For the last few months the government has been under pressure, mainly from mining interests, to devalue the Australian dollar.

For example, early in August, Australia's largest mining multinational, Conzinc Riotinto, used its submission to the government's White Paper on manufacturing industry to argue for devaluation.

CRA called for an exchange rate policy that would aim at balancing Australia's current overseas dealings. In the past Australia made up current account deficits (resulting from us importing more goods than we could export) by encouraging foreign capital inflow.

This year, for example, the Department of Trade estimates we will have a balance of trade surplus of $1.1 million but we will have an "invisible" deficit of around $2.6 million. "Invisibles" are items like freight charges, government spending overseas, and profits.
that are remitted overseas by foreign owned companies operating in Australia.

This leaves a current account deficit of $1.5 million. While new foreign investment in Australia will make up some of this deficit it will leave a gap.

This will mean a drain on Australia's reserves of foreign currencies.

CRA admits maintaining a balance on current account would demand a lower exchange rate but says the risks of such a policy would be small compared to the benefits.

Later, the Australian Mining Industry Council joined in the call.

On September 7, former Labor Treasurer Mr. Bill Hayden said that "blind Freddie and his dog" could see that the Australian dollar was overvalued and that reports in overseas newspapers such as The Economist suggested the overvaluation was of the order of 15 per cent.

Of course the government must keep denying it intends to devalue to discourage speculative selling of Australian dollars, but the pressure is clearly there, and growing.

PRESSURE

On August 11, in the second of three articles in the SMH putting the mining industry's pre-budget case, Mr. J.C. Mc Neill, president of the Australian Mining Industry Council and managing director of BHP, said devaluation of the Australian dollar is "inevitable and necessary".

"But the Mining Industry Council is not saying that it ought to happen now. Rather it is taking the view that when the government feels it is appropriate to stimulate the economy and that means when it feels that it has inflation sufficiently in hand .... the proper way to provide that stimulus would be by devaluation of the currency."

He dismissed the inflationary impact of such a move. The use of the exchange rate as a weapon in the fight against inflation: "the fight against inflation is being borne by the export industries".

He even went so far as to claim the government was showing favoritism to the manufacturing industry over the export-oriented mining sector.

"The ideal position to be in, in Australia at the moment, is manufacturing something in Australia and selling it in Australia."

Next day, Mt. Isa Mines Ltd.'s finance director, Mr. L.J. Carden and Mr. J. Ralph, who holds a similar position with Conzinc Riotinto, put the case again in the same paper.

Both argued that the move shouldn't be delayed because of fears of inflation.

"Studies I have seen recently do not lead one to the conclusion .... that devaluation does not have a significantly adverse impact on inflation and an increased inflation rate", Mr. Carden said.

He agreed that there would be a tendency for industry to push up its prices following a devaluation to levels just beneath those of imported goods, but claimed the Prices Justification Tribunal could be used to disallow any increase in prices it felt were "unreasonable and purely related to the devaluing move".

This appeal to the completely discredited PJT shows that the mining lobby is either naive - or engaged in an extensive special pleading exercise.

Even Mr. Carden wants to have two bob each way.

The PJT, he believes, should allow price increases to manufacturers to the extent that they have a large imported component in their manufacturing costs. "To the extent that their costs are not imported costs, devaluation would not affect their costs at all and consequently they should not be allowed to put their prices up, assuming that the PJT rationale continues to operate."

But ultimately he wants the PJT abolished. "Providing industry is properly controlled so that uncompetitive practices are stamped out or largely stamped out, the market place should be the proper determinant of prices."

He did see the PJT, though, having some
ideological value: "... as an indication to the
working man at large that there is some
obvious restraint operating on the price
mechanism".

DEVALUATION: WHAT IS IT, HOW
DOES IT WORK?

Why is the mining industry pushing so hard
for a devaluation of the Australian dollar? How
does devaluation work, and what effects does it have? Is it inflationary?

A fifteen per cent devaluation of the dollar
would mean that instead of one Australian
dollar being worth US$1.25 or £0.72, it would
be worth only $US1.06 or £0.61.

This means exporters, like the mining
companies, will get 15 per cent more
Australian dollars for their coal or iron ore -
since prices for these commodities are set on
the world market.

If prices and wages in Australia remain at
their present levels this means these mining
companies will be 15 per cent better off. It
would mean a massive boost to their profits if
sales income could go up 15 per cent in this
way with no increase in costs.

But there must be an effect on the local price
level. This is because importers must pay 15
per cent more Australian dollars to buy
Canadian paper, American machinery or
Japanese television sets. Of course, they pass
these prices on in higher local prices.

If imports become more expensive in this
way, local manufacturers take advantage of
the situation to raise the prices of their
competing, locally produced goods.

The big question then is what happens to
wages? If all prices go up 15 per cent, workers
will have to win a 15 per cent increase in money
wages to maintain their former standard of
living. It doesn’t matter how this happens -
through workers taking action themselves, or
through full wage indexation.

If workers win the full increase, and all prices
go up by the amount the dollar was devalued,
we are back in square one, with no one any
better (or any worse) off. It is true exporters’
incomes, like everyone else’s, are up 15 per
cent, but in real terms they have gained
nothing, since everything they want to buy
(including workers’ labor power) is 15 per cent
more expensive. All that has been achieved is
an extra 15 per cent inflation.

But of course this is not the way they want it
to happen. They want the effects of
devaluation to be confined to export and
import competitive industries - and they
certainly don’t want workers to be
compensated for the higher prices they face in
the market place.

Many industries, because of their special
nature, face no competition from imports -
they are "naturally protected". These are the
ones that could be hit by devaluation.

On September 22, the ANZ Bank’s chief
economist, Mr. Gordon Bruns, put the case for
these other industries - he mentioned services,
building and transport. These are industries
that do not compete with imports, but whose
costs are obviously affected by the prices of
imported and locally produced import
competitive goods.

The prices they can charge depend on the
local market - and if nothing changes there
they cannot raise their prices at will. Builders,
for example, will pay more for any materials
they import but will not necessarily be able to
charge more for completed buildings. A
transport company will pay more for an
imported truck, but will not necessarily be able
to recoup this with higher freight charges.

These industries will be hit particularly hard
if workers are able to win wage increases to
compensate them for the higher prices of
imported consumer goods. If workers can
maintain their standard of living in this way,
devaluation will have the simple effect of
taking part of the surplus produced from one
section of industry - the section that neither
exports nor competes with imports - to boost
the profits of exporters.

For example, if one-third of commodities are
imported, or have their prices determined by
the prices of imported goods, a 15 per cent
devolution will lead to a 15 per cent price rise
for these goods and a 5 per cent jump in the
average price level as reflected, say, in the
Consumer Price Index.

If, as we have assumed so far, workers are
compensated for this by a 5 per cent wage
rise, they are no worse off on average.
Exporters are getting 15 per cent more for
what they sell overseas, and have to pay 5 per
cent more for goods they buy here, and for
workers’ wages - so they are still ahead.
ECONOMIC NOTES

But capitalists who neither export nor compete with imports, on the other hand, also have to pay 5 per cent more for goods they buy here, and for wages but can charge no more for the commodities they produce - so they are behind.

While it is clear the mining lobby would be satisfied with this result there is no obvious benefit in it for the capitalist class as a whole.

The Australian Financial Review in an editorial on September 8, clearly expressed the interests of the whole capitalist class on this issue:

"... a devaluation would be pointless, and positively harmful, unless it were accompanied by a deliberate policy of reducing real wages ...."

This is to ensure, they continue "that the benefit to our export industries would not be dissipated in a new surge of cost inflation".

If, for example, the Arbitration Commission refuses to pass on price increases to wages (as they have successfully been doing this year) and if continuing high levels of unemployment hold back workers' bargaining power, the capitalist class could achieve this aim.

The benefits of devaluation will still go straight to the export sector of the capitalist class, but the cost won't all be at the expense of other capitalists, but at the expense of workers' living standards. And any long term readjustment upward in the rate of exploitation through this, or any other, measure to reduce real wages will benefit the capitalist class as a whole.

CLASS AND SECTIONAL INTERESTS

Looking back now over the arguments of those calling for devaluation, we can clearly see both sectional and class interests being articulated.

We quoted Mt. Isa Mines' Mr. L.J. Carden earlier, arguing that the Prices Justification Tribunal could be used to confine price increases to direct costs. In other words he wants the general increase in prices following devaluation to be held below the price increases MIM obtains overseas for its copper, lead, silver and zinc.

This is a clear statement of a call for redistribution of the surplus towards the mining industry.

Mr. John Ralph, Conzinc Riotinto's finance director, is also optimistic that the benefits of devaluation can be confined to the mining sector.

"I don't think the inflation effects of a devaluation are all that great, although psychologically it must have an effect. (Which is a strange way for a hard-headed capitalist to talk about a coldly calculated operation like devaluation, by the way!)

He goes on: "Our calculations show that the effect on the inflation rate is about 10 per cent of the change in the currency value so if you have, for example, a 10 per cent devaluation, the effect on inflation would be about one per cent."

(It is interesting that a week after Mr. Ralph said all this, his company - like other mining companies - received massive boosts in the budget. Two weeks later, CRA announced its profits in the six months to June 30 were a massive $28.8 million, up 49 per cent on its previous result.)

The Financial Review, on the other hand, is concerned not with redistributing the surplus within the capitalist class, but with increasing the overall size of the surplus. It recognises that the only way this can be done is at the expense of workers' living standards - that the capitalist class as a whole needs a higher rate of exploitation.

If the actual course devaluation takes has this effect, that's good. Otherwise it is a pointless exercise.

Whether this can be achieved depends on many factors outside the immediate questions facing the government on devaluation: when? and by how much?

For example it depends on how the Arbitration Commission reacts, and what line it takes on wage indexation following a devaluation. It depends also on the guidelines the government gives the Prices Justification Tribunal, and on the position the ACTU takes.

But most of all it depends on whether workers can be made to cop another cut in real wages.

- T. O'S.