



The Personal Cost

Business analyst Dick Gross interviewed.

Paul Keating's high interest rate strategy has come in for quite a bit of stick lately. What's your attitude to high interest rates as the blunt instrument wielded against the balance of payments problem?

I don't question that the balance of payments has become a serious cause for concern in Australia these last few years. To some extent it's inevitable in a country like Australia, which always tends to be reliant on injections of foreign capital. My worry is that governments tend to react to problems such as this, which are largely the result of the behaviour of particular individuals in the corporate sector, by taking actions which affect everyone.

When they raise interest rates it's middle and low income earners who tend to be most strongly affected, whereas it's a problem which is largely the result of the super-rich borrowing lots of money and incurring recurrent interest repayments.

Is the social and political price of the high interest rate policy too high?

I'm not particularly interested in the political price, even though I'm a member of the Labor Party. It's the personal price which worries me. The consumer advice agencies that I deal with tell some pretty awful stories. Financial counselors find more and more people who are overcommitted. More and more people devote from 25 up to 60 percent of their income on rent. One wonders how they manage to eat. Tenants advice bureaus are encountering a new kind of tenant: the middle-aged family who've had to sell their house because they can't afford the interest repayments, and who are now becoming tenants for the first time in a decade.

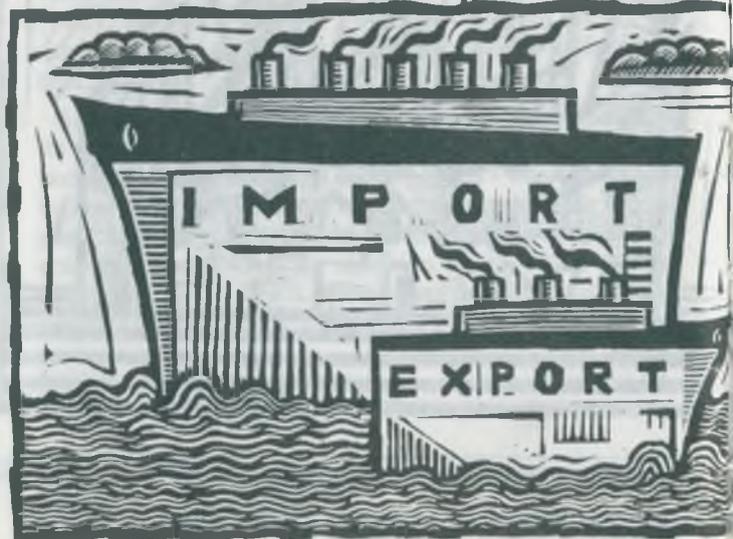
There's a lot of real social suffering out there. That may be short-term, and it may be necessary, but it's still very severe. The political cost just means we're likely to have a change of government. On the other hand, as we speak interest rates are falling, and the stockmarket is strong...

A soft landing, perhaps?

That certainly seems to be the consensus at the moment. Mind you, forecasts are often inaccurate. I'm reminded of the winner of the annual award for the best economic forecast by the Association of Economic Forecasters, who was only out by 25 percent. When I compare economic and weather forecasters, there is no doubt that the weather forecasters do better.

Should we be trying to ameliorate some of those effects? Mr Keating, of course, has declared that to do so would be a loss of nerve.

I can see what he's saying. He's arguing that we are going to have to make people so miserable that they don't consume imports. If you accept those economic parameters, amelioration would simply undermine that policy of imposing economic order by economic misery. If you don't, I can think of several areas where action could be taken. Bill Mitchell at Flinders University, who's studied the figures closely, argues that a significant minority of our current account deficit can be attributed to the importing of luxury used cars. Clearly, that sort of activity has got to be discouraged.



What about help for home-buyers?

First, there's an inequality among home buyers. Some people are paying 13.5 percent with their interest protected, and some people are paying 17 percent. That's unfair, particularly because people who are now paying unprotected interest rates are those who paid more for their houses in the land boom. If that inequality were removed, it would save a lot of misery without having any macroeconomic impact. Second, I think there should be some tax relief for home buyers, because the social cost is so high.

Let's look at the long-term perspective. There's been a lot of talk recently about the development of export industries as the only long-term solution to our balance of payments problem. But there's been very little said about the role of the corporate sector in this process, hasn't there?

One of the major bi-partisan planks of our current economic policy is to encourage corporations to merge and takeover smaller corporations, so Australian companies have the critical mass necessary to compete in the international markets. I would accept that, but I'd make two points. The first is that these mergers and acquisitions have been financed through borrowings. So you have people who are highly geared. In many respects, that's been a bit of a fiasco, because they've taken on so much debt, that they are now commercially unstable. Indeed, there have been a number of well-publicised insolvencies and near-insolvencies. Rather than make our companies so big they're internationally competitive, this round of acquisitions and mergers has destabilised the very corporations which are going to be in the vanguard of Australia's economic reconstruction. That hasn't been fully thought through.

Secondly, it creates problems for consumers. As corporations become bigger and bigger in a small market like Australia, there is a problem of diminishing competition. The obvious areas are beer and the media, but there are other problem areas such as whitegoods, retailing, car components, and steel. Industrial policy often consciously tries to reduce the number of players in these industries - the obvious example is the car plan.

It's also become tacitly accepted within the ACTU.

There are obvious benefits for the union movement in fewer, larger companies. They have to deal with fewer managements, for a start. And small business is notorious for being ununionised. But if companies get too large it can undermine the bargaining power of the unions. The obvious example is journalists. If you have a fight with Murdoch in the print media, and Fairfax don't want you, there's no journal of national prominence to employ you - except *ALR*, of course...

I have the impression that the tendency of the 'eighties, particularly on the part of the media, to lionise the corporate giants seems recently to have gone into reverse.

You're not alone. In the mid-'eighties there was a widespread perception that business people and the market were infallible, and that regulation was inevitably overbearing, onerous and odious. These were the cowboys who were going to lead us in the Great Leap Forward. The crash has shown that many of them were just parasitical paper-shufflers. Now it's been disclosed that many are up to their eyeballs in debt. Their borrowing extravaganzas are causing us real pain. People are asking, why should we be paying higher interest rates so that the government can make up for business' debt? Business has lost much of its glamour - and with it deregulation. That's even more obvious in New Zealand, which underwent massive deregulation, and suffered very heavily as a result in the stockmarket crash.

Some people argue that deregulation is more or less irreversible.

It all depends what areas you're talking about. And after all some aspects of deregulation were a damned good thing. Prior to deregulation the stockmarket was simply an exclusive club where people got paid large amounts of money for doing nothing. Now it's so competitive that stockbrokers are losing money hand over fist. Other aspects of deregulation are more complex. You can't kick the foreign banks out. You could, on the other hand, tie the dollar to a 'dirty float', as the phrase goes. I don't think it's irreversible by any means.

DICK GROSS is business analyst for Melbourne radio 3AK and SBS television. He was interviewed for *ALR* by David Burchell.

Hypocritical Arguments



Evan Jones thinks it's time to look again at foreign investment.

Australia's balance of payments is in a mess, but not nearly as much as the shock-horror commentary which surrounds it implies. One needs to get out from under the mountains of media nonsense written to see what kind of problem exists.

Figures on the balance of payments are set out in two accounts - the current account and the capital account. The dominant media perspective is on the current account. The media consistently gives the impression that the current ac-

count measures only the impact of commodity trade (imports and exports). A deficit on current account is presumed to be due to imports being greater than exports - Australia 'living beyond its means'.

This in turn leads to increasing indebtedness to foreigners, shown in the capital account. This account shows the changes in the net stock of financial assets/liabilities held by 'Australians' over the financial year. The presumption then is that the capital account is derivative from the current account.