

Ted Wheelwright

The Dollar is Down, the Debt is Up and the Government is Out to Lunch

Australia's dollar is at an all time low and there is an increasingly serious foreign debt problem. Ted Wheelwright examines how the Government has presided over this financial malaise and discusses its implications for our standard of living.

The first point to be made about the falling Australian dollar is that it is not, of course, the only currency to depreciate in terms of the American dollar. Others have also been affected to varying degrees. Thus, in the first 50 days of this year the Japanese yen depreciated 3.8 percent, the British pound 5.4 percent, the German mark 5.0 percent, and the New Zealand dollar 6.9 percent.

The depreciation of the Australian dollar was much greater than any of these — 16.5 percent, against the American dollar. Consequently, averaged over our major import sources, the USA, Japan, Britain, Germany and New Zealand, the fall was 12.5 percent. (A Kopras, Currency Exchange Movements 1 Jan - 20 Feb, 1985, Parliamentary Library Legislative Research Service.)

So, while we can place the fall in our dollar in the perspective of the strength of the American dollar, what has to be explained is why our depreciation has been three times worse than anyone else's (except New Zealand) this year. I am not sure that this can yet be done, although I will try. But the most important general point to grasp is the rise of the American dollar against all currencies as a result of its expansion, fuelled by enormous rearmament expenditures, and financed by a huge budget deficit. This is a form of military Keynesianism which, using high interest rates and the fear of nuclear war, is sucking very large sums of money into the USA from the rest of the world — with incalculable economic consequences.

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This means, in a world where capital markets and financial markets have been progressively deregulated, that the countries of Western Europe, for example, have to keep their interest rates high to prevent even bigger outflows of capital, and this inhibits investment which

might help to reduce the massive unemployment there, of around 16 to 17 million.

It also feeds on speculation, causing the vastly enlarged money markets to speculate on how long American rearmament will continue; how large their budget deficits will be; how long they will continue; how interest rates will behave; how large trade deficits will be, and how long capital will continue to flow into the USA at previous rates.

It is this state of affairs which keeps the US dollar strengthening against other currencies; there are also other factors which are more political than economic. Thus, money flows into the USA because it can obtain a better return there than in more stagnant economies; but also it is considered to be politically safer from threats of war, and governments even marginally hostile to private enterprise.

America: From Creditor to Debtor

Clearly, it is an inherently unstable situation for several reasons. For example, the USA is becoming a debtor country externally, through its massive trade deficits, and its internal debt grows through its large budget deficits. Its trade position does not warrant such a high value for its dollar — on its balance of trade on goods and services. The US dollar is overvalued by at least 30 percent according to several estimates. The high value is caused primarily by the large inflow of capital which swamps trade factors which take some time to change.

But capital flows can be switched on and off like a tap; all it needs is for the top ten world banks to switch their flows, or even reduce them partially, buying significantly less US dollars with other currencies, and its value would collapse overnight.

Also the high dollar causes problems in a number of quarters. For example, it affects American exporters who can compete less easily in foreign markets. This is one reason for the depressed state of much of American agriculture, and the problem of companies which gain most profit from exports. For instance, IBM blames the strong dollar for reduced export income. Kodak put a

figure on it, claiming reduced earnings of \$500 million on that account over the last four years. (*Australian Business*, 6.3.1985).

These are so-called high technology industries, handicapped, they claim, by an over-valued dollar which also affects local traditional industries subject to import competition. Such a dollar makes imports much cheaper, and the so-called "smokestack" industries such as steel and automobiles claim this is a major reason for the substantial inroads into the domestic market by imports, made artificially cheap by a high dollar. These factors set up pressures to reduce the value of the US dollar, causing another reason for instability.

Similarly with European reaction and, to a lesser extent, Japanese. Last year, at one stage, their governments tried to slow the rise of the dollar by getting their central banks to sell US dollars in large amounts; but succeeded in causing only a momentary blip in its trajectory. Last week they tried again, partly as a result of a statement by Paul Volcker, chair of the US Federal Reserve Board who let it be known that a strong dollar could cause problems for the USA, and hinted that previous foreign exchange intervention by central banks had not been forceful enough.

Last week it was estimated that over one billion US dollars were put on the foreign exchange market by European central banks. This halted the rise of the dollar and improved the value of the German mark and the British pound. This sounds a lot, but the daily turnover of the world's currency markets is estimated at US\$300-400 billion, with 85 percent of it being banks buying and selling from each other. (*Guardian*, London, 3.3.85.) However, no further action was taken and the dollar soon recovered against those currencies (*Australian Financial Review*, 4.3.85). Was this, then, just another blip, like the one last year, or is it a straw in the wind, suggesting that the US government may, in conjunction with others, take action to reduce the high value of the dollar, which is causing so much trouble?

I am inclined to think it is, but that little will happen until the US economy slows down, as it is expected to do in the second half of this year. But it does not matter whether I am right or wrong. The point to be grasped is the **volatility of the world foreign exchange market** which is now largely deregulated, and composed of a relatively small number of increasingly large conglomerates, linked by a sophisticated instant communications system which can shift not only billions of dollars across the world (now that they have become digits in a global interlocked computer network); but also information, accurate or false; and rumours. This is the world to which Australia has now become irrevocably linked, thanks to the groundwork laid by the Fraser government, and its consummation by the Hawke government.

The Changing Face of Financial Institutions

It is important to note at this stage that not only have world financial and foreign exchange markets been transformed in the last decade, and the number and size of the financial institutions significantly increased, but also that their character is altering. Practically every big



Professor Ted Wheelwright

corporation today operates as a form of finance capital, and financial conglomerates link the various forms together, a process begun in the USA twenty years ago.

Finance capital today has been defined as

The increasing interpenetration of industrial, banking and trading capital. In a word, accelerated conglomeration within the setting of oligopolistic capitalism. (It is) not a homogeneous and unified power complex — not even in Japan. (However) corporate management of money, credit and finance is becoming inseparable from the management of industry, services and commodity markets.

(Frederick F. Clairmonte, "The Mechanisms of Finance Capital etc.", paper delivered to the Seminar on Law, Justice and the Consumer, Consumers Association of Penang, Malaysia, November 1982.)

The most advanced case of financial and non-financial institutions embraced in one organisation is the Japanese Sogo Shoshas, or general trading companies. The Mitsui Group, for example, employs about 260,000 people; has total assets of US\$128 billion; and includes companies in banking, insurance, steel, non-ferrous metals, chemicals, foodstuffs and machinery. Hence, with this form, to speak of banks dominating industry and trading companies is meaningless; **they are all in bed together**. Australia has nothing which even looks like this yet. The closest approximation is Elders IXL, run by John Elliott, whom some describe as the heir apparent to the Liberal Party.

The Working Class Under Siege: An International Strategy?

Before we look in more detail at the Australian situation, there is one other aspect of international capitalism which must be recorded, and that is the attack on the working class, which, I am delighted to see, has been discovered by Mr. Bill Kelty, secretary of the ACTU. I quote from his address to the NSW Labor Council on 28 February, as reported in the *Sydney Morning Herald* (1.3.85):

... he condemned the US Government, the British Government and conservative Governments in Australia, saying they were using the unemployed to try to destroy the union movement.

They had been taught, "there is one way you can control the trade unions, and that is with high levels of unemployment". Mr. Kelly said the effectiveness of the strategy could be measured by the decline of unionism in the United States, where it was now considered to be finished as an effective vehicle for improving conditions and wages.

The Reagan and Thatcher Governments had shown that the destruction of the union movement was now a practical proposition. It was clear the British miners had lost their battle.

We have to appreciate that while we are not the United States and not the United Kingdom, and while we have a better organised trade union movement, the alternative will nevertheless be tried by conservative Governments in Australia. It is being tried now by the conservative Government in Queensland.

It is important to realise that there are many other manifestations of this attack on the working classes of the world which, of course, has been going on since capitalism began, but which today has reached a degree of sophistication which would have been incomprehensible to the Tolpuddle Martyrs who were sentenced to transportation to Australia 150 years ago last year.

These cannot be pursued here, but they include management consultations in the USA which specialise in strike breaking and union destruction, which also have affiliates in other countries.

They also include the media, which is big business, and orchestrates anti-union ideologies in the press, on TV and radio, especially on "talk back" programs. There is, in fact, a growing industry, sponsored by corporations, which can only be described as an "ideological management" industry, based on, and partly derived from, the USA, which has "anti-union ideology" as a key component.

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Another manifestation of the attack on the working class in Australia is the orchestrated undermining of the arbitration system by employers' organisations and the media, which consistently denigrate the system, and especially those parts of it such as indexation, which are designed to protect the real wages of workers. Having deregulated the financial system so that exchange rates are free to move, and interest rates are free to move, the pressure is now on to deregulate wages so that they are free to move; and with current levels of unemployment there is only one way they would go — downwards.

Initially, of course, money wages would stay the same, but would not be adjusted for price increases due to devaluation, or indirect taxation, so that real wages would fall. In due course, there would be no compensation for

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any price rises; and then there would be pressure to lower money wages, to "give back" other gains which have been struggled for over the years, such as penalty rates, conditions, holidays, hours of work, etc. just as American unions have been forced to accept lower standards of living.

It should also be noticed that all this explains why there is so much attention being focused on the taxation system. Regulating wages and taxes is now about the only part of the economy the government can hope to affect; it has relinquished any control it had over the exchange rate, capital movements and the money supply; it is pledged not to increase government expenditure or expand the public sector or do anything to harm business. So the only thing left for it is to keep wages in check and tinker with the taxation system — which does not look as though it would benefit the working class on current proposals.

Australian Government Out to Lunch

All the foregoing items should be borne in mind as we turn our attention to the sharp drop in the dollar two weeks ago. In attempting to explain it, the following facts, drawn from the financial press, should be noted: according to the chief economist of CRA Ltd., speculators and inter-bank dealings dominate the currency markets, for the total value of currency turnover in those markets is roughly ten times the value of trade transactions. This bears out the point made earlier about capital flows swamping trade flows (*Australian Business*, 6.3.85). He said speculators are testing the nerve of the Reserve Bank to see whether they would let the dollar fall further.

It is known that the market is very "thin" — only seven or so big "players", but on the day of the big fall, when overseas traders, particularly in New York, were selling Australian dollars, most of these "players" were not offering to buy them, for fear of making losses. They were "not answering their phones", "they were out to lunch"; only Westpac and BNP were operating. (*Sydney Morning Herald*, 4.3.85).

The reasons given by New York traders for selling showed them to be naive and ill-informed. They were saying, for example, that they feared a split in the Labor Party; that Australia would join New Zealanders in banning nuclear ships; that industrial turmoil was seriously affecting the economy. True, there was some bad news, especially about our burgeoning foreign trade deficit but, even so, Australian traders knew that the dollar was falling too far and too fast. They did not know how far it would go; they did not know whether the New York traders were in collusion so as to make a killing — so they withdrew from the market, and let the dollar fall (*Sydney Morning Herald*, 4.3.85).

The really bad news about the foreign trade deficit was bad enough without the rumours; although the prevalence of these in the current political climate suggests that a free market in a very minor currency such as ours is not likely to

be very stable for long, and questions the wisdom of allowing it in the first place. Such markets feed on rumour and blow up bad news out of all proportion, ignoring healthy signs in an economy. As the chief economist for Loyds International said: "The frame of mind of the currency market at the moment is such that everyone is only looking for bad news". (*Australian Business*, 6.3.85.)

Rising Foreign Debt and a Lower Standard of Living

The foreign trade deficit threatens to blow out to about \$11.5 billion, making it the worst ever. (The previous worst was \$8.8 billion in 1981-82.) That would be about 6.9% of our Gross National Product (GNP) — over twice the relative size of the US foreign trade deficit. Imports have been exceeding exports significantly, and the so-called "invisible" outflow, such as freight, insurance, interest and dividends, is already a billion dollars higher than at this time last year. Also, now that exchange controls are off, some Australian companies, such as Humes, Monier, Hooker and the AMP Society, have been investing heavily abroad. (*Australian Business*, 6.3.85.)

The latest growing of these payments is interest on foreign debt, which has grown nearly fourfold in the last five years. In June 1980 it was \$13.6 billion; by June this year it is expected to be \$50 billion. Much of this is by companies in Australia borrowing from overseas during the so-called resources boom; they expended the money but the bottom fell out of the market. So export income did not expand to finance the servicing of that debt in foreign currency.

In the last financial year, interest on that debt took 11 percent of our exports, and long term capital repayments another 17 percent. This means that we have already mortgaged our future. We are in the position of so many of our aspiring middle class; we have taken out a large mortgage on a house we can only afford to pay off if both parents work. One of them is now on half pay and we can't afford to keep up the payments. The bailiffs will soon be in, and they will say we have to starve the kids to pay the finance company!

All this comes as no surprise to those like me who have been inveighing against the economic policies of

Australian governments over the last 25 years. That policy has been to borrow, borrow, borrow for so-called development — even the Whitlam government wanted to borrow, even though it was to buy out some of the resource transnationals. This disease seems to be endemic in Australia. Fifty-five years ago there appeared a poem in a trade journal on this question. It appeared in the June 1930 issue of *The Australian Banker*:

*Australia has a motto
'Tis known throughout the world:
"Advance Australia money"
On our banner is unfurled.
What is a thousand millions
On which to come and go?
Just put another one in front,
And add another O
And we'll pay you what you lend us
With the money that we owe ...
... What Australia needs is money
So we can eat and sleep;
And journey out to Randwick,
Then see the Easter Show,
And buy a Yankee motor car
To Yankee pictures go —
And we'll pay you what you lend us
With the money that we owe.*

John Hill, *From Subservience to Strike*,
(Uni. of Queensland Press, 1982) pp. 60-61.

The gross mismanagement of the economy of this country by successive governments, and the gentlemen of the Treasury, has turned it into an economic satellite and client state of international capital. The acceleration of this process has been most pronounced in the last ten years; it can most easily be shown by expressing the foreign debt as a proportion of our GNP, to avoid any money illusions. In 1975 it was eight percent, today it is approaching 24 percent. Hence, the burden of debt has increased three-fold in a decade.

Fundamentally, the fall of the dollar expresses the Australian economic situation. Our consumption has to be curtailed; under the present system this will be done cruelly in the unfairest possible way, by allowing the market to raise the prices of imports, and not compensating workers and pensioners for it, thus squeezing real wages and pensions; while the owners of export industries such as mining and agriculture will receive more Australian dollars for their foreign currency.

Capital will flow out of the country, seeking more profitable investment overseas, and private investment will eventually be reduced, causing further unemployment; but the speculators and the financiers will prosper mightily.

None of this is new; it has happened in many Third World countries already; something similar has happened in Poland; it has happened in Britain and in France. The irony in Australia, and the tragedy, is that it is happening, as in France, under a so-called socialist government.

Primary Industries



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Ted Wheelwright is Associate Professor of Economics at Sydney University and is author of "Australia: A Client State".
