CHAPTER 1

BOOM: BOON OR DOOM?

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INTRODUCTION

Economic historians have identified a number of boom periods in Western Australian history, particularly since 1890, however, this chapter focusses on the periods which have been classified as 'super-booms'. Sheehan (2011) explains a resources super-boom occurs 'if *either* the level of resource investment as a share of gross domestic product (GDP) *or* the terms of trade (the ratio of export prices to import prices) were at high levels for a sustained period, usually longer than three years'. The United Nations Department of Economic and Social Affairs (Erten & Ocampo, 2012) suggests that a super-boom should last much longer, more than five years, that it is demand driven and has significant and prolonged spill-over effects, including skills shortages, supply bottlenecks and significant improvement in GDP and terms of trade.

There have been three super-booms in Western Australia's short economic history, each of which will be discussed briefly in this chapter. In all three cases, unlike other boom periods, the Western Australia booms discussed here fulfil the United Nations and Sheehan's definitions; real GDP growth remained substantially above long-term trend for an extended period. Each have been important for a variety of reasons, but this chapter will focus on their contribution to Western Australian regional economic development through job creation, population increases and investment in important infrastructure and industry development which underpinned long-term economic development for the state.

International demand for a variety of minerals resources has been very important for the development of the Western Australian economy since the 1890s gold rush, which was the catalyst for the first super-boom which lasted almost a decade (Haslam McKenzie, 2011a). Two subsequent super-booms, in the 1960s and 2000s, pushed Western Australia to the forefront of Australian economic performance. Each boom has occurred at propitious economic moments in Australian history. The 1890s Western Australian gold discoveries and subsequent boom occurred just as the rest of Australia was drawn into a global recession; the 1960s boom, triggered by the cancelling of the iron ore export embargo, lifted the Western Australian economy out of post-war malaise; and the most recent boom, commencing in 2001, based on sustained Chinese demand for Western Australian resources, continued unabated despite the Global Financial Crisis (GFC; 2007–9) dragging down the major global economies.

This chapter will review these three key development periods in Western Australian history spanning 120 years, all of which have been underpinned by a resources boom. It will consider the legacies of each of the super-booms and how key public policy and political leaders in each period have used the proceeds of the respective booms for the future of Western Australia's economic development. It is timely to consider whether the investments from the most recent boom constitute the mainstay and catalyst for future state development, just as was the case for the two previous boom periods.

The following sections will review the three boom periods and identify the key economic and social capital investments, strategies and alliances for state development, using the financial proceeds from each boom. Following this will be discussion of whether the most recent boom has delivered the same level of optimism and investment for the future.

Chapter 1

A REVIEW OF WESTERN AUSTRALIAN SUPER-BOOMS 1890–2013

The 1890s Boom

There have been numerous boom periods in Western Australian history and subsequent downturns that inevitably follow. Western Australia's resources wealth has underpinned these booms, the first of which was in the 1890s when gold was discovered in the Kimberley region and then in what is now the Goldfields region. This boom was pivotal for Western Australian development because until then, the isolated colony had struggled to survive without convict labour, agricultural production was barely more than subsistence and the lack of infrastructure hindered the expansion of the economy. The gold rush of the 1890s saw an influx of people. In 1891, the population in Western Australia was 49,782 people; by 1895 it had doubled to 100,515 and by 1901, the state population was 184,124 (Australian Bureau of Statistics (ABS), 2008; Trinca, 1997). The newcomers, many from eastern Australia, which was experiencing the effects of a severe global depression, pushed for infrastructure investment.

While many companies had been floated on the back of the gold boom (in 1894, ninety-four Western Australian companies had been floated in London; two years later there were 690 (Battellino, 2010; Blainey, 1963)), it was principally government, funded mostly by overseas loans, which underwrote major public works and infrastructure such as the telegraph and rail networks linking Perth to the Goldfields, Bunbury and Geraldton; the water pipeline to the Goldfields; a new harbour in Fremantle (Evans, 2001); and a comprehensive road network and government sponsored agricultural development (Tonts, 2000). These public infrastructure investments were an important foundation for statehood and underpinned economic development for the following fifty years. Agricultural development was viewed by the then colony's political leader, John Forrest, who subsequently became the first Premier, as an important industry for the future sustainability of Western Australia. Until the 1890s, the colony had been a net importer of wheat and food (Appleyard, 1981) but, by the turn of the century, Forrest's government had directed considerable funds to infrastructure development and land development for agricultural purposes. 'Public expenditure formerly restricted by constraints on raising revenue from a small population, as well as the colony's limited credit-worthiness, changed dramatically' (Appleyard, 1981, p. 222). The available labour force, finance and infrastructure that resulted from the 1890s boom had flow-on benefits for other developing primary industries, particularly agriculture. The privately developed southern railway was purchased by the colonial government for £1.1 million in 1896 (Butlin, 1962) and by 1904 £9 million had been spent on railways and tramways. Almost £3 million had been spent on water supplies and sewerage and £2 million on harbours and river navigation, five times the public expenditure of 1894 (Appleyard, 1981). The value of agricultural exports escalated; in 1900 £181 of wheat was exported and by 1913, the value of wheat exported from Western Australia was £763,798 (Butlin, 1962). Wool and timber were also important Western Australian export commodities at the turn of the century.

The proceeds of the boom period led to an increase in new capital formation, especially in public buildings in Perth and Fremantle and the construction of towns along the railway line. Real incomes increased and the number of houses constructed doubled between 1890 and 1900 (Butlin, 1962). Local manufacturing grew from small artisanal businesses to large-scale operations servicing the construction, mining and agricultural sectors. By 1913 almost 20,000 people were employed in manufacturing and the value of outputs had doubled since 1901 (Butlin, 1962).

Although the boom conditions of the 1890s were curtailed by a severe world depression and a balance of payments crisis, the new state of Western Australia blossomed and continued to grow on the proceeds of the 1890s boom. Premier John Forrest's ambitious public works program employed many of the recent arrivals and others who stayed, helping develop other industries in the state, most particularly agriculture. According to Appleyard

(1981, p. 228) 'as gold production had initiated and sustained economic growth during the 1890s, so agriculture played an important role during the first decade of the twentieth century, funded by the proceeds of the boom period'. Both direct and indirect government support was considerable; however, unlike the subsequent booms discussed here, the 1890s boom had only a modest inflationary impact (Battellino, 2010) and Western Australia continued to develop until the outbreak of World War I.

The 1960s Boom (1966–1975)

The next super-boom period in Western Australia history which drove development for the state and contributed significantly to the Australian economy came after the embargo on iron ore exports was lifted in 1960 (Battellino, 2010; Measham, Haslam McKenzie, Moffat & Franks, 2013)[1]. This boom was timely because by the end of the 1950s, the rest of Australia was sliding into recession with the end of the post-war construction phase and winding back of the wool boom (Black, 1981). Demand from Asian countries for iron ore, particularly Japan, underpinned this boom which lasted almost a decade.

Despite initial concerns that the Australian iron ore reserves were modest and corporate manoeuvring to limit competitors' access to potential markets, the Western Australian government was confident that Western Australian iron ore reserves were big enough to develop a lucrative export industry. Initially, the goal was to establish a steel industry, but the impoverished state finances at the time and the Commonwealth's disinterest in developing iron ore mines and the necessary infrastructure (such as a railway network in the Pilbara; deep-sea harbour facilities, storage and loading facilities at Port Hedland; new inland towns to accommodate a mining workforce; and a road network) meant the only option was to pursue iron ore exports funded by the private sector, principally international mining conglomerates with Australian subsidiaries. The mining companies, chiefly Hamersley Iron, a consortia including Conzinc Rio Tinto of Australia (CRA) and Kaiser Steel Corporation, convinced the then Premier

David Brand to defer plans to establish a steel-making industry for twenty years to enable them to recoup the enormous capital outlay by exporting iron ore. Both the mining companies and the government used the deals to attract investors, capital and long term access to the resources. The companies:

> had to invest to establish an export operation from such an isolated area. … The state government used mining leases as an inducement for mining companies to investigate establishing manufacturing industry, while mining companies used state government interest in employment-generating manufacturing industry to obtain long-term mining leases (Lee, 2013, p. 163).

As soon as the agreements were signed with the state government, jobs and unprecedented investment followed. In 1964 Hamersley Iron undertook to spend £500,000 on investigational work, £30 million constructing a harbour, town sites, housing, water facilities and roads and £8 million on a secondary processing plant (Lee, 2013). Similar commitments were made by other mining companies soon after. In 1965, the Japanese had contracted to buy £800 million of iron ore (Trengove, 1976). By 1969, the export of 100 million tons of iron ore had been negotiated. Over the decade, ten new towns were developed – Newman, Pannawonica, Tom Price, Karratha, Paraburdoo, Wickham, Dampier, South Hedland, Shay Gap and Goldsworthy – transforming the remote Pilbara region. The proceeds from iron ore exports enriched not only the Western Australian economy but that of Australia.

By the mid-1970s, Western Australian coal, alumina and mineral sands were also being mined at unprecedented levels and sold into global markets (Spillman, 1993). Just as iron ore exports began in 1966, large nickel deposits were discovered in Kambalda, located in the Goldfields. Demand for nickel prompted by the Vietnam War caused the nickel price to peak in late 1969 at about £7,000/ton on the London Stock Exchange before crashing spectacularly in 1970 (Simon, 2003). Exploration expenditure climbed from $2.6 million in 1966 to $46.5 million in 1970 and by 1970 the total value of the state's nickel output was $87.4 million (Spillman, 1993). In addition, a nickel refinery was commissioned in Kwinana. Importantly, as noted by Battellino (2010), this boom was capital intensive and technology played an increasingly important part in responding to high-resource demand, labour shortages and need for economies of scale. Geochemical and geophysical exploration methods suited to Australian conditions were transformational (ABS, 2001a), identifying new ore bodies with accuracy and tailoring techniques to Australian conditions, which lowered production costs.

Like the turn of the century (1890s) boom, the Western Australian population grew rapidly from 736,600 people to 1,053,800 in a ten-year period (a 43 per cent increase; ABS, 1961, 1971). The rate of population growth surpassed that of the nation for more than a decade (1965–1976). Between 1966 and 1971 the annual average rate of population increase of 4 per cent was more than twice that of any other Australian state, mainly due to international migration (54 per cent) with 40 per cent of the immigrants being young and working aged (fifteen to forty-four years; Black, 1981). Most of the immigrants stayed and the population growth and the proceeds of this boom were the catalyst for a feverish property boom triggering the suburbanisation of Perth. The price of housing rose rapidly with the Perth median house price increasing 112 per cent between 1974 and 1978 (Real Estate Institute of Western Australia, 2015).

Foreign investment into the Western Australian economy had a dramatic effect. Income per capita more than doubled in the ten years from 1961 after being stagnant for three decades. Not surprisingly, the rate of growth of personal and household incomes (Ghosh, 1981) also increased. Real weekly incomes of Western Australian males increased, while for men elsewhere in Australia, it declined (Borland & Wilkins, 1996). Perhaps more importantly, the Australian Bureau of Statistics reported that overall income inequality in Western Australia declined in the period 1969 to 1974 (ABS, 2001b).

Royalty receipts climbed to $721,954 in 1966 before an extraordinary increase of 616 per cent in 1967 (exceeding $5 million; Spillman, 1993). Under the Brand and Court Liberal governments, significant infrastructure investments were made, again using state earnings from the mineral and property booms to attract foreign investment and partner with private enterprise to bring about 'prosperity, expansion and a glowing future' (Brand, 1959). A metropolitan freeway system was constructed in the 1960s linking the south of the city with the rapidly expanding northern suburbs. The Kwinana industrial area, established in the 1950s, expanded rapidly in the 1960s and 70s as a resource processing zone, grain handling facility and deep-water port (MacLachlan, 2013); a second, government-funded university was opened in 1975; a naval base was developed on Garden Island by the Commonwealth, demanding extensive urban development in the southern suburbs of Perth; and the Perth Airport was redeveloped.

Regionally, several towns, including Tom Price Dampier and six other towns in the Pilbara and Kambalda in the Goldfields, were established to support nearby mining operations in the remote areas of Western Australia. Parliament also gave its approval for significant land development at Esperance with the passing of the Esperance Land Agreement Act (Senior, 1995), which attracted millions of dollars of American and British investment. The Ord River Project in the northern Kimberley region finally commenced in 1967 after almost a century of planning, a huge infrastructure project that dammed Lake Kununurra and later the Ord River, developed irrigation infrastructure for commercial tropical farming and created Lake Argyle, Australia's largest dam reservoir. The town of Kununurra was established to support the construction and later residential workforces. While initial farming ventures failed, this infrastructure investment has subsequently underpinned an important food bowl and profitable commercial sandalwood industry.

By 1975, the mining industry's direct contributions to state revenue exceeded $42.8 million and the largest receipts were from iron ore (90.6 per cent), nickel (3.5 per cent), oil and gas (3.5 per cent) and alumina (1.4 per cent; Spillman, 1993, p. 199). The 1960s boom transformed Western Australia from the 'Cinderella state', with below-average living standards compared to the rest of Australia, as measured by the per capita gross state product (GSP; incorporating export, business expenditure, income and household data; Western Australian Technology and Industry Advisory Council, 2000), into a robust economy. In 1971 the Australian Grants Commission removed Western Australia's designation as a 'claimant' state, dependent on Commonwealth grants. Western Australia had gone from being a drain on the nation to contributing 22 per cent of total Australian export income (Appleyard, 1979). Significantly, by 1971, iron ore contributed one third of the state's export earnings and the royalties earned (Black, 1981) and by the turn of the century, Western Australia contributed 28 per cent of the nation's export earnings through its mining and farming industries.

The 2000s Boom (2001–2013)

Thirty years later, commencing in 2001, Asian, principally Chinese, demand for iron ore underpinned another super-boom period. This super-boom lasted longer than the two earlier super-booms. Referring to Sheehan's (2011) earlier definition of a resources boom, both the level of resource investment as a share of GDP and the terms of trade reached record levels in the 2000s boom. In 2011, national export earnings from resources peaked at a record $190 billion, a 15 per cent increase on 2010 (Bureau of Resources and Energy Economics, 2012; Office of the Chief Economist, 2015). Western Australia's GSP grew exponentially, from less than one fifth in 2003–04 to more than one third in 2010–11 and reaching $265 billion in 2013–14, contributing 17 per cent of Australia's GDP (Department of State Development, 2015; Department of Treasury, 2014). As evidenced in chapter 2, by the early 2000s, trade from Perth was firmly connected internationally. Domestically, mining was important for the related activities in construction, processing and other services supporting the mining industry. The Western Australian per capita gross income in 2013 was 50 per cent higher than it was ten years before and household net wealth increased by 70 per cent in real terms in the decade 2003–2013, adding $268 billion to Western Australia's total wealth stock (Cassells, Duncan & Gao, 2014).

Just as was the case with the two previous super-boom periods examined in this chapter, this resources boom and associated high demand for both skilled and unskilled labour increased the Western Australian population 26 per cent in twelve years to 2.583 million people (from 2001), considerably higher than the national average population growth rate of 15 per cent (ABS, 2015) and consistently the fastest growing state population over the decade. Although Western Australia's share of the national population is only about 10 per cent, the GSP per capita averaged about 50 per cent higher than the national average over the boom period. Perth, where 80 per cent of the state's population resides, experienced rapid growth with a 14.3 per cent increase in residents between 2006 and 2011. By 2015 Perth's population had reached 2.5 million people, with an even greater concentration of people (an increase of 6 per cent in a decade) in Perth (ABS, 2015). The rapid increase in population drove commercial and residential property prices to unprecedented levels (Cassells et al., 2014; Costello & Rowley, 2010). Between 2001 and 2005 the median house price in Perth doubled (Real Estate Institute of Western Australia, 2015) causing considerable political, economic and social concerns, as discussed in the following section.

In late 2013, the frantic construction phase for many of the big resource projects began to transition to an operational phase and the Chinese economy and financial system showed signs of experiencing a period of adjustment and uncertainty. The iron ore price fell from its peak of $US160/tonne in 2010–11 to $US63/tonne in December 2014 (Department of State Development, 2015) and $US38/tonne in December 2015 on the back of an unexpected simultaneous weakening of the Chinese real estate and steel sectors. Unemployment increased and population growth slowed. Between 2013 and 2015, net overseas migration to Western Australia dropped by 71 per cent and there was net interstate migration loss (ABS, 2015). By 2016 it was generally assumed that the super-boom was over.

A review of the key infrastructure investments over the 2006 to 2016 period include a long-debated Perth city foreshore redevelopment, Elizabeth Quay (Haslam McKenzie, 2011b), which will reconnect the central business district with the Swan River. The city rail network was extended with a new metropolitan train route linking the city with Mandurah 70 kilometres away and consolidating the Mandurah–Perth conurbation. A number of road and traffic-management upgrades, including the widening of a key city arterial highway and the Perth to Bunbury highway, were undertaken and the construction of a new major sports stadium and several other sports facilities commenced. In the southern suburbs of the city, a new hospital was built and major upgrades to several other major medical facilities in Perth were also completed. As potable water came under pressure from increased population but also cumulative decreases in rainfall, two desalination plants were commissioned to ensure reliable water supply to Perth and the south west.

Legacies of the 2000s Super-boom

Unlike infrastructure investment generated from the proceeds of the two previous super-booms, there is little on this list which constitutes visionary, long-term investment in the state's future. It could be argued that most of the investments are in response to the pressures created by rapid increase in population and the low-density housing developments causing the Perth metropolitan area to spread across 100,000 hectares and stretch 125 kilometres from south to north (Weller, 2009). It could also be argued that many of the infrastructure developments built during the 2000s booms are 'catch-up' projects which were held back by thirty years of neoliberal public policy. The one exception to this is the Royalties for Regions program.

While most of the above developments are city-based, regional Western Australia benefited from the Royalties for Regions program, which delivered a diverse range of community and economic programs and infrastructure to rural, regional and remote areas of the state commencing in 2010. It could be argued, however, that the Royalties for Regions program came into being more by good luck rather than prescient or strategic planning by either of the major political parties in Western Australia. From the late 1990s, residents of the resource-rich communities, especially those in the Pilbara, lobbied government, political aspirants and the media for attention to be paid to the rundown and inadequate infrastructure, insufficient and poor-quality housing, the rate of population churn and the high cost of living in the region. Successive government reports had identified the need to address the poor infrastructure, service delivery and shortage of housing but little was done, principally because of the electoral imbalance; the Western Australian population is highly urbanised and the Pilbara was of little electoral consequence. One politician dismissed the residents of the Pilbara as 'an overpaid bunch of whingers'. All of this changed in 2008 when a state election resulted in a hung parliament[2]. The Royalties for Regions program was introduced as a condition of the minority National Party enabling the Liberal Party to govern. The program quarantined 25 per cent of the state's mining and onshore petroleum royalties for additional investments in projects, infrastructure and community services in rural, regional and remote communities (Department for Regional Development and Lands, 2013) – over and above the state government service obligations (Haslam McKenzie, 2013). By 2014 Royalties for Regions expenditure had undertaken 415 projects worth $2.6 billion, with a further $2 billion allocated and not yet expended (URS, 2014). The program has underwritten a diversity of projects from small community projects to multimillion-dollar state strategic projects, including housing, education, cultural and environmental investment, recreation and economic projects (Department of Regional Development, 2014). An important condition of Royalties for Regions funding is that the projects have an enduring legacy with inter-generational benefits and many have stimulated private-sector spending decisions and partnership investment. According to a review of the Royalties for Regions program, 'government expenditure into regional communities has been a demonstration of government commitment to ongoing vitality in rural, regional and remote Western Australia, enhancing economic opportunities and fostering positive community relations' (Department of Regional Development, 2014, p. 5).

However, while Royalties for Regions has responded to the needs of particular communities and even industry sectors, governments continue to rationalise and centralise services in line with neoliberal principles. As noted by Ripepi (2014, p. 2):

> neoliberal-based reforms beginning in the 1980s and accelerated during the 1990s, have seen significant changes in responsibilities for the delivery of essential functions and services [in Australian regions]. A range of functions and services are no longer undertaken directly by government, but instead are provided by government business enterprises and these corporatised entities conduct their operations according to commercial principles.

As a result, there has been widespread rationalisation and centralisation with a net result of poor service delivery.

While generally the Royalties for Regions program has been widely lauded (URS, 2014), there have been policy detractors (see McLure, 2008) who argue that Royalties for Regions was a major reallocation of state resources and it was not an equitable distribution because more than 80 per cent of the state's population live in the Perth urban and periurban areas. However, on balance, there has been a general acceptance across Western Australia that Royalties for Regions has provided a much-needed fillip for rural, regional and remote communities, especially those in the remote communities where much of the wealth is generated, which otherwise would not have been delivered (Department of Regional Development, 2013; URS, 2014).

BOOM DOOM AND GLOOM

Australia was one of the few first world countries to avoid recession in the GFC (2007–9), largely due to the Australian mining and energy sectors experiencing sustained growth. Australia was identified as one of the wealthiest nations according to the United Nations Human Development Index (United Nations Development Program, 2014), which ranks Australia as the second-most liveable nation in the world after Norway, ahead of Switzerland, a promotion from fourth place in 2008.

However, while the headline economic indicators showed impressive gains and the enviable international liveability status, the statistics masked a less-attractive reality (Abjorensen, 2009). The record levels of export income had a significant impact on real net national disposable income and, as a consequence, the Australian dollar strengthened increasing the value of Australian exports, most particularly non-resource tradeable sectors (Pineda & Rodriguez, 2010). The tourism, pastoral and fishing industries were all adversely affected by the strong Australian dollar and their viability was further compromised when labour was attracted to the higher pay rates and consistent work of the resources sectors (Hajkowicz, Heyenga & Moffat, 2011; Haslam McKenzie, Rolfe, Hoath, Buckley & Greer, 2013). Consequently, the Western Australia economy and community more generally became increasingly polarised by the resources boom. From 2001, Australian wages grew steadily, but from 2003 Western Australian weekly earnings were consistently higher and by 2013, they were 22 per cent higher than the national average (ABS, 2013b). At the same time the consumer price index (CPI) also increased with the net effect being a marginal uplift in real wages (Richardson, 2009). Income polarity was evident when comparing, for example, the increase of average weekly earnings for males in the mining industry (approximately 33 per cent) to workers in accommodation, cafes and restaurants who received increases of 12.3 per cent (ABS, 2009; Richardson, 2009), less than the rate of inflation. CPI-adjusted incomes across income categories which were not linked to the resources sector, such as hospitality, tourism, government and fixed-wage earners, fell (ABS, 2011, 2012, 2013a). Unlike the 1960s boom, which caused income disparities to narrow (Australian Bureau of Statistics, 2001b), there was considerable income divergence during the 2000s boom. In 2013, the wealthiest 10 per cent of Western Australians earned approximately 4.5 times the income of the poorest 10 per cent (Cassells et al., 2014).

The rapid population growth and escalation of wealth in some sectors imposed considerable pressures on the housing markets, causing further polarisation and marginalisation due to intense competition for housing (Department of Housing, 2011; Haslam McKenzie & Rowley, 2013). While median prices provide a useful comparison, they also mask considerable variation. Nonetheless, as shown in Figures 1 and 2, house prices in Perth, and more especially in regional Western Australia, increased substantially during the boom period causing considerable housing affordability stress.

Even more dramatic were the house price increases in regional Western Australia, as shown in Figure 2. Karratha and Port Hedland were under considerable pressure due to their proximity to the Pilbara iron ore mines and their locations as ports. The tightening of the construction labour market during the boom caused capacity constraints throughout the building industry and worked against meeting housing demand and infrastructure project timelines across Western Australia (Haslam McKenzie, Rowley, Phillips, Birdsall-Jones & Brereton, 2009).

Further, public housing supply did not keep abreast of regional population growth. In the ten years from 1997, the Commonwealth government reduced its share of housing funding by 25 per cent and state governments made matching cuts (Abjorensen, 2009; Senate Select Committee on Housing Affordability in Australia, 2008). Nor did governments amend entitlements to social security. The last adjustments were made in 2004 and there were no real changes in the indexation arrangements for people who relied on government benefits and pensions.

There were signs in 2011 that the boom had reached its peak. The domestic economy slowed and real GDP rose by only 1.4 per cent with employment remaining steady throughout 2011 (The Reserve Bank of Australia, 2012). Meanwhile, however, the Australian dollar was at, or even above, parity with the US dollar, imposing increased pressure on other staples and internationally exposed industries. By 2014 the iron ore price consistently dropped throughout the year, an average of 9 per cent, to US$74/tonne and by December 2015 the price had dropped to US$38.30 (Department of State Development, 2015). By the end of 2014, the annual price of LNG had also fallen 2 per cent and the average price of gold had fallen 4 per cent (Department of State Development, 2015). The scale of the disruption to the Chinese markets was unforeseen and the impact was quickly felt across the Western Australian economy with exploration in the mining industry tapering off, second tier iron ore companies announcing retrenchments across their businesses and resources industry contractors announcing major business contractions. Importantly, for the broader Western Australian economy, it quickly became evident that the State Budget was under pressure due to rapidly falling resource royalties. It is resource royalties which underwrite the cost of the Western Australian public sector, which delivers education, health, ports, law and order and other services. Iron ore royalties comprised 41 per cent of total royalties in 2002–03 and by 2012–13, they constituted 87 per cent (Department of Treasury, 2014). Furthermore, in line with the national policy of fiscal equalisation, the Goods and Services Tax (GST) redistribution to the states is adjusted 'to offset differences in states' revenue raising capabilities and expenditure needs' (measured on a per capita basis; Department of Treasury, 2014, p. 47). Mining royalties and the relatively small population have meant that GST redistribution to Western Australia has fallen from 98 per cent in 2002–03 to 37 per cent in 2015 and an expected all-time low of 30 per cent in 2015–16. As a result of this diminished supply of, and increasing demand on, the state budget, Western Australia has been pushed into a deficit with dire public-spending consequences (Department of Treasury, 2015). The dual disadvantage is further exacerbated by the increased state population over the last fifteen years, the ageing population and increased demand for social and economic infrastructure and core services such as education, health, law and order.

THE RESOURCES BOOM: A BOON FOR THE FUTURE? CONCLUDING REMARKS

Much has been written about the 'resource curse', 'Dutch Disease' and the 'Gregory Thesis' and whether countries that specialise in primary products are prone to suffer these problems; prompting conjecture that an abundance of natural resources is a blessing or a bane for local socioeconomic development (Auty, 1993; Davis & Tilton, 2005; Humphreys, Sachs & Stiglitz, 2007b; Maconachie & Binns, 2007; Pineda & Rodriguez, 2010). These concepts generally described the negative impact on an economy due to the domination of a narrow group of industries, particularly resource-related capital inflow, causing a stronger currency and crowding out unrelated, import-competing industries such as manufacturing and agriculture. Does the evidence of the doom and gloom experienced both during and after the boom suggest that Western Australia, in particular, has been a victim of these negative economic outcomes?

The Australian Reserve Bank has played a pivotal role in managing Australia's economy and the potential inflationary pressures imposed by boom conditions. As a central bank with oversight of the entire economy, it applies policies and measures with a view to overall, national economic prosperity, full employment and monetary stability. Throughout the boom period, the monetary policy has been 'mildly restrictive' (The Reserve Bank of Australia, 2012), offsetting the potential incremental expansionary impact of the resources boom and thus inflation (Sheehan, 2011). Interest rates have been consistently low and as the impact of mining contraction continues there is limited flexibility in their ability to counter the contractionary forces (Sheehan & Gregory,

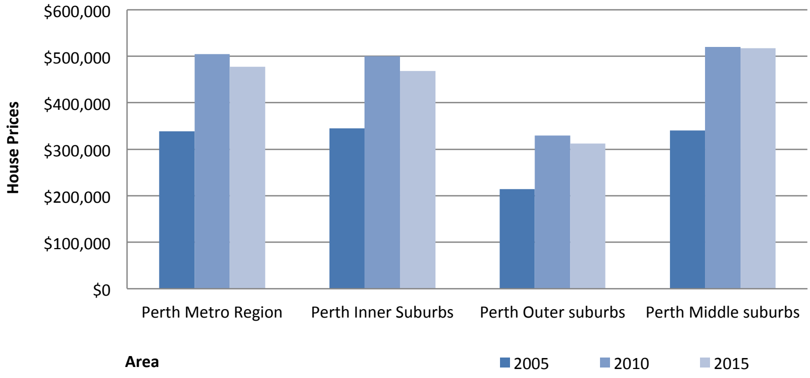

Figure 1: House prices in Perth 2005–2015 (REIWA Market Update June Quarter 2015).

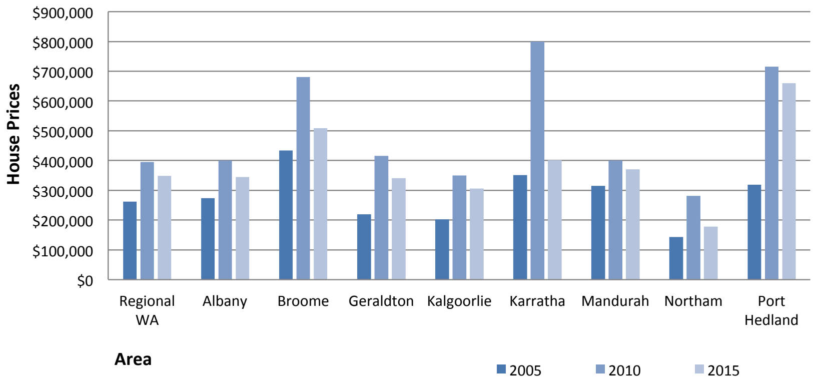

Figure 2: House prices in regional Western Australia 2005–2015 (REIWA Market Update June Quarter 2015).

2013). However, the Australian dollar has devalued significantly, providing the necessary stimulus for other staples industries such as agriculture and sectors exposed to international markets such as tourism which, during the boom, struggled to attract labour and compete with such a strong Australian currency.

For Western Australia in particular, the cumulative effects of the contraction of the resources industry and the meagre return on GST payments are projected to impose significant cut backs both in the public and private sectors. Nonetheless, none of these outcomes are symptomatic of the resources curse, while the unemployment rate and consumer activity remain stable. Furthermore, the benefits of Royalties for Regions investments, particularly infrastructure, in rural, regional and remote areas of Western Australia continue to have a positive effect, reflected in population movements, especially to the larger regional centres (Plummer, Tonts & Martinus, 2014). The disruptive effect of rapid growth caused by the boom and the persistent spatial economic inequality (Plummer & Tonts, 2015) has caused uneven development requiring local and regional policy attention, particularly with the rapidly emerging economic problems created by the end of the boom.

Reflecting on the long-term benefits of the boom, and whether the state's leaders and policy makers have capitalised on the recent largesse generated by the super-boom to shape the future for the next half century, it is difficult to recognise prescient developments, project investments or strategic economic alliances which will propel Western Australia forward, as was the case with the previous booms. The evidence (Department of State Development, 2015; Department of Treasury, 2014; Sheehan & Gregory, 2013) shows that many Australians have benefitted from the boom, but there are few signs that the state's leaders have considered how to shield Western Australia from the inevitable 'bust' or made provisions for the future when resource markets, upon which Western Australian wealth rests, are no longer so robust. It could be argued that the Royalties for Regions program has a corpus of funds which could underwrite future investment, especially in rural, regional and remote areas, but there are no indications that the funds will be dedicated to reshaping the economy. Nonetheless, this program has redirected significant funds away from the city and smoothed some of the emerging unevenness.

Many of the investments made in the state's future post the 1890s boom, particularly in infrastructure, which supported the agricultural industry, have either been sold off, as has been the case of the non-metropolitan railway infrastructure (and perhaps the Port of Fremantle in the future), closed or significantly 'rationalised', such as the Department of Agriculture and utilities such as water and electricity. Western Australia's population is now even more urbanised, despite the wealth that drove the boom being located in remote and regional, and services are consequently being rationalised and centralised, based on neoliberal principles.

Cleary (2011) and others (Auty, 2007; Humphreys, Sachs, & Stiglitz, 2007a; Pineda & Rodriguez, 2010) have all warned that wealth obtained from natural resources imbues people with a false sense of security. In Western Australia, despite the laudable economic and social achievements, there are signs that complacency has successfully obscured some worrying trends, such as a record number of small business defaults in 2015 mine closures and retrenchments across small and large businesses, that suggest Western Australians and policy makers in particular should be mindful that booms do not come around often and their proceeds must be invested carefully. However, there is evidence (Lederman & Maloney, 2007; Pineda & Rodriguez, 2010; United Nations Development Program, 2010) that natural resources do not necessarily incur a curse can in fact be a significant boon to national and local economies when there is subsequent investment in human capital. If Western Australian wealth is to deliver long-term benefits, it is critical that institutional frameworks, growth-promoting policies and valuing of human capital are viewed as investments for the future and hence the proceeds of the most recent boom to that end. Is it too late?

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NOTES

1 The Australian government embargoed any export of iron ore between 1938 and 1960; imposed by the Lyons government prior to World War II to prevent the Japanese from importing ore for their steel industry. The ban was retained for two decades because there was concern that Australia's iron ore reserves were limited and therefore should be preserved for domestic uses (Lee, 2013).

2 A 'hung parliament' means that no one party has an outright majority.

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