Going For Broke

The October stockmarket plunge marked the end of the era of the highly-geared corporate tycoon. The debt bubble of the 'eighties has finally burst. But what does this mean for our economy in the 'nineties? Will we still be paying the price for the binge? Michael Gill speculates...

It became fashionable not long after October 1987 for business people to observe that a smart investor was one who looked at the covers of business magazines and struck from their list anyone who appeared. Heroes who were widely sought for TV interviews, fashionable parties or magazine examples of conspicuous wealth have become much less magnetic.

There was a share market boom and a takeover fever that would match anything experienced in nineteenth century gold rushes. Simple things were forgotten, like the lesson of Icarus. And now some of those who flew too high have crashed to earth. As a consequence, we have to put up with arguments about our 'tall poppy syndrome'. We have some of those who cheered loudest making sickly-sweet confessions about their culpability. Of course, there are also those who, in the manner of Madame Defarge, want to see people's tribunals string up one or two of the fallen.

Amid all this colour and movement, the question is whether anything serious has happened. I think it has. But it is not my argument that we should try to affect events. Rather, it is to say that there are bigger fish to fry.

The serious thing that has happened is that too many people have been seduced by notions of power. And too few have seen their responsibilities. Good, strong people have suffered for their virtues while weak, ignorant people have prospered. The weakness of those people is their illusions of both power and infallibility. Their ignorance, largely, is reflected in their often gross misunderstanding of who is to blame. And their lasting contribution is a serious distortion of values - an ethos of fantasy.

My argument is that it is up to responsible people in the community to define sensible standards and then to be active in enforcing accountability. Now, you will say that this is a motherhood argument. So I'll provide an example.

In the period of frenzy and indiscipline in share markets, West Australia had a party. And one of the principal hosts was the WA government. Now it appears that the state has lost hundreds of millions of dollars. At the same time, citizens of WA had been waiting more than a decade for someone in authority to accept responsibility for the injuries caused by asbestos mining at Wittenoom. The government steadfastly refused to be party to any thought of compensation or support.

To anyone that came in contact with the fact and the ethos of the Burke administration in that time, it appeared very much as though the fundamentals of the public purpose were turned on their head. Ministers and public servants acted and sounded like 'entrepreneurs'. And many of the riskier entrepreneurs made noises like Medicis. Everyone, it seemed, was living out a sort of fantasy. And while St. George's Terrace resembled a hothouse experiment in state corporatism, the view from other parts of the state was far less uplifting.

The very depressing impression left from a conversation with one of those suffering the Wittenoom disease is of an affliction worse than impotence. These people, who died within months of diagnosis and in excruciating pain, found that no one would take responsibility. The company which employed them, the state and its workers' compensation agency, and the courts, all refused to accept evidence of culpability. In the end, many of the victims seem afflicted with the possibility that they might be responsible. That, to me, was the worst of it.

As it happened, other courts found
very definitely that the company and its associates were negligent. Plain evidence also emerged that this was known both to the company and its insurer. As well, the state government could have been ignorant of this only through a deliberate choice.

This, to me, is a clear example of where public standards and accountability went west. For example, it is a fact that the WA State Government Insurance Commission was created originally for the very reason that private insurers would not accept many risks in covering industrial illness and accident. Yet, in the 1980s, the SGIC was active in financing many a bizarre scheme cooked up in Laurie Connell's Rothwells, Robert Holmes a'Court's Bell Group and Alan Bond's Bond Corporation. But the SGIC could not find a priority in the position of citizens whose needs ought to have been its first concern.

Now, the important point is that this sort of activity was not confined to WA, though the West Australians certainly provided some of the extreme examples. Broadly, what appears to have happened is that aggressive, virtually
revolutionary and certainly fundamen-
tal patterns of behaviour have been
thrown up by the performance cult of
the 1980s.

The performance cult was the non-
sense that allowed Robert Holmes a
Court to challenge BHP. His profits
were a hall of mirrors. Very attractive,
but not substantial. BHP's were built to
last. And they employ people. It was the
idea that we could go on, paying whopp-
ing dividends from liquidated com-
pany assets, forking out slabs of cash to
banks against the debt that was used to
dissolve the commitment of
shareholders. It was not real. But be-
cause people like the Herald and Week-
ly Times shareholders could be offered
$16 for $3 shares, people thought that
was performance. Getting value for
shareholders. Really, it was a cargo cult.
A case where the fantasy actually hap-
pened.

That performance cult was
everywhere, in stark contrast to the con-
servatism and anonymity which charac-
terised the behaviour of business people
before that time. The effect was cathar-
tic. Buoyed by the cash liquidity that
washed through the world's finance
markets and boosted by the urgency
with which the new Labor government
sought to boost profit shares and invest-
ment, the radicals of risk became heroic.

Crucial changes were the acceptance
of a need by the core centres of stability
to force the pace of change. Financial
deregulation, tighter fiscal disciplines
and a broad acceptance that bigger com-
panies are better were the policy fuels
that fed the cash furnaces of the en-
trepreneurs. Sharp, short-term com-
parisons of performance drove institu-
tions back to Melbourne means
that the corporate heroes were largely
unquestioned. Popular, even. What is
important is the shape of things.

The problem we have is that corpora-
tions which employ people, invest for
future employment and generally sup-
ply goods to Australians have been made
subservient to finance markets. It ought
to be the other way around. That result
has also left the nation's economic
policies burdened with debt costs that
will create social and political pressures
for some time into the future. The third
major result is that the capacity to make
progress socially and economically has
been limited by the power delivered into
a few hands.

"TV went through the binge too. And now the
cuts have begun."

The best example of that third point is
the remarkable power handed to Rupert
Murdoch. Plenty has already been said
and more, no doubt, will be said in the
future about the effect of News
Corporation's dominance of media in
this country. But, as far as this is an issue
about economics, one vital question is
about the creativity of that organisation.

One industry that ought to be healthy
and diverse is media and information.
Opportunities are growing faster in that
than in most. And there are no better
prospects for Australians than in be-
coming active in the information ser-
dices of this region. So what did we do?
We allowed the situation where one
company has distribution of print media
in Australia by the throat. A company
that, most likely, could not have a single
TV licence. And, for other reasons, the
major competitor was at the same time
drawn into the swamp of debt. As a
result, the prospects for that industry
growing into a wider role of economic
benefit are rotten.

TV went through the binge too. And now
the cuts have begun.

In retailing, mergers were allowed that
must limit competition. The effects of
that will bear both on consumers and on
suppliers. Coles-Myer is now massively
dominant in many areas of basic retail-
ing. That must affect the prices people
pay. But it also affects the diversity of
suppliers for everything from food to
textiles, simply because of the power of
its buying. The simple fact that Coles-
Myer has moved its major buying func-
tions back to Melbourne means
necessarily that potential suppliers in
other places are disadvantaged.

In transport, TNT has obtained sub-
stantial benefit from the fact that Anset-
mt has been allowed to merge with East
West. TNT's competitors, Mayne Nick-
less and Brambles, cannot match that
advantage. And the possibility that An-
sett might be given the right to compete
with Qantas as a result of the recent
fracas is a threat to make TNT unchal-
 lenged as the dominant force in
transport within and beyond Australia's
borders.

So, broadly, one result of the recent
dramas is that important industries are
now dominated by a few. Some, such as
those I've mentioned, seem crucial in a
country with the distances and popula-
tion of Australia. And the argument,
basically, is not that they necessarily are
a problem in themselves. Rather, that
nothing, not a thing, has been done to
ensure that they don't stop others from
producing things.

Back to the question of companies be-
coming subservient to financiers. The
point is that debt is a heavy burden on
company finances. All the indicators
make that clear. What's important about
the changed relationship is that it should
be the other way around. But, in many
cases, companies are doing things to
suit financiers. The end result is that
managers see their role as weigh sta-
tions for cash: the cash flow comes in,
then goes out to keep investors happy.
And the trouble with that is that the
investment that's essential to keep real
businesses going and growing has be-
come secondary. Which is not to say
that banks like to run other companies.
They don't. Especially if they're in
bankruptcy. This broad trend is one
reason that Japanese investors keep
dumping on Wall Street. Because these
sorts of business practices are the op-
posite of their ethos.

The other question, about the burden
we face in the future, is undefined.
People like John Elliott argue that it's
all OK: if a company has borrowed too
much, then its bankers will get stiffer.
Which sounds fine, except that it's not
true. Debt repayments are a heavy drag
on our balance of payments and those
deficits are a reason for high interest rates. High interest rates cause people to adopt short-term thinking. And short-term thinking gets no one anywhere in the long term. Unless, like rich Argentines, you can leave the country with the cash.

But that’s not all. Foreign bankers and investors and even local investors like the superannuation funds look at the debt numbers and company risk and make decisions on the totals. And when the numbers are bad and growing, they cut their risks. So people with growing businesses can find it hard to get the money they need.

One further consideration is how these unsustainable debts will be resolved. And that might mean that we’ll face some unpalatable challenges to foreign investment laws.

Take, for example, one recent curiosity. When Bond Corporation sought to relieve itself of some debt by selling its breweries into a New Zealand company, Lion Nathan, the chief executive of SA Brewing complained that foreign investment criteria should be applied to stop the deal. That was a plain case of self-serving argument, though some would argue that SA Brewing would be a better competitor with CUB than a Bond-Lion combination.

A wider foreign investment question is raised in the view of a US economist, Albert Wojnilower of First Boston Corporation, who thinks that high-yielding debt, like junk bonds, will eventually rank like equity shares - because the interest cost is simply unsustainable. Which would raise the possibility that some Australian companies, like Fairfax, were at least implicitly foreign-owned. When you consider that the print media would then be controlled by foreign citizens, that some TV licences could be foreign-owned and that a variety of other businesses could be in the same boat, the questions become sizeable.

And there we arrive back where I began. Most of this has happened without real discussion of the objectives. In most cases, like media, retailing and transport, there was very little said about the objectives of policy. Certainly no decision was accompanied by policy that allowed for discussion of where the whole industry was going. As an example, the deregulation of finance was accompanied by assumptions that many entrants would lose their shirts. But there was nothing said or done that would inhibit practices which led to losses of mammoth proportions in Rothwells, Spedley and Tricontinental.

The reason for all this was, I think, the popularity of the powerful image. But it is also true that governments recently have been inclined to show discomfitting assuredness in the worth of what are largely fringe dwellers in terms of Australia’s economic interests. Certainly the trend was apparent overseas as well. But Australia seems more closely attached to the tar baby than most.

The truth is that not much can be done to set back the clock. We have used up a lot of Australia’s credit. And the pressures will almost certainly build. But if the community is to accept continuing tightness and lower consumption, then a few things ought first to be got straight. And the first is that the majority did not create this mess. Most people do not sit at home thinking about their next burst of imported consumption.

Some suggestions. First, extend capital gains tax to private housing. Politicians hate the idea because it’s hard to sell. But it will reduce the heat caused in domestic housing markets, and that will release real capital for better purposes. (As well as relieving housing costs.) Second, take a good look at the tax, legal, accounting and other means of regulation which allow people who take massive risks to disguise them as genius.

Finally, it would be nice if government imposed some political discipline on itself by imposing much tougher measures of accountability for its policy objectives. In simple terms, we should know more about what they aim to do. Because, in that context, it’s no good saying simply that they want “level playing fields” or some such. Sure, they can try. But the truth is that some players are Rod Lavers and others are like rugby packs - and our playing fields have been without a referee. Much less, we have often not even known the rules.

Because the resources used traditionally have been dissipated - we can’t afford subsidies and can’t make tariffs and so on work any more - the means to go forward is to separate those who create wealth in the wider sense from those who don’t. And one way to do that without messing things up even more is to make people show plainly what they’re doing, what the results are, and take the share of resources that their real performances deserve.

Australia is part of a process that reflects a sea change in the structure and patterns of international finance. Deregulation of finance was the inevitable result of the global characteristics that now dominate flows of money. So far, the system has not sorted itself out in a way that would see Japanese surpluses go where they should - back into growth rather than speculation. And part of that problem is that governments have not fully accepted the transition. We, for example, commonly accept that finance markets will make the best long run choices. The rhetoric does not allow for the need to make policy signals that show the way. Rather, we retain assumptions about government policy that ignore the random effects of very liquid international capital markets.

So, when the fashion is driven by short-term profits and high cost debt, we allow the underlying structure of corporations to be undermined. Sooner, rather than later, these pillars of sand will be washed away by a wave of losses in the same way that Latin American debt exposed the fallacy of the OPEC ‘recycling miracle’. In that way, the high-risk entrepreneurs will become as popular as the former finance ministers of Mexico and Argentina.

The problem to tackle for Australia is the issue of policy goals. We sit culturally and economically between the mature economies of Europe and North America and the rapid growth of Asia and the Pacific. And that, roughly, is the fulcrum of the issue in international finance. Australia should be placed well. The fact that we’re not is more a reflection of those fantasies of power on the part of our entrepreneurs than it is in any fundamental economic flaw.

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