



## Economic indicators: Whitlam to Howard (August 2007 update)

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### Executive summary

This Research Paper summarises the performance of the economy during each administration from Whitlam through to Howard by providing period averages across a range of economic indicators. Though this approach has its limitations, it provides a useful overview and means of comparing the different administrations. The paper updates previous papers released in October 1999 and August 2004.

### Introduction

During the period from the Whitlam Government through to the Howard Government, there has been significant movement across a range of economic indicators. This is to be expected over a period which has seen two major recessions and in which the economy has almost tripled in size. Some indicators that stand out (see table and charts) are:

- high real wage growth and high inflation under Whitlam
- low employment growth under Fraser
- high employment growth and (paradoxically) high unemployment under Hawke/Keating, and
- low inflation under Howard.

This Research Paper, however, does not seek to explain movement in any of the indicators. Rather, it provides a summary measure of the performance of each administration by calculating a number of period averages across a wide range of indicators. There are, however, some important considerations with this approach. First, each administration is of a different length and experiences different phases of the business cycle. Second, each

administration is variously affected by external factors beyond its control, eg the oil crisis of the 1970s. Third, each administration inherits a distinctly different legacy and therefore starts from a very different base. Fourth, it takes time for the policies of each new administration to take effect and yet the economic indicators presented here measure performance from the day each administration took office. Fifth, period averages are simplistic in nature and ignore major developments that may have taken place during each administration's term in office. Finally, the Howard government is still in office and therefore period averages for this administration, calculated on the basis of the latest available data at August 2007, may change in the future. With these qualifications in mind, the major economic indicators, measured in terms of period averages, are summarised below.

## Labour market

While employment growth was weakest during the Fraser years, it recovered strongly under Hawke/Keating and has remained strong under Howard. The proportion of the working age population in employment was lowest under Fraser and highest under Howard. The proportion of the working age population in part-time employment has risen with each administration. While the unemployment rate was lowest under Whitlam and highest under Hawke/Keating, it fell under Howard. Despite improvements in the overall unemployment rate, the teenage full-time unemployment rate has been about the same under Howard as it was under Hawke/Keating. The long-term unemployed as a proportion of the total unemployed almost doubled under Hawke/Keating compared with Fraser, but then fell under Howard. Labour productivity growth has averaged around the same for both the Hawke/Keating and Howard administrations.

## Wages and prices

The rate of inflation has fallen sharply with each administration from an annual average of 14.5 per cent under Whitlam to 2.5 per cent under Howard. Real wages, measured in terms of non-farm compensation per employee, rose by an average of 4.7 per cent per annum under Whitlam, but then slowed under Fraser and even fell slightly under Hawke/Keating. Real wages have grown an average of 1.7 per cent per annum under Howard.

## National accounts

The average standard of living for all Australians as measured by real gross domestic product (GDP) per capita<sup>1</sup> has improved steadily with each administration from \$25 000 per annum under Whitlam to \$41 000 under Howard. The rate of increase in real GDP per capita was slowest under Whitlam and Fraser at around one per cent per annum and more than twice this rate under Hawke/Keating and Howard. Commensurate with this, the rate of economic growth was considerably slower under Whitlam and Fraser than it has been under either

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1. Expressed in constant 2004–05 dollars.

Hawke/Keating or Howard. National saving has fallen dramatically since Whitlam with some increase under Howard, while household saving has fallen sharply under all administrations. The ratio of household debt to annual gross household disposable income has more than doubled from 51.8 per cent under Hawke/Keating to 116.0 per cent under Howard. Interest payments on debt as a proportion of gross household disposable income, or the household debt servicing ratio, has risen from an average of 7.0 per cent under Hawke/Keating to 8.5 per cent under Howard.

## **Finance**

The size of the underlying Commonwealth budget deficit grew from an average of 0.2 per cent of GDP during the Whitlam term in office to an average of 1.0 per cent under Fraser and 1.5 per cent under Hawke/Keating, with the budget in surplus by an average of 1.0 per cent of GDP under Howard. Commonwealth tax receipts as a percentage of GDP have grown steadily under each administration. Real housing interest rates reached a peak during the Hawke/Keating years, with a significant fall under Howard. Home loan repayments as a proportion of family income have risen from an average of 26.6 per cent under Hawke/Keating to 27.9 per cent under Howard.

## **External transactions**

Australia's current account deficit has increased with each administration, rising from 1.3 per cent of GDP under Whitlam to 4.6 per cent under Howard. At the same time, Australia's net foreign debt has risen sharply from 7.2 per cent of GDP under Fraser to 33.5 per cent under Hawke/Keating and 45.0 per cent under Howard. The foreign debt servicing ratio, or the ability to meet interest payments on foreign debt from export receipts, has fallen over the period from Whitlam to Hawke/Keating but has increased under Howard. The degree of import penetration, as measured by the imports to sales ratio, has increased with each administration. The average value of the Australian dollar has fallen with each administration, whether measured relative to the US dollar or to the currencies of our major trading partners (trade weighted index).

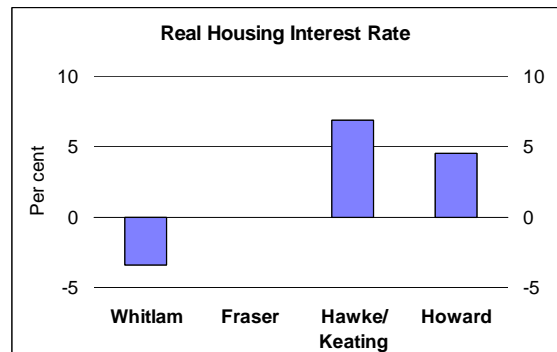
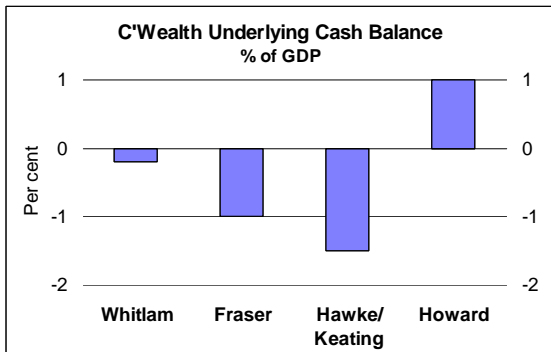
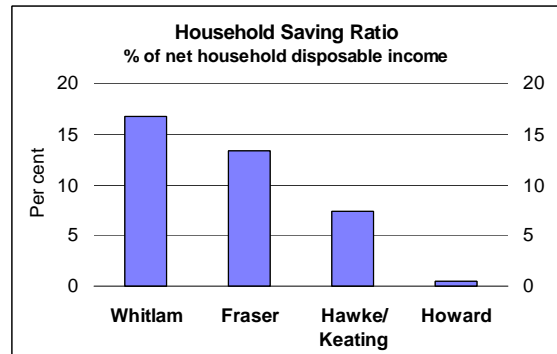
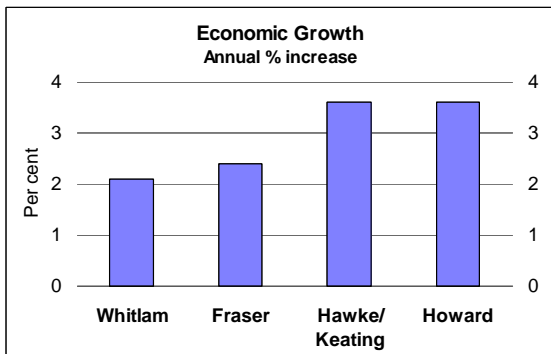
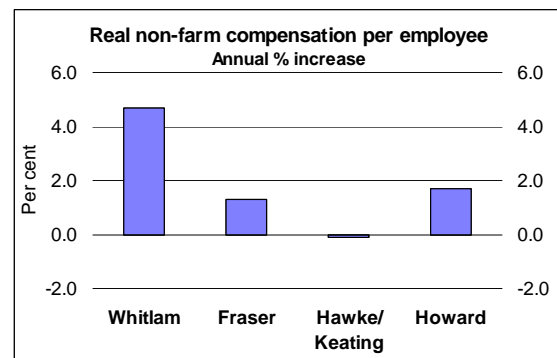
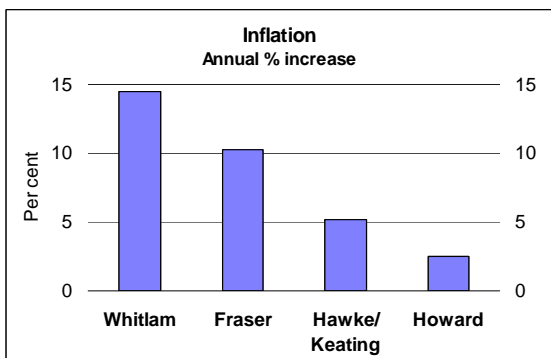
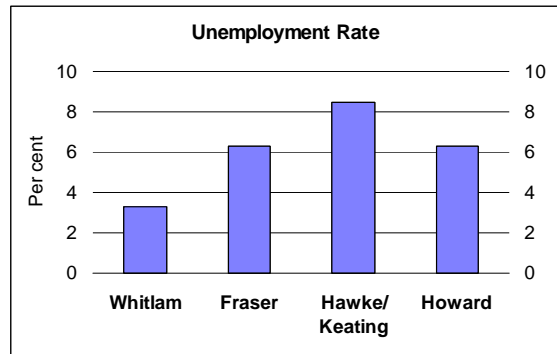
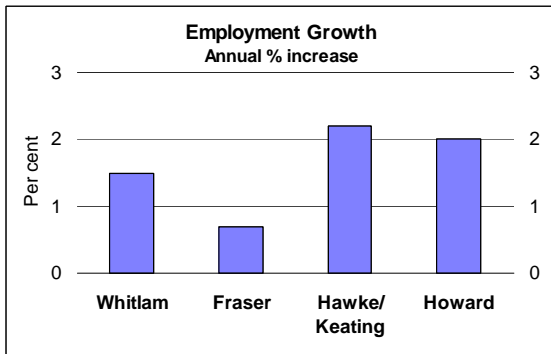
## Economic indicators

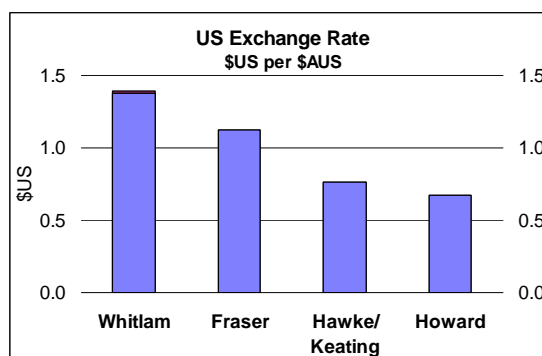
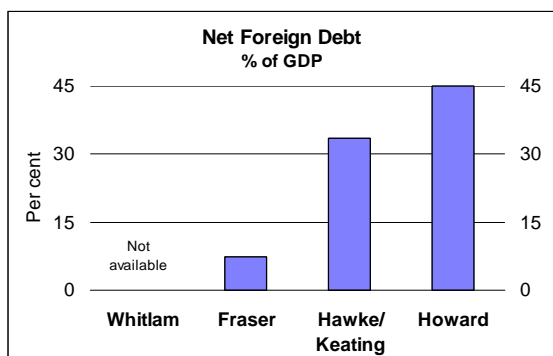
Indicator	Units	Whitlam (ALP) Dec-72 to Nov-75	Fraser (LIB/NP) Nov-75 to Mar-83	Hawke/ Keating (ALP) Mar-83 to Mar-96	Howard (LIB/NP) Mar-96 to Aug-07
<b>Labour Market:</b>		- Period averages -			
Employment	Annual % increase	1.5	0.7	2.2	2.0
Employment to population ratio (15-64 yr olds)	%	66.3	64.8	65.7	69.6
P/T employment to population ratio (15-64 yr olds)	%	8.1	9.9	13.7	18.7
Unemployment rate	%	3.3	6.3	8.5	6.3
Teenage F/T unemployment rate	%	n.a.	17.4	23.7	23.0
Mature age (45+) unemployment rate	%	n.a.	3.0	5.7	4.1
Long-term unemployment	% of all unemployed	n.a.	16.1	30.5	26.1
Labour force participation rate	%	62.0	61.2	62.4	63.6
Labour productivity (market sector)	Annual % increase	n.a.	n.a.	2.3	2.2
<b>Wages and Prices:</b>		- Period averages -			
Inflation	Annual % increase	14.5	10.3	5.2	2.5
Real F/T adult ordinary time earnings - males	Annual % increase	n.a.	n.a.	0.4	1.9
Real F/T adult ordinary time earnings - females	Annual % increase	n.a.	n.a.	0.6	2.0
Real non-farm compensation per employee	Annual % increase	4.7	1.3	-0.1	1.7
<b>National Accounts:</b>		- Period averages -			
Business investment	% of GDP	12.6	12.9	12.4	13.3
Real GDP per capita <sup>(a)</sup>	\$ pa	24 982	26 924	31 604	41 324
Real GDP per capita <sup>(a)</sup>	Annual % increase	0.7	1.1	2.2	2.3
Economic growth	Annual % increase	2.1	2.4	3.6	3.6
National saving (net)	% of GDP	12.2	7.9	3.8	4.9
Household saving ratio	%	16.7	13.3	7.4	0.5
Household debt ratio	%	n.a.	n.a.	51.8	116.0
Household debt servicing ratio	%	n.a.	n.a.	7.0	8.5
<b>Finance:</b>		- Period averages -			
Commonwealth cash payments <sup>(b)</sup>	% of GDP	21.8	24.2	25.1	24.9
Commonwealth cash receipts <sup>(b)</sup>	% of GDP	21.6	23.2	23.5	25.9
Commonwealth cash taxation receipts <sup>(b)</sup>	% of GDP	19.9	21.4	22.1	24.2
Commonwealth underlying cash balance <sup>(b)</sup>	% of GDP	-0.2	-1.0	-1.5	1.0
Real housing interest rate	%	-3.4	0.0	6.9	4.5
Real large business interest rate	%	n.a.	n.a.	8.3	6.1
Home loan affordability	Ratio	n.a.	n.a.	26.6	27.9
<b>External Transactions:</b>		- Period averages -			
Terms of trade	Index	99.6	84.0	78.3	88.4
Balance on current account	% of GDP	-1.3	-3.4	-4.4	-4.6
Net foreign debt	% of GDP	n.a.	7.2	33.5	45.0
Foreign debt servicing ratio	%	-0.8	-4.5	-14.1	-9.5
Imports to sales ratio	Ratio	0.185	0.217	0.266	0.345
Exchange rate - United States dollar	\$US per \$AUS	1.39	1.12	0.76	0.67
Exchange rate - trade weighted index	Index	110.1	89.1	60.1	57.8

(a) Base year for real measure is 2004-05.

(b) Includes GST from 2000-01.

## Selected charts





## Glossary

**Balance on current account.** The difference between payments and receipts in respect of current transactions between Australia and the rest of the world. A negative amount, or current account deficit, means that total payments exceed total receipts.

**Business investment.** Private gross fixed capital formation (i.e. expenditure by private firms on new durable goods and net additions of similar second hand goods) on other buildings and structures, machinery and equipment, livestock and intangible fixed assets.

**Economic growth.** A measure of the increase in real gross domestic product.

**Employed persons.** Persons aged 15 and over who, during a reference period of one week, worked for one hour or more for pay or worked for one hour or more without pay in a family business or farm.

**Employment to population ratio.** The number of employed persons aged 15-64 years expressed as a percentage of the civilian population in the same age group.

**Foreign debt servicing ratio.** The interest obligation on foreign debt as a proportion of goods and services credits (export earnings).

**Gross domestic product.** The total market value of goods and services produced after deducting the cost of goods and services used up in the process of production but before deducting an amount for depreciation.

**Home loan affordability.** Average home loan repayments on new loans as a proportion of median family income.

**Household debt ratio.** The amount of household debt at a point in time expressed as a percentage of the annual gross disposable income of households. Household debt is the sum of housing and other personal debt, including securitised debt.

**Household debt servicing ratio.** Interest obligations on housing and other personal debt as a proportion of gross household disposable income.

**Household savings ratio.** The ratio of household income saved to household net disposable income. Net disposable income is the gross disposable income of the household sector net of depreciation on the capital assets of the household sector.

**Imports to sales ratio.** The ratio of imports to domestic sales. Provides a measure of import penetration, i.e. the extent to which imports are displacing, or indicate an absence of, domestically produced alternatives.

**Labour force participation rate.** The number of persons in the labour force (i.e. employed plus unemployed) expressed as a percentage of the civilian population aged 15 years and over.

**Labour productivity.** Real gross domestic product per hour worked in the market sector. The market sector excludes the following five industries because their outputs are not marketed: property and business services; government administration and defence; education; health and community services; and personal and other services.

**Long-term unemployed.** Persons unemployed for a period of 52 weeks or more since their last full-time job. (This definition is the one used by the ABS prior to April 2001. The definition now in use by the ABS refers to the period since a person last worked in any job, regardless of whether it was full-time or part-time. The earlier definition has been used here, however, as it provides a much longer time series.)

**National saving.** The proportion of net national disposable income that is not spent on final consumption of goods and services. Net national disposable income is the gross national disposable income net of depreciation on the capital assets of the nation.

**Net foreign debt.** The amount borrowed from non-residents by residents of Australia, minus the value of foreign reserves held by the Reserve Bank and minus lending by residents of Australia to non-residents.

**Part-time employment to population ratio.** The number of part-time employed persons aged 15-64 years expressed as a percentage of the civilian population in the same age group. Part-time employed persons are those who usually work less than 35 hours a week in all jobs.

**Real full-time adult ordinary time earnings.** Average gross (before tax) earnings of full-time adult employees, excluding overtime payments and after adjustment for inflation.

**Real gross domestic product.** Gross domestic product after adjustment for inflation; a measure used to indicate change in the actual quantity of goods and services produced.

**Real housing interest rate.** Standard variable rate for bank housing loans to individuals for owner occupation, after adjustment for inflation.

**Real large business rate.** Average variable interest rate charged to large businesses for term and overdraft facilities, after adjustment for inflation.

**Real non-farm compensation per employee.** Average total remuneration of all non-farm employees, after adjustment for inflation.

**Teenage full-time unemployment rate.** The number of 15-19 year olds unemployed and looking for full-time work expressed as a proportion of the number of 15-19 year olds in the full-time labour force.

**Terms of trade.** The relationship between a country's export prices and its import prices. A fall in the index means that a country must export more to purchase the same amount of imports.

**Trade weighted index.** A measure of the value of the Australian dollar against a basket of foreign currencies of Australia's major trading partners.

**Unemployment rate.** The number of unemployed persons expressed as a percentage of the labour force. The unemployed are persons aged 15 and over who, during a reference period of one week, were not employed but had actively looked for work in the previous four weeks and were available to start work.

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