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## The Impact of the Global Financial Crisis on Australia

Jenny Chesters\* and John Western†

### 1 Introduction

Proponents of world systems theory argue that “the modern world comprises a single capitalist world-economy” (Wallerstein, 1975, 16). The recent Global Financial Crisis (GFC) is a potent reminder of this interconnectedness. According to Wallerstein (2004) the capitalist-world economy is based on an axial division of labour dividing the world into three interdependent zones: the core, the periphery and the semi-periphery. The core concentrates on the production of highly profitable goods and includes the most economically advanced, politically stable and powerful countries such as the United States, the United Kingdom and Germany. Countries within the core form a highly integrated network allowing for the rapid diffusion of capital and technology (Peacock et al., 1988). The periphery produces the least profitable goods, typically agriculture and commodities. Peripheral countries are the least developed countries with less stable political regimes and little military power such as those in sub-Saharan Africa. The third zone, the semi-periphery, is an intermediate zone which includes countries with a mixture of core and peripheral characteristics. Some semi-peripheral countries have stable political regimes, some have military power and some have highly industrialized economies, however they are unable to exploit peripheral countries in the same way that the core does and thus are located in this intermediate zone. Semi-peripheral countries are also at risk of exploitation due to their dependence on the core for capital investment and advanced technology (Peacock et al., 1988; Chase-Dunn and Grimes, 1995). Due to the heterogeneous nature of the semi-periphery, there is some debate regarding which countries are located within this zone and indeed whether or not this zone should be further divided into the semi-core and the semi-periphery (Burns et al., 1997).

Australia’s location within the world system is somewhat contentious. Some theorists locate Australia within the core (Peacock et al., 1988), others place it within the semi-core (Burns et al., 1997; De Bruyn, 2004) and yet others place it within

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This paper uses unit record data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The HILDA Project was initiated and is funded by the Australian Government Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) and is managed by the Melbourne Institute of Applied Economic and Social Research (MIAESR). The findings and views reported in this paper, however, are those of the authors and should not be attributed to either FaHCSIA or the MIAESR.

the semi-periphery (Castles, 1988). Australia continues to rely on the export of commodities and on attracting capital investment from more advanced economies like peripheral countries, however it enjoys a high standard of living typical of core nations. Politically, Australia is a stable democracy with little internal conflict however it relies heavily on its military ties with the US for its defence and is not in a position to exert military pressure on other nations. A similar debate surrounds the location of Canada. As its membership of the G7 indicates, Canada has a high standard of living, however, to achieve this, it relies heavily on its neighbor, the US for capital investment and as a market for its exports (Clarkson, 2000). Therefore, rather being in a core position and exploiting less developed nations, Canada is to some extent exploited by the US.

According to Terlouw (1993), the social structure of semi-peripheral countries is rather fluid and this flexibility allows them to adapt to changes within the capitalist world-economy. Therefore, they may be less affected by economic downturns and in fact, may even be able to improve their position within the hierarchy during periods of stagnation. Inherently, capitalist economies experience cycles of expansion and contraction (Wallerstein, 1975) and the current crisis is a result of the rapid and unsustainable expansion of the world economy between 1990s and 2007. In this paper, we discuss the development of the GFC before focusing on the effects that the crisis had on the Australian economy and assessing the social conditions under which the crisis unfolded.

## 2 The Global Financial Crisis

The GFC had its roots in the economic deregulation that took place in the 1980s. Governments around the world sought to remove controls from the financial system thereby providing greater scope for competition in an attempt to encourage greater efficiency and innovation (Bloxham and Kent, 2009; Green et al., 2009). Consequently, competition between banks increased and credit became cheaper and more readily accessible (Green et al., 2009). Cheap credit encouraged borrowers to take on higher levels of debt predominantly to purchase property, pushing prices in the property market to unsustainably high levels, thus creating an asset-price bubble. More and more investors were drawn into the property market apparently believing that the risk of property prices falling was minimal and that they were therefore guaranteed high returns on their investments (Carmassi et al., 2009).

Following the recession in the early 1990s, the global economy experienced an extended period of both stable growth and stable inflation (Hume and Sentence, 2009). Between 1992 and 2007, nominal GDP increased by 120 percent in the US, 150 percent in the UK and 156 percent in Australia (Pomfret, 2009b, 26). During this period, the focus of monetary policy was to maintain the internal bal-

ance between unemployment and inflation. Central banks used interest rates as the “primary tool” to keep inflation under control, however, ignoring the role of interest rates as the price of capital and keeping official interest rates low fuelled the asset bubble (Pomfret, 2009b). In other words, targeting inflation without regard for the true role of interest rates failed to prevent the unsustainable asset price boom that caused the GFC (Quiggin, 2009).

Interest rates also remained low despite increasing demand for credit because the “global savings glut” created by huge current account surpluses<sup>1</sup> in emerging economies flowed into the advanced economies (Carmassi et al., 2009; Hume and Sentence, 2009). The US and parts of Europe became absorbers of global savings as their investment ratios exceeded their savings ratios (RBA, 2009). However, according to Hume and Sentence (2009) the net inflows of capital from emerging economies did not account for the entire increase in credit in advanced economies.

Although the “global savings glut” alone cannot explain the growth of credit in the US and other advanced economies, there is a clear correlation between the current account surpluses in emerging economies and current account deficits in advanced economies. In 2007, the US current account deficit of \$US731 billion was almost matched by the combined current account surpluses of \$US372 billion in China and \$US336 billion in the Middle East and Africa (Hume and Sentence, 2009, 1445–1447). Under normal circumstances, these imbalances would have been corrected by corresponding changes in the exchange rates between these countries, however China and other Asian economies sought to accumulate foreign exchange reserves in US dollars by keeping the value of their currencies artificially low (Hume and Sentence, 2009).

Between 1998 and 2007, credit growth in the US averaged 14 percent of GDP per annum (Hume and Sentence, 2009, 1445). Much of this growth was used to finance the acquisition of assets rather than expenditure. Interest rates in the US as low as 1 percent fuelled sizeable increases in the credit ratios for both firms and households (Blundell-Wignall and Atkinson, 2009). In the US, economy wide leverage (measured by the ratio of debt to GDP) increased by up to 80 percent during the period 1999 to 2007 (Carmassi et al., 2009, 981). Increases in credit ratios (credit as a percentage of GDP) were also evident in all OECD countries except for Germany and Japan (Hume and Sentence, 2009).

These high levels of leverage proved unsustainable and when problems in the US sub-prime<sup>2</sup> mortgage sector emerged in 2007, a wave of uncertainty spread around the globe. During 2007–8 several large mortgage lenders in the US failed and were taken over by the Bank of America in an attempt to contain the crisis. Problems

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1 A country’s current account is said to be in surplus when national savings exceed national investment (RBA, 2009)

2 Sub-prime mortgages are those made to borrowers who are less credit worthy than prime borrowers. Loans were typically at low but fixed interest rates for the initial term of two to three years after which interest rates could increase significantly (Dwyer and Tkac, 2009).

also surfaced in the UK when two large mortgage lenders faced serious liquidity problems and were subsequently nationalised in 2008 (Hodson and Quaglia, 2009). European banks that had invested heavily in the US financial sector were also at risk and the crisis spread throughout the core. The GFC highlights the crucial role that the banking and financial sector plays in the capitalist world-economy (Pomfret, 2009b). Banks are intertwined with each other and the economy in such a way that the decisions of a few can put the entire economy at risk (Blundell-Wignall and Atkinson, 2009).

In sum, the GFC calls into question the wisdom of relying on the market to set all prices. Although efficient markets theory argues that prices generated by financial markets represent the best possible estimate of the value of the asset (Forma 1970 cited in Quiggin, 2009), it does not allow for the effects of globalization. In the world-economy, decisions made by the governments of some countries to resist market forces and allow their currencies to appreciate coupled with decisions made by governments in other countries to rely on interest rates to control inflation and prevent asset-price bubbles created an environment conducive to a calamitous correction in world financial markets – the GFC.

### 3 The Australian context

Between 1993 and 2008, Australia enjoyed 15 years of continuous economic growth during which average wealth per capita increased significantly (Pomfret, 2009a) as did household indebtedness. The aggregate level of household debt increased from \$A190 billion in 1990 to \$A1.1 trillion in 2008 (ABS, 2009). The huge increase in household debt in the past two decades was largely due to investment in housing. Despite this increase, the home ownership rate has remained stable at around 70 percent (Bloxham and Kent, 2009, 335). There has, however been an increase in the number of households, typically high income households, purchasing rental properties for investment purposes.

Between the mid-1990s and the end of 2008 the proportion of household disposable income required to service household debt increased from 0.45 in 1998 to 1.60 in 2008, suggesting that households had become increasingly vulnerable to sudden changes in financial circumstances (Bloxham and Kent, 2009). However, research into the level of household indebtedness conducted by Wilkins and Wooden (2009) shows that only 10 percent of households reported debt repayments that exceeded 50 percent of disposable income. They concluded that unless there was a catastrophic rise in unemployment, the vast majority of households were not at risk of debt-default. Furthermore, although 20 percent of low income households with mortgages were using between 30 and 50 percent of their gross household income to service their mortgages in 2005–06, default rates remained low (ABS, 2009).

Default rates on Australian mortgages are typically lower than those in the US for two reasons. Firstly, Australian mortgages are full-recourse mortgages with legal liability for the debt not limited to the value of the property therefore if the property is sold for less than the value of the loan any remaining debt still has to be repaid. Consequently, borrowers are encouraged to continue making payments even if they have negative equity (when the value of the property falls below the value of the loan) (Bloxham and Kent, 2009; Debelle, 2009). Secondly, the overwhelming majority of Australian mortgages are at variable interest rates, so as official cash rates decline, mortgage interest rates and repayments decline reducing the debt-servicing commitments of households (Bloxham and Kent, 2009; Eslake, 2009).

The most immediate effects of the GFC in Australia have been seen in declining household assets, declining household consumption, increasing household savings and increasing unemployment. The aggregate value of household assets fell by 13–14 percent in the year to December 2008, largely due to falling share prices (Green et al., 2009, 344; Wilkins and Wooden, 2009, 358). Household consumption dropped as households sought to reduce their debt levels in the face of falling asset prices and rising unemployment. The household savings rate increased dramatically from 1.2 percent in the March quarter of 2008 to 8.5 percent in the December quarter (Green et al., 2009, 344). Prior to the GFC, the unemployment rate had declined steadily from 6.6 percent in February 2002 to 4.1 percent in February 2008. In August 2009, the unemployment rate peaked at 5.8 percent before falling back to 5.3 percent in February 2010 (ABS, 2010). On a global perspective, the increase in

Table 1 Unemployment rates in Australia and other selected countries 2007–09

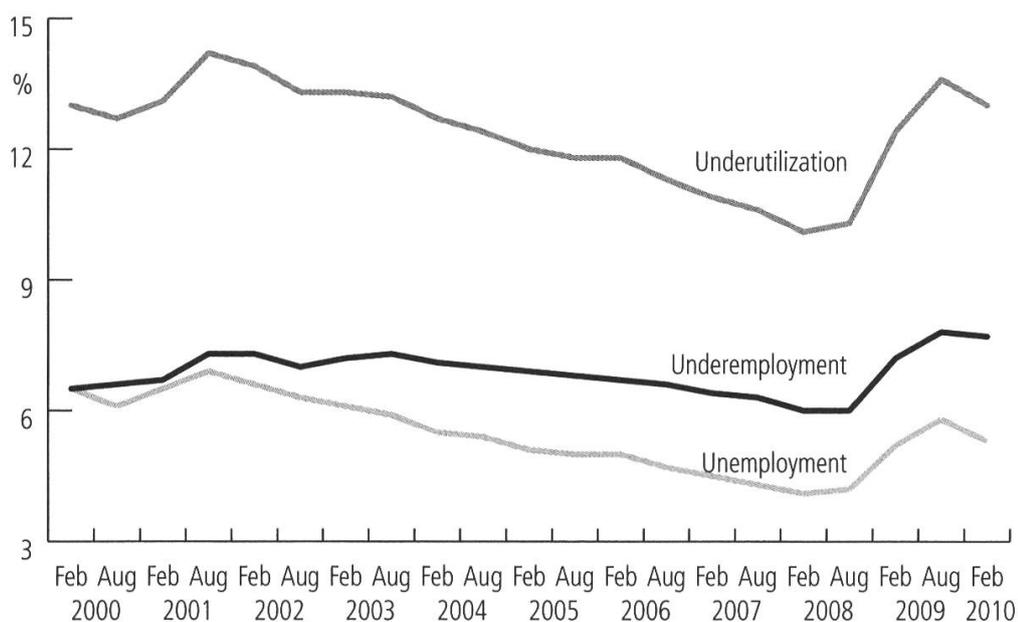
	2007	2008	2009	Inc 07–09
Australia	4.4	4.2	5.6	1.2
Canada	6	6.1	8.3	2.3
Germany	8.6	7.5	7.7	–0.9
Iceland	2.3	3	7.2	4.9
Ireland	4.6	6	11.7	7.1
Japan	3.9	4	5.1	1.2
Korea	3.3	3.2	3.7	0.4
New Zealand	3.7	4.2	6.1	2.4
Norway	2.5	2.6	3.2	0.7
Poland	9.6	7.1	8.2	–1.4
Spain	8.3	11.3	18	9.7
United Kingdom	5.3	5.7	7.6	2.3
United States	4.6	5.8	9.3	4.7

Source: OECD (2010a) Labour Force Statistics (MEI) Survey based unemployment rates and levels

Australia's unemployment rate was much lower than the increases in most OECD countries – see Table 1. The decline in world trade was concentrated in manufactured goods and therefore had only a minimal effect on employment in Australia where the manufacturing sector provides just 10 percent of total employment (ABS, 2007). Canada's 2.3 percentage point increase in unemployment is largely due to the decline in demand from the US. Canada's manufacturing sector provides components for the auto and construction industries in the US – two industries particularly hard hit by the GFC (OECD, 2010c).

In addition to increasing unemployment, Australia has also experienced an increase in the underemployment rate, that is, the proportion of the labour force seeking to work more hours. According to the ABS (2010), the underemployment rate increased from 6 percent in February 2008 to 7.7 percent in February 2010.

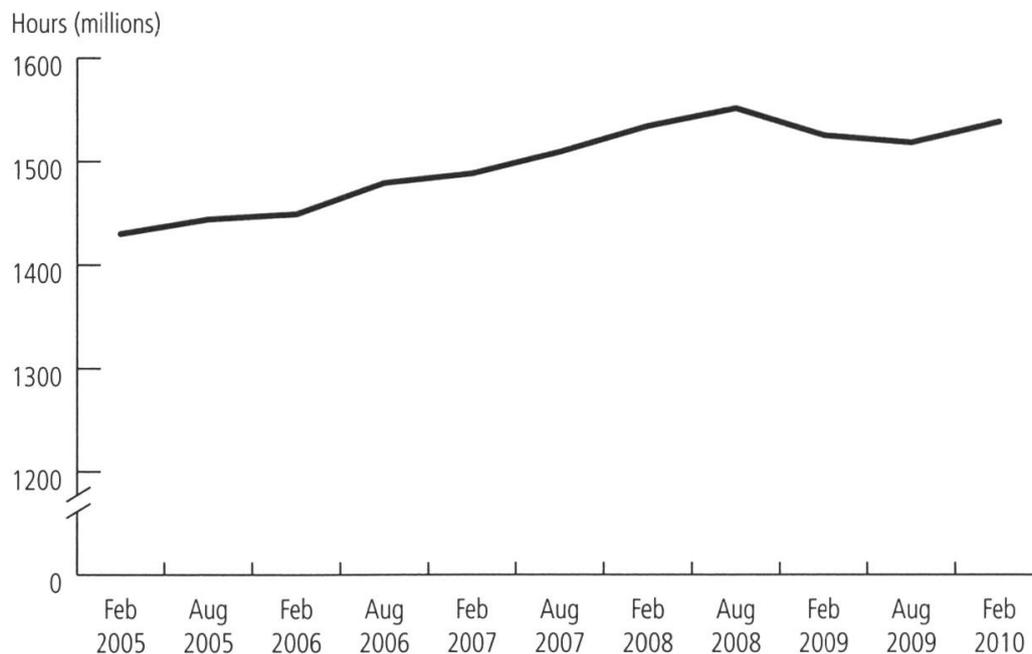
Figure 1 Unemployment, underemployment and underutilization rates 2000–2010



Source: ABS (2010) Labour Force Australia 2010 Cat 6202.0.

The labour underutilization rate, the combination of the unemployment and underemployment rates, increased from 10 percent in February 2008 to 13.6 percent in August 2009 before falling back to 13 percent in February 2010 – see Figure 1. Between February 2008 and February 2010, the proportion of individuals employed on a full-time basis declined from 71.6 to 70 percent. There was also a decline in aggregate monthly hours worked from 1551 million in August 2008 to 1518

Figure 2 Trend in the aggregate monthly hours (in millions) of employees 2005–2010



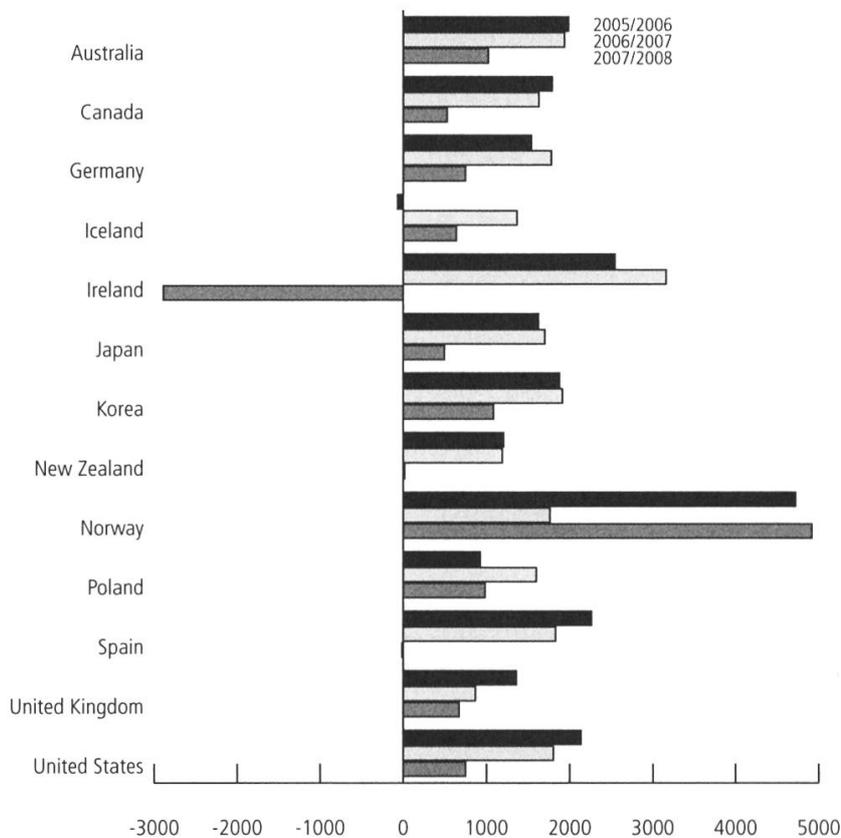
Source: ABS (2010) Labour Force Australia 2010 Cat 6202.0.

million in August 2009. By February 2010, aggregate monthly hours recovered to 1538 million (ABS, 2010). Figure 2 shows the trend in aggregate monthly hours worked for the period February 2005 to February 2010.

The rise in unemployment and underemployment has been accompanied by a slight decline in the labour force participation rate from a peak of 65.5 percent in June 2008 to 65.2 percent in April 2010. This reversed the upward trend in the participation rate between February 2005 and August 2008. Despite this downturn, the participation rate of married females and older workers continued to trend upwards (ABS, 2009; Plumb et al., 2010). Plumb et al. speculate that this may be because married females entered the workforce to diversify the family income and older workers aged 55–64 years may have postponed retirement plans due to sharp falls in assets prices and declining returns on investments.

There is also evidence that the rate of growth in Australia's GDP per capita slowed between 2007 and 2008. As shown in Figure 3, GDP per capita increased by \$US1,986 between 2005 and 2006 and by \$US1,021 between 2007 and 2008. This reflects the trend in most OECD countries, although some, notably Norway, experienced an increase in GDP per capita and others, notably Ireland, experienced a decline (OECD, 2010b). Indications are that GDP per capita will decline be-

Figure 3 Change in GDP per Capita for selected countries 2005–2008 (USD)



Source: OECD (2010b) Factbook.

tween 2008 and 2009 with most of the major economies experiencing significant contractions in GDP as industrial production on a global basis fell sharply in the final quarter of 2008 (Edey, 2009a).

#### 4 The Australian government's response to the GFC

The Australian Government acted quickly in the second half of 2008 to lessen the impact of the GFC on the Australian economy. It took a number of strategic steps. First, it guaranteed deposits (up to \$1 million) held by deposit taking institutions to reassure depositors of the security of their funds (Edey, 2009b; Valentine, 2009). Second, the Government introduced an initial “stimulus package” of \$10.4 billion in October 2008 and a further “stimulus package” of \$42 billion in February 2009 (Valentine, 2009). Nearly 30 percent of this spending was in the form of cash hand-outs to households (Eslake, 2009). Finally, the Government helped over 100,000 small businesses by giving them 12 month interest free deferrals on their Goods and

Services Tax (GST) obligations and deferring their tax payments on profits (ATO, 2009). In tandem with these measures, the Reserve Bank of Australia dramatically reduced interest rates to stimulate demand (Eslake, 2009). The cash rate target was reduced by 375 basis points during 2008 and 2009, dropping from 7 percent to 3.25 percent (Bloxham and Kent, 2009, 337).

Quiggin (2009, 242) speculated that “if recession in 2009 is avoided it will be the result of the massive fiscal stimulus.” Evidence from various sources would seem to support this view. Australia appears to have avoided the worst of the global recession. Although there has been an increase in the rate of unemployment and underemployment, government spending has ensured that aggregate demand has not fallen dramatically. Highly leveraged households have benefitted from falling interest rates and stable incomes preventing a massive sell-off of assets. Small businesses have received unprecedented support from the tax office and have also benefitted from falling interest rates. The two groups that appear not to have escaped the ravages of the GFC have been self-funded retirees and employed persons nearing retirement age. Both groups have seen the value of their superannuation savings and other investments plummet. While these assets are likely to recover in the long term, the short term consequences may be a decline in disposable income for self-funded retirees and a postponement of retirement for those nearing retirement age.

In the remainder of this paper, we examine the social conditions in Australia prior to the onset of the GFC to determine how various segments of the Australian population were placed in terms of employment and income. Specifically, we seek to answer three research questions:

1. Did the onset of the GFC have any effect on employment between 2007 and 2008?
2. How were incomes distributed and did this distribution change between 2007 and 2008?
3. How satisfied were Australians with their financial position in 2007 and 2008?

## 5 Method

To assess the social conditions prior to the GFC, we examine changes in employment status, total income, the proportion of total income provided by government transfers and levels of satisfaction with financial position in 2007 and 2008 using data from a longitudinal survey conducted on an annual basis since 2001.

## 5.1 Data

We analyse data from wave 7 and wave 8 of the Households, Income and Labour Dynamics in Australia (HILDA) project (see <http://www.melbourneinstitute.com/hilda> for details). HILDA is a panel survey which collects data from the same respondents each year. In the first wave in 2001, a nationally representative sample of Australian households was selected and all members of the chosen households aged 15 years and older were interviewed providing a total sample size of 13,969 (Watson and Wooden, 2002). Of these, 9354 were re-interviewed in both 2007 (wave 7) and 2008 (wave 8). The HILDA project produces comprehensive data on both total income and sources of income making this data ideal for the analyses to be undertaken in this paper. The data were collected between August and December each year, however the income information relates to the Australian financial year (1<sup>st</sup> July to 30<sup>th</sup> June) immediately preceding the date of the interview (Watson, 2010). Therefore, the data examined here relate to the financial period July 2006 to June 2008 and provides us with the opportunity to assess the financial position of Australians before the full effects on the GFC were encountered in 2009. Our analytical sample includes all respondents interviewed in both 2007 and 2008 who reported their employment status and who had positive income in both years ( $n = 8814$ ).

## 5.2 Dependent variables

In our analysis, we include several dependent variables related to the social conditions during the period leading up to the GFC. The first dependent variable is a measure of total income for the 2006/07 and 2007/08 Australian financial years. Respondents were asked detailed information relating to sources of income and the amount they received from each source. These sources are grouped into three categories: private income, Australian government transfers and foreign pensions. Private sources of income include: wages/salaries, business profits, interest, dividends, royalties, rental income, private pensions and private transfers. Government transfers include: pensions, parenting payments, other allowances, non-income support payments, other benefits, and scholarships. Foreign pensions are pensions received from governments other than the Australian Government. Many migrants are entitled to pensions from their homeland and the amount they receive fluctuates according to currency exchange rates. Twelve outliers were identified with exceptionally high incomes, greater than \$A500,000 annually, and several standard deviations above the mean (\$A40,000). These cases were omitted from analysis. Our second dependent variable measures the proportion of total income from government transfers and is calculated by dividing income from government transfers by total income. The third dependent variable is a measure of usual hours worked per week at the time of the interview. The overwhelming majority of the interviews were conducted between August and December in each year (Watson, 2010) therefore in this instance we are comparing usual hours of work in late 2007 with usual hours of work in late 2008.

The final dependent variable, satisfaction with financial position, is derived from a question asking respondents to indicate on a scale from zero (totally dissatisfied) to ten (totally satisfied) how satisfied they were with their financial position at the time of the interview.

### 5.3 Independent Variables

The key independent variable is derived from the respondent's employment status in each year. Employment status is defined as follows: employee; self-employed, (employers, own account workers and employees of own businesses); unemployed; not in the labour force (respondents who are not currently employed, looking for employment or retired); retirees. To capture across wave variation, we created a categorical variable with ten categories: employee in both years; self-employed in both years; unemployed in both years; not in the labour force in both years; retirees in both years; to employee in 2008; to self-employed in 2008; to unemployed in 2008; to not in the labour force in 2008; to retiree in 2008.

We also include sex, age, location and occupation in our analysis as control variables. Sex is a dummy variable coded 1 = female. Age has six categories based on the respondent's age in 2007: 15–24 years; 25–34 years; 35–44 years; 45–54 years; 55–64 years; 65+ years. Location is measured by two variables. The first refers to the state or territory in which the respondent lived in 2007: New South Wales, Victoria, Queensland, South Australia, Western Australia, Tasmania, Northern Territory, Australian Capital Territory. The second is based on the degree of urbanization of residence in 2007: state or territory capital city, inner regional area, outer regional area and remote area (as defined by the Australian Standard Geographical Classification 2001). Respondents' occupations are classified at wave 7 according to the Australian and New Zealand Standard Classification of Occupations (ANZSCO) 2006 1-digit codes: Managers; Professionals; Technicians and Tradespersons; Service workers; Clerical workers; Sales workers; Transport/Production workers; and Labourers. The descriptive statistics for the sample are shown in Table 2.

## 6 Analysis

One of the predicted consequences of the GFC was an increase in the level of unemployment. Although there was no increase in unemployment overall, 1320 respondents changed employment status between 2007 and 2008. As Table 3 shows, 138 people became unemployed in 2008, however, 103 people who were unemployed in 2007 became employed (either self-employed or employees), 46 were no longer seeking paid work and six retired.

To determine the effects of employment status, sex, age and location in 2007 on moving into unemployment in 2008, we carried out a logistic regression. We

Table 2 Sample characteristics

n = 8814	n =	%
Male	4272	48
Female	4542	52
<b>Employment Status</b>		
Self-employed 07+08	602	7
Employee 07+08	4841	55
Unemployed 07+08	57	1
Not in labour force 07+08	625	7
Retiree 07+08	1369	16
To employee 08	386	4
To self- employed 08	114	1
To unemployed 08	138	2
To not in labour force 08	378	4
To retiree 08	304	3
<b>Age 2007</b>		
15–24 years	1341	15
25–34 years	1448	16
35–44 years	1671	19
45–54 years	1606	18
55–64 years	1203	14
65+ years	1545	18
<b>State 2007</b>		
New South Wales	2585	29
Victoria	2167	25
Queensland	1905	22
South Australia	789	9
Western Australia	823	9
Tasmania	305	3
Northern Territory	66	1
Australian Capital Territory	174	2
<b>Location 2007</b>		
Capital city	5415	61
Inner regional	2249	26
Outer regional	992	11
Remote	158	2
<b>Occupation 2007</b>		
Managers	734	8
Professionals	1465	17
Technicians and Tradespersons	807	9
Service	621	7
Clerical	922	10
Sales	546	6
Transport and Production	328	4
Labourers	535	6
Not employed	2856	32

Source: HILDA wave 7 and wave 8.

Table 3 Employment status in 2007 and 2008 for those who changed employment status

Employment status 08	n	Employment status 07				
		Self-employed	Employee	Unemployed	Not in labour force	Retiree
Self-employed	114		85	4	22	3
Employee	386	99		99	173	15
Unemployed	138	7	79		48	4
Not in labour force	378	22	154	46		156
Retiree	304	18	51	6	229	
n	1320	146	369	155	472	178

Source: HILDA wave 7 and wave 8.

present the results in Table 4. The odds of moving into unemployment in 2008 were 4.4 times greater for those who were not in the labour force in 2007 compared to those who were employees in 2007. Those aged 25 years or more were less likely to become unemployed than those aged 15 to 24 years, net of other factors. Sex and location had no effect net of employment status in 2007 and age.

We then reran the analysis for those who moved out of the labour force. We present the results of this analysis in Table 5. The odds of moving out of the labour force in 2008 were 6.7 times greater for those who were unemployed in 2007 and 6 times greater for those who were retired in 2007 compared to those who were employees in 2007. Females were twice as likely as males to move out of the labour force and people aged 45 years or more were less likely to move out of the labour force than those aged 15 to 24 years, net of other factors. With regards to location, those living in remote areas were twice as likely as those living in capital cities to move out of the labour force. Taken together, the results of the logistic regressions suggest that the boundary between being unemployed and being not in the labour force is rather fluid. To be regarded as unemployed, a person must be actively seeking paid employment therefore those with a marginal attachment to the labour force tend to drop out when the labour market contracts or their financial position improves and re-enter when the labour market expands or their financial position worsens. People with a marginal attachment to the labour force are often regarded as a “reserve army” of workers and are typically students and women with dependent children.

## 6.1 Employment and Income

To get a picture of overall changes in total incomes, we first calculated the difference between total income in 2007 and 2008 for each respondent and then grouped respondents according to their employment status. As Table 6 shows, the majority of respondents in each employment status group received more income in 2008 than in 2007. Only 28 percent of those who were employees in both waves reported

Table 4 Odds of moving into unemployment in 2008

	Odds ratio	Std Err.
<b>Employment status 2007</b>		
Self-employed (ref.)		
Employee	1.10	0.444
Not in labour force	4.35***	1.825
Retiree	1.30	0.920
<b>Sex</b>		
Male (ref.)		
Female	0.98	0.173
<b>Age 2007</b>		
15–24 (ref.)		
25–34	0.55**	0.129
35–44	0.41***	0.102
45–54	0.26***	0.076
55–64	0.22***	0.076
65+	0.03***	0.022
<b>Location 2007</b>		
New South Wales (ref.)		
Victoria	1.41	0.322
Queensland	0.95	0.242
South Australia	0.66	0.264
Western Australia	0.97	0.352
Tasmania	0.70	0.385
Northern Territory	1.88	1.485
Australian Capital Territory	1.25	0.767
Capital city (ref.)		
Inner regional	1.33	0.274
Outer regional	1.13	0.342
Remote	0.51	0.517
n	8602	
Pseudo R Squared	0.0963	

\*\*  $p \leq 0.01$ ; \*\*\*  $p \leq 0.001$ .

Source: HILDA wave 7 and wave 8.

receiving less income in 2008 than in 2007, however, 44 percent of the self-employed experienced declining incomes. Of those who changed their employment status 43 percent of those who became self-employed, 45 percent of those who became employees and 44 percent of those who dropped out of the labour force experienced declining incomes.

Table 5 Odds of moving out of the labour force in 2008

	Odds ratio	Std Err.
<b>Employment status 2007</b>		
Self-employed (ref.)		
Employee	0.76	0.180
Unemployed	6.68***	1.905
Retiree	5.92***	1.792
<b>Sex</b>		
Male (ref.)		
Female	2.27***	0.263
<b>Age 2007</b>		
15–24 (ref.)		
25–34	0.72	0.148
35–44	0.73	0.143
45–54	0.54**	0.115
55–64	0.48**	0.123
65+	0.27***	0.080
<b>Location 2007</b>		
New South Wales (ref.)		
Victoria	1.29	0.189
Queensland	0.94	0.150
South Australia	1.31	0.262
Western Australia	1.11	0.231
Tasmania	0.67	0.229
Northern Territory	0.31	0.324
Australian Capital Territory	0.82	0.391
Capital city (ref.)		
Inner regional	1.09	0.145
Outer regional	1.36	0.243
Remote	2.04*	0.716
n =	7717	
Pseudo R Squared	0.0949	

\*  $p \leq 0.05$ ; \*\*  $p \leq 0.01$ ; \*\*\*  $p \leq 0.001$ .

Source: HILDA wave 7 and wave 8.

Next, we conducted t-tests for each group to determine if the average changes in income between 2007 and 2008 are statistically significant. Although four groups, those who were unemployed or retirees in both years, those who became employed in 2008 and those who dropped out of the labour force in 2008 experienced declining incomes, these differences are not statistically significant – see Table 7. Of the groups who reported higher incomes in 2008 compared to 2007, only the average

Table 6 Difference in total income by employment status across both years

Employment status	n	% 08–07 = Negative [Total income declined]	% 08–07 = Zero [Total income same]	% 08–07 = Positive [Total income increased]
Self-employed 07+08	602	44	3	53
Employee 07+08	4841	28	3	69
Unemployed 07+08	57	39	2	60
Not in labour force 07+08	625	38	2	60
Retiree 07+08	1369	38	1	61
To self-employed	114	43	4	54
To employee	386	45	1	54
To unemployed	138	36	1	63
To not in labour force	378	44	3	53
To retiree	304	35	0.5	65
Total	8814	33	2	64

Source: HILDA wave 7 and wave 8.

Table 7 Differences in total income 2007–2008

Total income	n	2007	2008	Difference	p-value
Self-employed 07+08	602	61201	63591	2389	0.1703
Employees 07+08	4841	49477	54475	4998	<0.0001
Unemployed 07+08	57	13522	12887	–635	0.6159
Not in labour force 07+08	625	15197	15682	485	0.4283
Retirees 07+08	1369	21889	21670	–219	0.6096
To self-employed	114	53116	58238	5121	0.1408
To employee	386	31487	30110	–1377	0.3611
To unemployed	138	25546	27674	2128	0.1559
To not in labour force	378	23907	22547	–1360	0.0840
To retiree	304	25974	29162	3187	0.0069

Source: HILDA wave 7 and wave 8

increases for employees, \$4998 and those who moved into retirement, \$3187 are statistically significant.

The results presented thus far show that in the lead up to the GFC, incomes of employees increased in 2008 and only 79 people who were employees in 2007 became unemployed in 2008. However, as we have already noted, the ABS (2009) reports that rather than reduce the number of staff employed during the crisis, many businesses reduced the number of hours that staff members worked. To determine whether our respondents were affected by this trend, we conducted t-tests comparing the average hours per week worked by employees in each occupational group. Recall

Table 8 Differences in the average weekly hours of employees by occupation

Hours per week	n	2007	2008	Difference	p-value
Managers 07+08	457	48.01	47.54	-0.47	0.2826
Professionals 07+08	1107	39.07	38.98	-0.09	0.7452
Technicians and Tradespersons 07+08	574	41.99	42.40	0.41	0.2562
Service workers 07+08	401	31.35	31.87	0.52	0.2732
Clerical workers 07+08	615	33.61	33.79	0.18	0.4856
Sales workers 07+08	298	26.47	27.73	1.26	0.0095
Transport and Production workers 07+08	219	45.09	45.66	0.57	0.3371
Labourers 07+08	298	32.91	33.62	0.71	0.2284

Source: HILDA wave 7 and wave 8.

Table 9 Differences in levels of satisfaction with financial position 2007–2008

Satisfaction with financial position	n	2007	2008	Difference	p-value
Self-employed 07+08	602	6.784	6.809	0.025	0.6970
Employees 07+08	4839	6.660	6.688	0.028	0.2639
Unemployed 07+08	57	3.965	3.737	-0.228	0.3909
Not in labour force 07+08	625	5.512	5.357	0.155	0.0539
Retirees 07+08	1368	7.293	6.965	-0.328	<0.0001
To self-employed	114	6.404	6.597	0.193	0.3184
To employee	386	5.694	6.394	0.699	<0.0001
To unemployed	138	5.645	4.754	-0.891	<0.0001
To not in labour force	378	6.471	6.058	-0.413	0.0001
To retiree	304	6.806	6.678	-0.128	0.2697

Source: HILDA wave 7 and wave 8.

that these figures relate to the usual hours of work at the time of the interview. We do not track changes in the hours worked per week for those who changed occupations between 2007 and 2008. As Table 8 shows, the only statistically significant difference is an increase in the average hours worked by sales workers (1.3 hours per week). Taken together the results shown in Table 3 and Table 8 suggest that in late 2008, the GFC had not yet negatively impacted upon levels on unemployment or employee's usual hours of paid work.

Having established that changes in circumstances during 2007–2008 were mostly positive, we now return to the total sample and examine whether there were any changes in levels of satisfaction with financial position during this period. We deducted the level of satisfaction in 2007 from the level of satisfaction in 2008 for

each respondent before conducting t-tests for each group to determine if the average change in levels of satisfaction is statistically significant. As Table 9 shows, retirees were less satisfied with their financial position in 2008 than they were in 2007. The difference for those who moved into employment is positive and statistically significant, however for those who became unemployed or who dropped out of the labour force, levels of satisfaction with financial position declined.

Table 10 Differences in the proportion of total income provided by the government by employment status

Proportion of total income from government	n	2007	2008	Difference	p-value
Self-employed 07+08	602	0.0461	0.0394	-0.0067	0.3380
Employee 07+08	4841	0.0333	0.0222	-0.0111	<0.0001
Unemployed 07+08	57	0.7349	0.7191	-0.0158	0.7548
Not in the labour force 07+08	625	0.7159	0.7471	0.0313	0.0011
Retiree 07+08	1369	0.6022	0.6154	0.0131	0.0222
To self-employed 08	114	0.0808	0.0782	-0.0026	0.9006
To employee 08	386	0.2558	0.1736	-0.0822	<0.0001
To self-employed 08	114	0.0808	0.0782	-0.0026	0.9006
To unemployed 08	138	0.3731	0.3512	-0.0219	0.3450
To not in the labour force 08	378	0.4364	0.4639	0.0275	0.0776
To retiree 08	304	0.5752	0.5738	-0.0014	0.9074

Source: HILDA wave 7 and wave 8.

These results suggest that there is somewhat of a mismatch between the stability of incomes and levels of satisfaction with financial position for some groups. Our measure of total income includes income from both private and government sources. One explanation for the lower levels of satisfaction of retirees and those who became unemployed or were no longer in the labour force maybe that they received a smaller proportion of their income from private sources in 2008 and were therefore more reliant on government transfers. To test this we examine the proportion of total income provided by the government for each group (Table 10). The data suggest that employees became less reliant on government funding in 2008. In aggregate, the average proportion of total income received from government transfers declined from 0.03 in 2007 to 0.02 in 2008. Those who became employees in 2008 also received a smaller proportion of their total income in 2008 from government transfers. However, retirees and those not in the labour force did become more reliant on the government for income in 2008 perhaps indicating that the GFC was beginning to impact upon income from private investments in 2008.

## 7 Conclusion

In this paper, we set out to assess the social conditions in Australia prior to the onset of the GFC. Our examination of changes in employment status showed that although there was some movement into and out of employment between 2007 and 2008, employment levels remained high. There were some changes in employees' usual hours worked per week, however only the increase of 1.3 hours per week for sales assistants is statistically significant. This may have been a consequence of the \$10.4 billion that the Government pumped into the economy in October 2008 to encourage consumer spending.

When we looked at changes in incomes between 2006/07 and 2007/08, we found that generally incomes remained stable and only those who were employees in both years and those moving into retirement in 2008 experienced increasing incomes during this period. There were some differences in the proportion of income received from government transfers with retirees and those not in the labour force becoming more reliant on government transfers. This result was not unexpected given that share prices had fallen sharply and superannuation funds were experiencing negative returns (Battellino, 2008).

Our analysis did reveal declining levels of satisfaction with financial position for some groups with those who were retirees in both years, those who became unemployed or who dropped out of the labour force in 2008 being less satisfied with their financial position in 2008 than in 2007. The decline in satisfaction for retirees is of particular interest and suggests that although retirees' incomes did not decline their increased reliance on government transfers affected their satisfaction with their financial position.

Overall, the literature reviewed for this paper suggests that Australia was in a good position prior to the onset of the GFC. The national budget had been in surplus for 11 of the previous 12 years (Lim et al., 2009). The banks and other financial institutions had not engaged in the adventurous lending practices of their American and European counterparts and remained profitable throughout the crisis (Stevens, 2009). Despite the dramatic increases in aggregate household indebtedness in Australia during the period leading up to the GFC, much of the debt was taken on by wealthy households more than able to meet the necessary repayments. Furthermore, falling interest rates lowered loan repayments easing the debt-servicing burden on households. Australia also benefitted from having an open economy with a floating exchange rate. Initially the currency devalued making imports more expensive and exports less expensive allowing the economy to recover more quickly from the slowdown in world trade. The rebound in demand, particularly from emerging economies, for commodities produced by Australia in early 2009 ensured that export volumes recovered quickly.

It is likely that Australia's location within the semi-periphery contributed to its ability to deflect the worst of the GFC. Although not all semi-peripheral nations were so well-placed, other countries located just outside the core were also able to weather the GFC quite well. For example, although Canada relies heavily on exports to the US, its economy has remained remarkably stable (OECD, 2010c). Canada's banking sector is not well-integrated into that of the US and its currency has fluctuated in the same way as that of Australia, initially restraining imports and then boosting exports as demand recovered. Norway has also recovered quickly from the GFC despite some early problems with its banking sector (OECD, 2010d). Norway's location on the perimeter of the European core combined with the flexibility of its currency meant that it was well-placed to respond to increased demand from emerging economies in Europe and was not constrained by being tied to the single European currency, the euro. So it would seem that Australia, Canada and Norway have been able to adapt to changes in the economic environment (Terlouw, 1993) due to their location within the semi-periphery.

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