

THE DYNAMICS OF THE AUSTRALIAN ECONOMY, 1973

By A.C. Goode, Melbourne

(This address was given by Mr A.C. Goode, a member of the Stock Exchange of Melbourne Limited, at a meeting of the Australian Society of Security Analysts in Melbourne on 28 February 1973.)

There have been few, if any periods in the economic history of Australia which have been characterised by as many and as fundamental changes as the 10 years which commenced in 1963. These changes could be divided into various areas for convenience of examination.

1. The variations and changes in direction of world trade, as they involve Australia, as an active trading nation.
2. The widening of the range of Australian financial institutions and the growth in size and flexibility of existing financial institutions.
3. The development of a great mining industry, based on modern geological, extractive and treatment technology.
4. The growing interest of Australian industrialists and miners in the underdeveloped areas close geographically to Australia, lying roughly within an arc which commences at Djakarta and ends somewhere south-east of Bougainville.
5. Wars and conflicts of the era with a special reference to the effects of the ending of the war in Vietnam.
6. The change in the political party controlling the Government of the Commonwealth of Australia, after a period of 23 years in opposition.
7. The "internationalisation" of the Australian Stock Exchanges throughout widespread interest evinced by residents of the United Kingdom, and certain European countries and to a lesser extent in Japan.
8. After abnormal post war rigidity, a progressive loosening up of international exchange rates, with the emergence of the Australian dollar as a strong, if small, currency.
9. Continuing loss of money's purchasing power throughout the world, and its effects on Australia's thinking on the gold price and the exchange rate of the dollar.

World Trade:

From the moment when Great Britain first mooted entry into the European Economic Community, Australian businessmen commenced energetically to seek alternative markets. Their success was such that Britain now lies distinctly in third place as purchaser of Australian products and second as supplier, with the United States lying ahead.

I feel sure that this orientation of Great Britain towards Europe and away from the Commonwealth was one of the decisive forces in the background when the Liberal Commonwealth Government of the day took the decision

- (i) to lift the ban on the export of iron ore and
- (ii) to provide a special "incentive" (now sadly lagging in world terms) for Australian produced oil.

In the subsequent period Australia lost its inhibiting emotional ties which had blinded us to the reality that we were part of Asia, of the fast developing Pacific Basin and an independent nation of significance. One of the great dynamics of

the next ten years will result from Australia taking its position with Japan, as a most significant member of the Pacific Basin, with stable politics and well-developed industry and finance. The importance of Australia in this regard bears no direct relation to the size of its population.

Financial Institutions:

Financial institutions developed naturally to service and to make possible, this wider development of trade and mining; there was a change in methods of finance and in the range and character of financial institutions. As recently as the financing of the Hamersley project I think local people in banking and finance were a little startled by the concept of large scale lending against contracted cash flow - yet, what is more logical? Today we accept this and many other new and helpful forms of corporate financing as being just one of the essential services required by the Australian economic community.

The trading bankers are widening their scope of activities both directly and through the Australian Resources Development Bank; they have more closely allied themselves with the finance industry. (At a somewhat later date the Australian Industry Development Corporation was created to provide specialised financing from the Government side.) Simultaneously with this has arrived a new breed of banker, the merchant banker who has brought highly skilled financial techniques as well as providing a channel for overseas funds.

Some of this new breed were, more correctly, consortium as well as merchant bankers, that is, two or more great banks from different countries joined together to provide the widest possible services to Australia and its companies. The fact that they are providing a service for which they derive a profit does not detract from the fact that Australia is fortunate that they consider its political institutions and the soundness of its money give a basis for top credit rating, attractive to funds (and related expertise) from North American, Japanese, Continental European and the United Kingdom bankers, quite apart from that of the highly skilled indigenous institutions.

The Mining Industry:

Following the rise of activity in mining referred to earlier, there developed a widespread interest in the development of all of Australia's natural resources. During the Stock Exchange mining boom a considerable number of mining exploration companies were formed and a considerable amount of money was spent on exploration by old established miners and by newcomers. In the nature of things the majority of these companies failed to achieve anything because mining exploration is always a highly speculative field, but those who were successful, added spectacularly a new dimension to Australia's mineral industry.

Exchange Rates:

Income from minerals and the replacement of cost of imports (mainly oil) provided a revolution in Australia's balance of payments. In a year when imports were not high, the current balance of payments ran just in Australia's favour.

Of course, the popularity of Australia as an area for development involved a considerable inflow of capital, (and retention of profits earned by overseas owned companies in Australia) which obscured the meagre performance on current account. This was further augmented by funds resulting from heavy overseas borrowings by Australian companies. This continuing capital inflow gave an illusion of a "very strong" currency not only to non-Australians but to many Australians also. It could be that even

in some important areas of thinking where the statistics are very well appreciated there could be some emotional conflict between a surplus arising from capital movements, and one on current account. It is interesting to see that the other "very strong" currency (Japan) in the period 1965-70 had a 12.1 per cent growth rate compared with Australia's 5.3. In fact where adjustment is made for population the per capital relative figures are 10.9 against 3.2. It will be interesting to see the future of the Australian dollar in relation to other currencies over the next two years. A question arising is - what is the appropriate level for Australia's overseas balance? Is the same level appropriate when capital funds are tending to run towards the dollar as it is when capital funds are running from the dollar? In other words a sum of money sufficient to cover (say) three months imports looks a lot more reassuring when balances are rising towards this figure than when it is achieved as a result of steadily falling balances.

China and Vietnam:

The end of the war in Vietnam must have economic effects on Australia, with assumed economic stability returning to this and to other related areas in South-East Asia. Similarly the economic effect on Australia of the recognition of China with its vast market but relative lack of development will be very important to the Commonwealth.

Politics:

We have grown up for a full generation with some knowledge of the manner in which one particular political party deals with the Australian economy and how it handles its labour relations. We have now to find out how a new political party will deal with the economy, its labour force and its resources of capital.

Should we envisage further or less control?

Should we anticipate greater or less industrial conflict?

Should we expect lower or higher taxes or completely new taxes?

Should we anticipate a reduction in the rate of inflation or an increase?

Should we anticipate interest rates rising, falling or remaining stable?

To answer these questions accurately would give a good picture of 1973-74.

Stock Exchange:

From being a matter of purely local interest Australian securities have created considerable interest in the minds of investors in the United Kingdom, Europe and the Pacific Basin. After the stock exchange markets in Melbourne and Sydney close each day, another market opens in leading Australian securities in London. There is a greater depth in the share market than there has ever been before, and our market prices are influenced by people who are resident half a world away from where we are speaking tonight. This means that trends in the securities markets are more difficult to predict and it means also that such markets are deeper and wider, and have a greater ability to sustain the market capitalisation of companies of growing size.

Looking around the world today I see no area which is more attractive to the investment of funds than Australia - in its industry, in its mining, in its strategic position in the Pacific Basin. The dynamics to which I have referred will ensure continued favourable movement for Australia during the foreseeable

future. It could be very much greater if the new Government accepts the unequalled opportunity given to it to use further endeavour to support the growth in Australian productivity and general economic development. To do this it must first dispel as far as possible the uncertainties which are present today. Some of these uncertainties cannot be dispelled by the Government, that is, the changes occurring in world trade and in the level of activity in the great overseas economies. However, many of the uncertainties do lie within the ability of the Government. It can dispel uncertainties on tariff, on taxation, on the future of the exchange rate, on the approach to interest rates and on so many other matters which apply to industry and commerce.

No Australian would confuse the "middle of the road" political tenets of the Australian Labour Party with those of the British Socialist Party. I am sure that the new Government is aware of the significance of maintaining the incentive to individuals and industrial leaders to continue to make their important contribution to the development of Australia.

I regard the future of Australia with considerable confidence and if I were an international investor I would be looking very closely at maintaining and increasing my interest in Australia.

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THE UNIVERSITY OF NEW ENGLAND RESIDENTIAL SCHOOL 1973

By A.J. MacQuillan, Sydney

Preliminary Observations

My first thought in writing this report for readers of Jassa is what a pity Ron Peterson's courses at UNE have not received better publicity. The twenty analysts who attended between 3 and 10 February were enthusiastic if somewhat exhausted by the end of the week and yet most Society Members know very little of what goes on at Armidale these days. That our general response was favourable is all the more remarkable because a mere handful were able to cope with the first day's maths and statistics as well as the invasion of our senses by Ron Peterson.

The sole reason for the success of the school is of course his fearless and dogged approach to lecturing. His subject matter is highly controversial and is driven into his audience with the sort of energy we yearn for in all lecturers. It is impossible to nod off in the face of his onslaught despite the depredations of the previous night's meetings in the Common Room or the Bowling Club.

The curriculum these days is very different from the less demanding days of Peter Davies' eminently successful courses. Whereas the keen student of yesteryear could return to his office and Graham, Dodd and Cottlerise everyone in reach there is scarcely an item in Peterson's course which has immediate utility. What then is it all about and why should a sweaty practitioner like me be unable to refuse an editorial request to write about it?

I am conscious that arts and crafts have reached a high degree of abstraction and there seems no valid reason why this should not be permissible in our own field. The art lover who dismisses the higher abstractions in sculpture for example, is probably confessing his ignorance. Equally the analyst who closes his mind to abstractions on Risk, on the Theory of Capital Structure and other abstractions is merely stating that his art is a finite one. Some would say "dead" in the sense that Latin is a "dead" language. Nevertheless, one needs also to retain one's critical faculties lest one surrenders to the ancient religious syndrome "I cannot understand, therefore I believe".