicans would have to look after themselves.

Thinking through a distributive politics of prosperity in the Sydney and Australian economies, we can make four observations. The first is that the success of the Sydney economy relies heavily on its insertion into circuits of capital generated by financialisation processes. Rents which accrue to the providers of financial, business and property services in Sydney may have in fact been generated by appropriations of surplus value some time ago. Institutional funds managers, for instance, transfer financial capital accumulated from the deferred earnings of workers over many decades past. Corporate investors may circulate financial capital obtained by stripping value from pre-existing accumulations: excess revenues freed by corporate downsizing and intensifications; cash produced by sell-offs; interest and dividend flows released by debt restructuring and share buy-backs. Financialisation is, by essence, the process of releasing locked surpluses. Thereby, financialisation is inherently a distributive event.

The next observation is that the receivers of distributions circulating in the Sydney economy are traceable. City workers receive extraordinarily high payments for their labour. These are transformed into consumption expenditures in restaurants and cafes generating further class-based transactions. The payments that city workers receive are also transformed via property market exchanges, feeding interest payments on loans for expensive real estate. And so on.

Distributional opportunities are also produced by government transfer payments and capital subsidies especially through the provision of infrastructure. While the net direction of government transfers would require substantial investigation, the sheer size and frequency of government investments in Sydney-centred infrastructures and events can suggest a net inward flow. Consider the payments for airports, road and transport systems, power and telecommunications, the Sydney Olympics, Darling Harbour, Ultimo-Pyrmont, the ATP. And so on.

Our final comment is about the collective nature of the (re)distributional process. As noted in the paper's introduction, the point to be made in respect of the spatial distributional outcomes of the Sydney-based accumulation strategy is that the distributive flows build what is increasingly seen as a group of highly inter-dependent social and cultural elites based in Sydney while dismantling the spatial interdependencies that were previously enacted by Australia's post-war economic strategies.

The collapse of Australia's modern, Keynesian national economy, then, has been a fragmentation process. The whole, the symmetry, the distributive processes are disrupted. New territorial relationships have developed with different distributional outcomes. In Australia this has involved the separation of fragments of territory from economic growth and distributive flows, but not from their view. And as is increasingly manifest, a failure to attend to the distributive politics of prosperity has led to a reactionary and volatile national and regional politics.

The rural and regional Australia problem, then, is only resolvable by addressing the distributive processes generated by the Sydney economy. Politicians are keen to express their concern for *rural and regional Australians.* Pauline Hanson has shown they have no choice. Yet, there is a haunting absence in Australia of neo-liberalist vigour in reforming a welfare system that was attacked relentlessly by Thatcher in the UK and Reagan in the US. We have argued that politicians faced with an incapacity to confront the distributive outcomes of the Sydney economy have no option but to maintain pre-existing levels of government transfers to households in rural and regional Australia, transfers once enacted through a nationally configured, modernist, state-led economic growth system. Of course, such systems cannot survive for long. The social crises they produce strangle a nation's political system and then economic crisis is inevitable.

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[1] All calculations in this paragraph derived from ABS Catalog 8221.0, various tables

[2] All calculations in this paragraph derived from ABS Catalog 6291.0.40.001 especially Table 9J

[3] The National Competition Policy inquiry was chaired by Professor Fred Hilmer from (then) the University of NSW.

[4] We refer to rents the neo-classical sense being those returns which accrue to an economic agent over and above the level which would be needed to maintain participation in the economic transaction involved.

[5] Here we mean the area roughly contiguous with the CBD and immediate inner city.

[6] The federal government's Australian Centre for Global Finance (Axiss), established to encourage international finance houses to move regional administrative jobs to Australia, claims that in the last two years at last 30 overseas operations have moved significant parts of their front and back office operations to Australia from Hong Kong and Singapore. Axiss claims it has attracted at least 1,000 financial services jobs. Axiss claims that the financial services now are responsible for the generation of over 7 per cent of GDP and in capitalization terms exceeds the combined size of the manufacturing and resources industries. Last year the financial services sector grew at 7 per cent against a background of stagnation in other sectors, including in services such as retailing (Main 2001) (see *AFR* 29 October 2001, p.39).

[7] The lower Hunter seems to have experienced the positive effects of Sydney's economic success with falling unemployment rates over the last three years, despite the closure of the Newcastle steelworks and employment cutbacks across the industrial sector. Sydney's population growth provides the opportunity for this improvement to continue. Between 100,000 and 150,000 more people will locate on the Central Coast north of Gosford in the next twenty years and at least 70,000 additional residents are expected around the lower Hunter including Newcastle, Lake Macquarie, Port Stephens, Maitland and Cessnock.

[8] Importantly, though, the ageing process is predicted to hit regional areas like Newcastle much harder than the capital cities. For example, by 2021 just 16% of Sydneysiders will be over 65 years old compared to 22% in the

regional areas of NSW. Regional areas will also lag in the population growth stakes. The ABS predicts that Sydney's population will increase by 25% in the next twenty years compared to just 8% for regional NSW.

[9] Gruen & Stevens (2000) and AIG (2000) distinguish between the sources of productivity gains in the US and Australia, the former being seen to be linked to the incorporation of ICT advantages into production and management systems, with the potential for ongoing growth, while Australian productivity gains are seen to stem from the nation's micro-economic reform program. In contrast to the dynamism of US productivity growth, gains from micro-economic reform in Australia (such as within government enterprises, in infrastructure operation and in removing labour market 'rigidities') are seen as available on a once off basis and probably confined to the late 1990s.

[10] Kelly adds an additional point being that, quite simply, Prime Minister John Howard might simply not have the personal capacities to generate change. Kelly observes, "My final point about Howard is implicit in this analysis. It related to the realm of ideas and it is highly subjective—that Howard has not sold the intellectual case for economic liberalism and that support for this philosophy has waned during his prime ministership." (Kelly 2000, 229)

[11] Pollster Rod Cameron likens Hanson's appeal to older male voters to that of a friendly barmaid even down to her 'character' dress (*AFR. 26.10.01, p. 72)*