

FLOATING THE AUSTRALIAN DOLLAR

The floating of the Australian dollar by the Labor government in December 1983 was totally out of keeping with Labor ideology of attempting to control the economy in the interests of Australian workers. In this article, which has been widely distributed among unionists, Ted Wheelwright explains the consequences of this action.

It is not overstating the daring nature of the decision to say that Keating has placed his political future in the hands of the intermediaries and the traders who operate in the cut-throat world of the international financial markets.

It was an action which was completely at odds with Labor's platform commitment to government control of the economy, and Labor's long and deeply held suspicions of the market place and its belief that market forces do not share resources equitably.

Geoff Kitney, National Times, 16.12.83.

The floating of the Australian dollar is probably the most fundamental single change in the management of the Australian economy in peace time by any federal government, certainly since the Great Depression of the 1930s. It is totally out of keeping with Labor ideology of attempting to control the economy in the interests of the working people of Australia, and makes the Australian government even more of a hostage to international finance capital than it was before, as the above quotations indicate.

It makes nonsense of industry policy and attempts to increase exports — what happens in these areas will be more by accident than design. It makes a mockery of EPAC, whose advice can be negated overnight by the gyrations of the exchange rate, and it threatens the accord, as pressure will mount to remove full wage indexation so that real wages will fall if devaluation causes higher import costs. These points are expanded in subsequent paragraphs.

The gravest danger comes from the increasing volatility in the value of the Australian dollar which is bound to result, unless the Reserve Bank uses its powers of intervention by buying or selling Australian currency in the

foreign exchange market much more often, and to a greater extent than the present arrangements envisage. This is what is called a 'dirty float', in contrast to a 'clean float' — which means no government intervention. Very few countries have 'clean floats'. This point will be taken up in a later paragraph.

There is something to be said for allowing market forces, suitably modified, to affect the exchange rate significantly as a result of flows of money resulting from exports, imports and genuine investment, during times of political and economic stability, depending on the ability of the Australian economy to respond to price changes of imports and exports, and how the world economy responds. But we do not live at such a time; the world economy is unstable, the recovery is fragile and very patchy, the world political situation is more serious than it has been for decades, tension is high, and the danger of war considerable.

In such a situation, international capital flows are extremely volatile and subject to political events, in the world at large, and in our region. Recent years have seen substantial flows into our money and securities markets by Japanese institutions, and into our stock exchanges by American and British investors. They have also seen large sums flowing in from Hong Kong, and from Chinese minorities in Malaysia and Papua New Guinea. In addition, there have been massive outflows during the Whitlam government, and just before the election of the Hawke government, which had to be reversed after its election by a substantial devaluation. On top of this there has been large-scale speculation for non-political reasons, and movements across the

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The Hawke government must do nothing to upset the high priests of international finance.

exchanges for reasons of company borrowing to pay taxes, and to take advantage of interest rate differentials, e.g. cheaper to borrow abroad than here, etc. Floating the exchange rate reduces only the speculative element of all these flows, as it means that those who bear the cost are other speculators and currency holders, not the Reserve Bank.

Consequently, as speculative forces and operations have increased dramatically over the last decade or so, a significant degree of speculation will continue, and in the present world context of 'alarums and excursions' will act as a destabilising influence. As Keynes remarked:

Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done. (J.M. Keynes, The General Theory of Employment, Interest and Money (Macmillan, London, 1936), p. 158)

This means that capital flows which have little to do with real economic forces such as exports, imports, and actual investment, and which occur through a variety of motives, often to do with the situation in other countries, will cause instability in the foreign exchange value of our dollar, which is inimical to both our export industries (except those where contracts are in other currencies such as the American dollar, as is often the case in minerals) and our manufacturing industry. Such industries, in these circumstances, can only plan ahead by using forward exchanges, which means, in effect, that they need to insure themselves against unfavourable changes in the value of our dollar, at considerable

cost, which is used to employ even more financial parasites than exist in our already overblown finance sector.

Not only that, but large, wild swings in the foreign exchange value of the Australian dollar, sustained for a longish period of time, may destroy entire industries. For example, if there was a stampede of capital from Hong Kong in the next few years — which is not unlikely — much of it would come to Australia, and would force up the value of our dollar on the free market for some considerable time. The effect would be to reduce the income of many exporters, in our money, and encourage a flood of cheap imports which would compete away much of what is left of our manufacturing industry. If sustained, such price changes could irrevocably destroy some industries in both the export sector, and the import competing sector. *An upward revaluation of the currency is equivalent to a tax on exports and a subsidy on imports.*

Conversely, a substantial and sustained outflow of money from Australia would cause a devaluation of our dollar. This is more likely in the longer run as the economic forces operating on Australia are such as to increase our indebtedness, reduce our export income in relation to import costs, increase our payments for shipping insurance and debt servicing, causing us to approximate to a Third World country in these respects. (See *Australia: A Client State* by Greg Crough and Ted Wheelwright, Penguin, Melbourne, 1982, Chapter 8, "Out of Control — Trade, Payments

and Debts".) Such a continuing depreciation of our dollar, if sustained, would benefit export industries and import competing industries in the short run, as it is tantamount to a subsidy on exports and a tax on imports. Its effects would depend on whether, as a result, exports were increased, and imports reduced; but as many imports are essential it would send up the costs of all industries dependent on imports, and this would work its way through to the export industries. The consumer price index would be affected, the cost of living of working people would be increased, and if the accord were implemented, there would be full indexation. *However, there would be tremendous pressure — which is beginning to develop now — to break this link protecting the workers' standard of living, and abolish indexation as incompatible with market forces.*

The above illustrates the importance of the exchange rate as a tool of economic policy; given Labor's philosophy it should be set at a level which maximises full employment in export and import competing industries, minimises inflation, and prevents too much of an increase in foreign indebtedness, and hence reduction in independence. This is difficult enough to achieve even with competently enforced exchange controls (as distinct from incredibly lax ones of recent years, for which either the Reserve Bank or its political masters, or both, must be held responsible), but it is impossible with a 'clean float'. *The exchange rate is then set at a level which maximises the interests of international capital, in its various forms and conditions, around the world — if these coincide with the interests of the working people of Australia, this is by accident and not by design.*

The political component of all this is very important, as spelled out in the opening quotations referring to the political future of Keating (and by implication of the labor Party) being placed "in the hands of the intermediaries and the traders who operate in the cut-throat world of the international financial markets". It means that the Hawke government must do nothing politically to upset the high priests of international finance lest they take their money out of the country; this has a bearing on such matters as admitting foreign banks, foreign investment policy, giving unions a greater say in economic policy formulation, consumer and environmental protection — virtually anything which could reduce the profitability of capital and reduce its managerial prerogatives and privileges.

It also means that the ability of the Hawke government to reduce interest rates will be circumscribed, as not only does finance capital profit from higher real interest rates and therefore have predilection for them, but also it will be necessary to keep ours higher than elsewhere to attract foreign money and prevent it leaving. Even with the recently laxly enforced exchange controls, it was difficult, for this reason, to achieve lower real rates of interest. Now it may well be impossible, *we could be locked into a high real interest rate syndrome*. This is particularly likely, given the very small nature of our economy, trade and

money flows in relation to those of the 'big league', in world economic affairs — the Americans, Japanese and Europeans. *We are attempting to play first grade league football with the size, resources, and expertise of the third division.*

Talk of Sydney or Melbourne becoming a financial centre of



Paul Keating, and the Labor government, in the hands of intermediaries and traders who operate in the cut-throat world of international financial markets.

S.E.Asia and the Pacific, perhaps replacing Hong Kong, is fanciful, to put it mildly. In the first place, to compete with them, Australia would need to adopt their economic and social conditions, which involve much lower taxes on corporate profits, no particular taxes on the finance industry, no unemployment pay and no wage indexation, with trade unions which are creatures of the state. In the second place, they are both small 'enclave' economies which have been used to generations of free trade, and on which financial activities have a minimal repercussion. In the third place, they are hardly democratic models of politics which most Australians would wish to follow in pursuit of economic gain.

While there would be some gain in employment because of the expansion of the finance sector, these would be minimal, due to the very capital intensive technology used in this type of 'wholesale banking'. There would not be much extra employment for the traditional bank-clerk type of activity; most of it would be taken up by the high powered money changers who would inhabit a few more Temples of Mammon which would spring up in the city centres of Sydney and Melbourne. However, even if there were a net gain in employment there, it would be more than offset by the unemployment caused elsewhere in the economy by the requirements of the financial sector.

One example of this is Britain, where London is still reputed to be the financial centre of the world, although this is open to dispute, particularly by the Americans. London and the 'home counties' are relatively prosperous, and the middle classes are concentrated there, but much of the industrial heart of the country in the midlands and the north, is dying on the vine, with very high levels of unemployment. One major reason for this is the high value of the pound sterling, which hampers manufactured exports and increases manufactured imports, thus emasculating the industry. Another reason is that the abolition of exchange controls facilitates the export of capital which should have been used to re-equip decaying manufacturing industry to help make it more competitive. Since the removal of exchange controls in 1979, it is estimated that about £30 billion have left the UK.

Another example is the USA, where the development of New York as an international financial centre rivalling London may have created some employment and other benefits there, but these have obviously been offset

by other activities of the expanded financial community, such as the export of capital from industrial areas, and high interest rates which attract large inflows of capital from abroad, thus keeping the US dollar at a high value, which inhibits exports and encourages imports, helping to cause an enormous trade deficit. In both cases, the UK and the USA, the issue is much more complicated than space allows, but the essential point is that neither of them provides evidence that freer foreign exchanges and entry of foreign banks contribute to higher overall employment and a higher standard of living for working people.

Even in Switzerland, which is probably the best example of a successful financial centre, because its history and geographical location, money had to be prevented from flowing into the country some years ago, because it was forcing up the Swiss franc to levels so high that they were inhibiting the export of Swiss manufactured goods. Consequently, a negative rate of interest was imposed on such funds, i.e. foreigners had to pay to have their funds located in Switzerland.

Floating the dollar and abolishing exchange controls also makes it more difficult to detect offshore tax avoidance schemes, according to the director of taxation services with PriceWaterhouse. The exchange control regulations often provided a paper trail that assisted the Taxation Commissioner in tracing taxable income. In his last published report, Frank Costigan recommended the tightening up of exchange control regulations, and suggested that Singapore should be added to the list of recognised tax havens. Obviously this will not happen now, so that to the billions of tax dollars lost to the Treasury in 'bottom-of-the-harbour schemes', we must now add untold billions to be lost in 'bottom-of-the-Pacific schemes', with the result that working people of Australia will have to pay even more tax, while the rich financiers go scot free. Is this Labor party policy? (Marian Wilkinson, *National Times*, 16.12.83.)

The next step is obviously to license more traders in foreign exchange and admit foreign banks. The argument for is that the existing market of a few Australian banks is too narrow for it to operate properly, and hence it must be widened; also the new system will give these banks a semi-monopolistic advantage because they are so few. (The Campbell Report showed that the four largest banks and the four largest insurance companies accounted for about 80 percent of financial assets in

Australia.) But once the market is so widened there is no guarantee that it will stay so, the whole history of the merger movement stands mute witness to the contrary, and the evidence in the USA shows that even there foreign banks have been more aggressive, have taken business away from local banks, and also taken them over. (See Robert B. Cohen, *The Impact of Foreign Direct Investment on US Cities and Regions*, The Analytic Sciences Corporation, Virginia, 1979.)

This should not be allowed to happen here. No more licences to trade in foreign currency should be issued; if new foreign banks are now allowed in, these licences would be snapped up by existing merchant banks, which appear to be the main source of currency speculation. Trading in foreign currency should remain the preserve of existing banks, should be strictly supervised by the Reserve Bank, and excess profits from this activity should be subject to tax. There is no presumption that more banks mean cheaper money, more access to it by those who need it, or more stability, certainly not in the long run. The evidence seems to suggest that more and bigger banks mean more debt, more instability and higher real interest rates. More control of financial institutions is required, not less. This is the lesson of the history of their evolution ever since the South Sea Bubble (which is upon us again, in a different form).

Finally, a word on 'dirty floats'. This used to be called government 'intervention', or government 'counter-speculation'. This last usage was coined when governments were much stronger vis-a-vis large corporations than they are today. Now they cannot match the resources available to the giant global corporations, especially the transnational banks. Any notion that governments can operate successfully *in the market place* against them is a delusion. What governments can and must do is to *control access to the market place by licensing and policing the operators*. Even that is not easy, but unless the Labor government attempts to control the activities of international finance capital in Australia, they will inevitably be controlled by it. They might not mind this, but the people they purport to represent will suffer.

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