A WEEKLY COMMENTARY

ON TARGET

- NEWS HIGHLIGHTS
- BACKGROUND INFORMATION
- COMMONWEALTH AFFAIRS

The price of Freedom is eternal vigilance –

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THOUGHT FOR THE WEEK: *"As the situation stands at present, the banker is in a unique position. He is probably the only known instance of the possibility of lending something without parting with anything, and making a profit on the transaction, obtaining in the first instance his commodity free."*
C.H. Douglas, ***The Breakdown of the Employment System***

DISCOVERING THE ECONOMIC CRISIS by Jeremy Lee:

With the election safely behind him, Prime Minister Howard has suddenly discovered the global financial crisis. Even though gloomy predictions from round the world have been banking up for the last few months, the real situation never featured in the election.

Now, apparently, it has arrived on the Howard agenda. The "fire-proofed" economy (Costello) providing a "safe-harbour" (Tim Fischer) is not as safe as made out.

Former adviser to Paul Keating and chief economist for HSBC Australia John Edwards, in a recent ***Australian Financial Review*** article, commented: *"There is no novelty in financial crises, as the sorry history of the past two decades attests. Including the Asian economies, the world has seen 10 developing-country crises in just the past five years. Over the past two decades, at least two-thirds of member countries of the International Monetary Fund have experienced serious finance sector problems – as has Australia. What is new, however, is the wholly different scale, scope and speed of the present global financial crisis . . . what we are experiencing is the first global financial crisis in the new global economy – one that has travelled from a real-estate boom in Bangkok to the heart of global finance in New York . . ."*

Despite some whistling-in-the-dark, the US is in trouble. ***The Australian Financial Review*** (October 23rd) reported: *"Top executives of US manufacturing companies expect the global economic crisis to worsen, with many Latin-American countries soon falling into recession and with little chance of a rebound in Asia before 2000 . . . US manufacturers and farmers have felt the brunt of the impact of the financial crisis that began in Asia 15 months ago, levelled the Russian economy in August and is now threatening Latin America. The Government (ie US) on Tuesday reported exports of manufactured goods and farm products have fallen for five straight months, sending the US trade deficit to a record high of $16.8 billion August. The lost foreign markets and weak commodity prices have US farmers facing their worst crisis in a decade and employment in manufacturing firms has fallen by 150,000 since April . . ."*

An article in next day's ***Australian Financial Review*** (Weekend October 24th-25th) predicts a further one million jobs will be lost over the next year in the US.

It is against this background, and the approaching APEC meeting in Kuala Lumpur that Prime Minister Howard has suddenly "discovered" the crisis that others have been warning about for over 12 months.

"HOWARD CONFRONTS GLOBAL CRISIS" was the front-page headline in the October 23rd *Australian Financial Review*. *"The Prime Minister, Mr. John Howard, warned last night that the global financial crisis had had a 'colossal' impact on the Asian region and Australia faced unprecedented instability in financial markets. The impact of the financial crisis on the region has been huge, in some cases devastating,' he said in a speech to the 10th International Conference of Banking Supervisors in Sydney. 'It is crucial that we reach practical conclusions as soon as possible' . . ."*

Howard's warning, belated though it is, is right. His prescriptions, however, are ill-informed, unrealisitc and misleading. *". . . The focus of APEC leaders 'must be to get back onto the path of sustained growth as soon as possible'."* He warned APEC countries against revived fears that globalisation cost jobs and diminished national sovereignty. *"APEC must stand against that view. Open markets provide the opportunity for economic growth and the enormous benefits from it,"* he said. In an indirect swipe at Malaysia's new capital controls, and Japan's reluctance to agree to fast-tracking new APEC trade liberalisation, Mr. Howard said: *"The worst possible response to the crisis would be to put up the shutters. That would result in competition to raise tariffs and barriers within the region and outside. We saw the consequences of this sort of policy in the Great Depression of the 1930s. . ."*

We have heard all sorts of odd reasons given for the Great Depression – from sun-spots to "too much money chasing too few goods". The real cause of the Depression was a massive and deliberate restriction of credit worldwide. It was eased here and there – Roosevelt's New Deal was an example – by government use of the printing-presses to create money, or, as it is officially described, "deficit-budgeting". When war replaced the Depression, it disappeared overnight.

HOWARD'S DREAM-TEAM THINK TANK: So concerned is the Prime Minister that he has assembled a high-powered think tank to come up with some answers. Under the heading "PM Banks On Dream Team For Blueprint" ***The Weekend Australian Financial Review*** (October 24th-25th, 1998) said: *"John Howard will look to the private banking sector to provide him with a blueprint for international financial stability to take to the meeting of Asia-Pacific leaders . . . The Prime Minister yesterday oversaw the first meeting of a taskforce he has set up to advise the Government on methods to counter the current global economic instability . . . The task force consists of 10 leaders from the finance sector, including the Governor of the Reserve Bank Ian MacFarlane, and high-ranking bureaucrats from Federal departments and Telstra . . . "*

The taskforce is to be chaired by Treasurer Costello, and has until the end of this year to come up with ideas to "reduce the global crisis". It includes Commonwealth Bank managing director David Murray, AMP chief executive officer George Trumbell, Macquarie Bank chief Bill Shields and IBJ Australia Bank chairman John Phillips.

BANKERS TO BLAME: In a feature article by ***The Economist (UK)*** syndicated by ***The Weekend Australian*** (October 24th-25th) on the hedge funds scandal, the sub-heading read "Who Is To Blame For The Turmoil On World Financial Markets? Probably The Banks . . .". What followed was a mild "wrist-tapping" for banks which had lent to the hundreds of hedge-funds responsible for the massive gambling bubble racing round the world's stock-markets.

A much more robust criticism was made 12 years ago by the former head of the international division of the Commonwealth Bank, Mr. John Fletcher. ***The Sun-Herald*** (August 24th, 1986) reported: *"Foreign exchange dealers and multinational banks are using 'dirty tactics' to run down the dollar, according to the chief general manager of the Commonwealth Development Bank, Mr. John Fletcher. 'The multinational bankers should never be underestimated in the lengths they will go and the dirty tactics they will employ in pursuing their profit objectives,' he said. 'The international money market makes a rugby pack look like* *play school . . . The small people can't do it, it has to be the larger operators,' he said. '. . .They know they can manipulate the Australian exchange market, because it is such a small market. I call it dirty tactics. They would call it speculation. You just come in as a buyer. The law of supply and demand operates and if you put a whole lot of buyers on one side you send the price up. Then you sell while other people are at the high price. I think they are deliberately sending the Australian dollar down. If you take a forward position and you bring it down you are in a position to capitalise on it . . .'"*

One or two men such as John Fletcher on John Howard's "dream-team" would serve Australia well. But there's no room for those who might challenge the system.

Over the last few weeks the dollar has sunk to a 55-cent value against the $US, and then risen to the mid-sixties following Federal Reserve Chief Alan Greenspan's second interest-rate cut in a fortnight. There is evidence that an inflow of hedge-fund gambling money flowing into Australia is responsible for the fluctuation. A recent speech by Reserve Bank head Ian MacFarlane seems to have recognised the danger, described by John Fletcher 12 years ago. ***The Australian*** (October 19th) reported: *"If hedge fund speculation is behind the latest Australian dollar appreciation – as it was behind the currency's tumble four months ago – the player swould be well advised to note carefully last week's warning by Ian MacFarlane . . . The Reserve Bank of Australia's governor very publicly put the funds on notice their unchecked gambling days are numbered . . ."*

Very belatedly, MacFarlane criticised the IMF's harsh conditions for financial relief, and then urged measures to check the frenzied trade in speculative funds now demolishing the world's stock markets. The same proposals will be put by John Howard in Malaysia to the APEC gathering.

Some will notice that these proposals follow the action already taken by Malaysia's Dr. Mahathir – which highlights as nothing else can the miserable, jealous attitude of western spokesmen such as Howard and Costello. Mahathir's greatest crimes are, not only to be right, but to have acted unilaterally. That is the unforgiveable sin! It's either got to be "all together" or not at all. And "all together" simply means when the international banking fraternity give the green light. In other words, we now are burdened with leaders who, while they still maintain the constitutional right to act on behalf of their nations and those who elected them, are frightened witless of doing so. The greatest calumny is reserved for those who point it out.

Whatever else is said, if the banking policy and system of the world is to blame in any way for the crisis, it is an act of either paralysing shortsightedness, or moral cowardice, to assemble a think-tank predominated by bankers to find a solution. This is not to impugn individual members of the Howard-Costello "dream-team", all of whom may be worthy in their way. It is simply natural prudence to preclude those with a vested interest in such an operation.

AUSTRALIAN DETERIORATION ANTICIPATED: While there may be a temporary escalation of hedge-funds in Australia, it seems "those in the know" believe our longer-term future is not good. ***The Australian Financial Review*** (October 23rd) carried an article by Alan Deans in New York: *"Many of Australia's leading chief executives have received a rude awakening about the savage impact the global financial turmoil is having on their businesses. This week at an investment seminar in New York, 12 heads of companies like Telstra, QBE Insurance, Howard Smith, Coles Myer, Foster's Brewing, Goodman Fielder and David Jones were told by their host, Merrill Lynch, that investors should not buy their shares – regardless of the prospects faced by their corporations . . . International investors are so preoccupied with salvaging the wealth they have accumulated during the past five years by shifting into safe havens like US Treasury bonds that they are not interested in Australia – no matter how good the sales pitch. Not since the late 1980s, when debt-laden high fliers like Mr. Alan Bond and Mr. John Elliott sullied corporate Australia's reputation abroad, has such a brutal judgement been delivered. That it should come from stockbrokers normally expected to assist chief executives in making their sales pitches has been hard to accept. In their presentations, many of the executives were little able to disguise their shock and anger . . ."*

WHY NOT THANK THE BANKS? by David Thompson:

For sheer hubris, former Prime Minister Keating would be hard to beat. We note that the ALP went to considerable lengths to keep his name right out of the election campaign. Keating was too easily associated with economic pain and social outrage on issues like the republic and the flag.

Recent comments by the managing director of the Commonwealth Bank, Mr. David Murray, rank with the most outrageous "Keating issues". Mr. Murray, commenting on the performance of Australia's banks, said they had served Australia well, and in fact he believed that customers (and presumably also shareholders) should "send a telegram of thanks to each of the major banks".

Perhaps this gives a clue to how out of touch Mr. Murray is. Telegrams were discontinued years ago – about the time banks discontinued genuine service, and became voracious profit machines. The banks can take pride of place among the carriers of that social epidemic: economic rationalism. Together with many other big-business monopolists, the banks turned their backs on any concept of service, and certainly any suggestion of community responsibility.

Those in rural areas well remember that their branch of the Commonwealth (if it hasn't yet closed) was just as quick as the next bank to make easy money available to primary producers one year, and suddenly insist on foreclosure the next. The damage that was done by voracious banks was just as bad as that done by drought or flood.

On top of this arrogance, Mr. Murray is not the least apologetic that his bank is closing branches all over Australia, whether remote areas depend on them or not. "Banks tend to follow commerce" was his explanation. Even where the local branch remains open, it is seen as a matter of commercial judgement by the bank, which once survived on interest payments from clients. Today the interest payments remain, but are supplemented by something like 28 different charges or fees. In the world of "user pays", the users of banks pay and pay and pay . . . But that's economic rationalism – the Market is able to justify any behaviour on the basis of mathematics, not what the community needs might be.

Perhaps the greatest transgression of the banks is largely an unconscious one. In their ignorance, it is doubtful that even their leaders, like Mr. Murray, would be aware that he and his colleagues have absconded with the nation's credit. The ignorance of the true role of banks in the creation of credit is alarming. The fact that Australia's banks and their managers are quite unaware of this question, and most indignant when challenged on it, is one of the great injustices of the modern age.

While we in Australia regard the four trading banks as "Australian" banks, the truth is that this is no longer so. All the four major banks have extensive foreign interests. The truth is that these are multinational corporations, with all the social conscience of any other multinational operating in Australia – none.

We only hope that Mr. Murray isn't holding his breath for all the telegrams of thanks – particularly from rural Australia.

Recommended reading: *The Money Trick*, as an educational tool on money and banking in simple terms, is still one of the best. $6.00, or $8.00 posted. Two for $14.00 posted.

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