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 account 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.

This is misleading on several counts. The current account comprises four categories of transactions - merchandise (commodities) trade; services trade; income payable abroad (mostly on investment of capital attributable to non-Australians); and unrequited transfers (mostly wealth transfers linked to migration).

One has to look at the balance of payments 'problem' as encompassing both issues of trade (including both commodity and services) and investment capital.

On the subject of trade, there has certainly been a surge in demand - an 11 percent increase in Gross National Expenditure in the 12 months to March 1989. Whether this is 'excessive' is debatable. The Japanese could run a 10 percent increase in demand per annum for over a decade without spending being labelled excessive; indeed, it was feted worldwide.

The real problem is the structure of demand and, consequently, the structure of trade. Australia exports rural and mining produce, and imports manufactures and equipment. The structure of merchandise trade becomes apparent by examining the deficits and surpluses in trade in key commodities. In 1987-88 there were net surpluses in food ($6.4 billion); crude materials, especially wool and iron ore ($10 billion); and fuel, especially coal, ($5 billion). By contrast, there were net deficits in chemicals ($3.3 billion); manufactures ($6.7 billion); and machinery and transport equipment ($13.6 billion).

Exports of traditional commodities (wool, wheat, coal, etc) have increased solidly, if erratically. Exports of manufactures have also increased. But imports of machinery/equipment and manufactures have escalated in the 1980s. The current deficit in merchandise trade is fundamentally due to an imbalance in Australia's industrial structure.

It is clear that the current emphasis on repressing economic activity via high interest rates and fiscal austerity will do nothing to remedy such structural dilemmas - on the contrary, they will only be exacerbated.

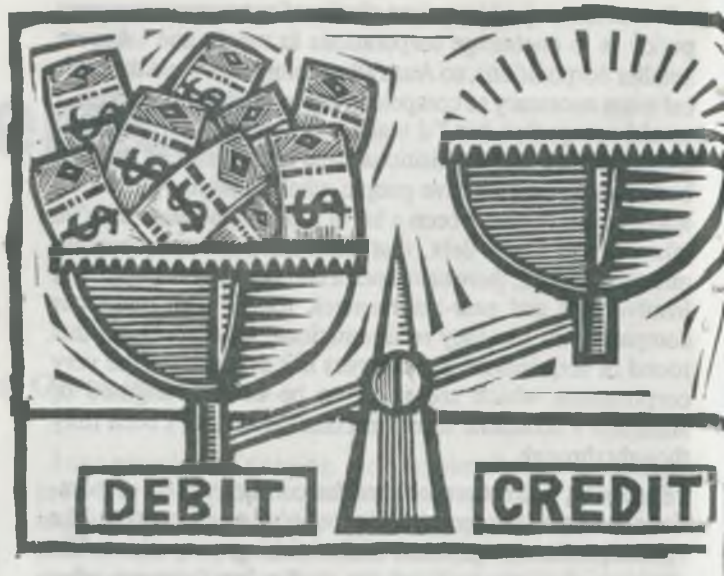
A structure that was developed to 'ride on the coat-tails' of Britain, and later of American and Japanese interests, is no longer compatible with the global division of labour. The fact that Australia recently joined COCOM (the NATO-based watchdog for the US on technology-based exports) is testament to the continuing colonial cringe.

The media considers investment and the income payable on such investment to be a problem for 'all Australians', or the result of excessive government spending in particular.

At March 1989, total foreign investment (including equity plus debt) was $209 billion. Of that, $61 billion was attributable to the public sector ($35 billion due to general government borrowing; $26 billion due to public enterprise borrowing), or 29 percent of the total.

The bulk of foreign investment is private, and has escalated in the 1980s with the deregulation of finance sectors and closer integration into international financial flows. This process is supposed to have facilitated Australian investment abroad which could potentially offset foreign investment in Australia.

It is true that Australian private investment abroad has increased dramatically in the 1980s, reaching $46.3 billion by



1987-88 (returning $2.4 billion in income credits). On the other hand, foreign private investment increased even faster, reaching $135.2 billion by 1987-88 (returning $8.5 billion in income debits). So, the deregulation of finance has enhanced the disparity in capital flows.

Ultimately, there is a need to question the merits of foreign investment. On what terms should it be received? Are some channels and forms of investment more desirable than others? Such questions were permissible in the 1960s, but they have been taken off the political agenda since the 1970s, and no one has been able to raise them without being derided as a fool. The current 'correct line' is that foreign investment is an unqualified good thing. End of debate.

In particular, one needs to examine the legacy of the 'resources boom' of the late 1970s. What was the total investment of both public and private sectors? What has been the net impact on trade figures and on income flows? In short, did 'Australia' get value for money? To what extent are current balance of payments deficits a consequence of the resources boom as an abject failure in industrial reconstruction?

Another issue off the agenda is the accuracy of balance of payments figures. To what extent, in particular, are the figures on income payable a fudge, due to the discretionary corporate practices of global profit-shifting and tax avoidance? All commentators take official figures as gospel, whereas they have to be treated with suspicion.

Finally, balance of payments figures are calculated on the presumption that 'Australia' is a meaningful economic entity. If capitalism is a truly global system, what sense is to be made in breaking down flows in trade and capital on national lines? There are reasonable arguments for and against such figures. What is unacceptable is that Australian elites can support financial deregulation and at the same time argue that Australians (ie, wage earners) are living beyond their means and must make sacrifices. Either Australia is a meaningful economic entity or it is not - it is hypocritical to argue one way for one's own benefit and to use a contrary argument as a means of impoverishing others.

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