Government economic management in Australia is at its lowest point for nearly half a century. We have the threat of inflation climbing into the range where dislocation of social and economic activities will follow. There is a real danger that business confidence will sink to the point where capital investment will be quite insufficient to service Australia's real growth potential for the coming years. Reallocation of resources will, under inflationary pressures, amount to a misallocation of resources.

The Government is showing itself to be totally incapable of responsible economic management.

I will quote from a speech made earlier this year:

"There is no question that inflation is one of the most serious problems facing Australia today and certainly is the most serious economic problem. Inflation misallocates resources, erodes savings, puts at a disadvantage the economically weak and aids speculators and those prepared to exploit ruthlessly their industrial power. It is a cancer, eroding proper balanced and rational economic development."

I now quote from another statement:

"Inflation is the major economic problem facing us today. It is robbing people by reducing the purchasing power of their savings. It is altering the distribution of income in an arbitrary and often vicious way. It is distorting resource allocation and encouraging a rush into supposedly inflation-proof real assets such as land or housing. It is anathema to all of us - and rightly so."

The similarity of the statements is striking. They were made by different people. I made the first statement six months ago in a speech to the parliament. Mr. Whitlam made the second statement only last Sunday in his press release. But with these statements the similarity ceases.

Mr. Whitlam, in his Press Conference this week, said the policy of the Reserve Bank selling bonds "was on a simultaneous, urgent, insistent advice of the Treasury and the Reserve Bank". The clear impression was given by the Governor of the Reserve Bank, Sir John Phillips, on Monday night that monetary policy was clearly going to be the Government tool against inflation and that we could expect more and harder decisions on that front.

It must have disturbed Sir John to have to say this because the expansionary budget, before that major anti-inflationary option was closed, the Reserve Bank Report was published saying - and I quote:

"There is scope for further tightening in financial conditions but the gathering strength of private demand suggests it would not be prudent and probably not sufficient to rely only on monetary policy to achieve the desired restraint."

This was the Reserve Bank's urgent advice a couple of months ago on the question of inflation. It is all the more true following the Budget, when fiscal policy is moving in the opposite direction to the objectives of monetary policy. Yet it has been totally ignored by the Government.
The Reserve Bank and the Treasury from the earliest days of Labor Government have been cautioning them about the damages of too much Government spending. The Treasury and nearly all professional advisers have been urging the need for wage restraint and have been opposing measures led by Mr. Cameron of stimulating labour costs in the public sector knowing they must spread across the board.

If the Reserve Bank and Treasury were urging severe monetary constraints it is only because political factors are preventing the Labor Party from taking proper decisions.

It is worth having a quick review of measures Labor have stated they have taken against inflation. Firstly, there was the Prices Justification Tribunal - a new bureaucracy - inadequate to do the necessary analysis and evaluation, bereft of real power, extremely limited in its scope, and based on the false assumption that you can reasonably impose limits on prices while allowing costs such as labour costs to escalate without even market constraints operating to contain them.

Secondly, there was the Prices Committee of Parliament. While pointing out its limitation we said we would co-operate but it hasn't influenced a single price. If it ever does try, the wrongful application of Government pressure or granting of privilege as is proposed would be undemocratic.

These measures of course are totally cosmetic - have nothing to do with causes of inflation and go no way towards curbing it.

There were some minor measures aimed at reducing the money supply including the calling in of higher statutory reserve deposits, a little tampering with Government Securities, and a quiet whisper to banks to be less generous in their lending.

Again, this has had little effect.

Political pressure was building up after the June Quarter C.P.I. announcement and suddenly - without the knowledge of the Government's economic advisers, the Reserve Bank and Treasury and with no proper consideration of effects on industries, we had an across the board tariff cut of 25%.

In Government we pursued a systematic industry-by-industry review of the tariff. They were too high in some areas - by no means in all. Cutting indiscriminately like this was a negation of the whole tariff system.

This was heavy surgery causing some serious problems and dislocation said to be aimed against inflation, but as we all know, the impact of the decision on prices was very marginal.

The Government was in fact attempting to give an impression of activism and concern. In reality, it was fiddling around the edges of the problem while causing serious side effects.

The public relations approach was further exemplified in the Budget.

Responsible Australians hoped the Budget would be used as part of an anti-inflationary package of politics.

Even Mr. Crean said in his Budget speech "with resources under strain we would be foolish to overload them further".

What he did was to significantly over tax resources by increasing Government spending by nearly 20%. His attempt to disguise the stimulatory effect by talking of the size of the deficit alone was exposed in my speech on the Budget and there are copies available for any of you who wish to pursue it. The Budget was expansionary and added to inflationary pressures.

Last Sunday the Prime Minister reported to the nation a 5% revaluation and the new credit squeeze that he, Mr. Crean and
Mr. Barnard had decided upon. This third revaluation in nine months will have very little effect on inflation, while causing the usual dislocations and further uncertainties.

In theory, the decision should encourage imports, but in money terms the greatest amount of imports are capital goods mainly for business and industry, and until the Government can provide leadership to restore business confidence, new investments with these imports will continue at a low level.

Most of the Ministers heard about the decision from the media. Dr. Cairns, the Minister for International Trade, was not amused when he found out in Tokyo in the middle of trade negotiations, many hours after the rest of the world knew. One would have expected he would have been participating in such a decision - not unrelated to Trade?!

The interest rates decision was unprecedented and will raise interest rates to a level we have not seen in a long time. It has certainly confused those who had made business decisions on the word of Mr. Crean that he was a "cheap money" man.

The market is confused. It does not know the benchmark or the Government's intention. From information I am receiving I suspect even the Reserve Bank does not know what it wants.

The holders of Commonwealth Bonds will find there has been a marked depreciation in the value of their holdings, they are naturally unwilling to purchase again until the current uncertainties in interest rates are settled.

Yet only by them purchasing Commonwealth Bonds available to them on the open market, or new issues from the Government, will liquidity be reduced. A great number of Commonwealth Bond holders are "locked in" to their present holdings.

On Monday Cabinet met and Mr. Whitlam merely informed Cabinet that the decision had been taken.

On Tuesday, answering questions in the House, he boasted of the troikas decision and the Government's decisiveness "I am well aware that variations in the exchange rate used to be made by Cabinet as a whole ... it is refreshing that we now have a Government which acts in a more prompt, responsible and effective fashion".

Caucus was to let him know 24 hours later, in no uncertain terms, that it had been far too prompt and much too effective - in the wrong direction.

All Mr. Crean could do was repeat his sharebroking advice: "I would say to those people who are selling those sort of shares at this low value; hang on to them because they will appreciate". If he wasn't under privilege, I wonder what the Stock Exchange Committee would have done with him.

The Caucus proposed to exempt home buyers from the higher interest rates. It was an incredibly naive suggestion. Not one of your experts here could tell me how it could work.

Confusion is even worse. The policy move, a shambles from the start, is now a crumpled heap.

Mr. Whitlam was 'rolled' to use the Canberra term but tried to save face with an amendment that the motion be referred to the Caucus Economic Committee.

In a matter of three days we have moved from three-man inner-sanctum triumvirate to a 90-man Cabinet.

We now come to the most extraordinary sequence of events in
Australian economic management history. On Wednesday morning the Prime Minister told the Caucus that he did not want a prices referendum. The Caucus "rolled" the Prime Minister once again and directed that he should have a prices referendum.

It was a very considerable defeat for him. His spokesmen were anxious to give the impression that it should not be regarded as a defeat because the Prime Minister could determine when the referendum should be held and they were putting about the idea that it was a proposition.

Over the dinner hour last night rumours started that the Prime Minister was going to make a statement. Everybody was being very coy about what it was - they wanted a tactical advantage of taking us by surprise - apparently, I felt they were just reluctant to reveal the Prime Minister's giant somersault.

Of course I have not yet seen the Bill. I would be amazed if it exists at this stage. It would not be hard to draft however because it merely adds to the list of powers in Section 51 of the Constitution the word "prices" - a simple little word but with immense power for the Commonwealth in the future. The long term capacity of a Socialist Government to achieve an upheaval of our Society and Economy would be greatly enhanced by this power.

But the excuse for acquiring it is the present critical state of inflation. A prices policy alone will not work to control inflation. Last year we had inflation as measured by the C.P.I. of 4½%. In contrast this year the rate has worsened three times by the same measurement. We will oppose the legislation to add a prices power to the Commonwealth because it will be mis-used; because it is a refusal to adopt a proper package of measures to attack this critical problem; because it reflects the domination of a sectional power interest group in the community, the trade union leaders; because the Prime Minister is not in control of the Government; because nobody can have reliance upon the capacity of the Government to discharge its responsibilities.

Inflation to us is an immediate problem requiring immediate measures. The referendum on the best view could not be held until December. Even in the unlikely event of it passing it would still not constitute the means of a proper attack on inflation. Therefore, we should follow this positive course of action which I now outline.

The Government should implement a package of appropriate measures in all relevant fields of policy.

There should be an integrated package of policies - constraints on Government spending, balanced monetary controls, and as an adjunct to demand management in the current serious circumstances, an incomes and prices policy involving a freeze on incomes and prices for 90 days. All this is feasible - all this can be done immediately by the Labor Government and a real attack on the problem can be made.

The timing of the interest rates measures is important. Investment had been slow but was showing signs of improvement; the economy had been running close to full capacity industrially for a couple of months. Now we are at the point which capital investment is about to take off - companies have to find a lot of capital for expansion. The Government's over emphasis on monetary policy with high interest rates and restricted credit makes new investment extremely difficult. The banks are tighter, new issues on the market are not likely to succeed and some companies look like going into double figures with debenture rates. New investment is essential to realise our growth potential and productivity improvement. As investment plans are
hitting the surface they are being pushed under by national economic mismanagement and changes in rules and conditions by Government interventions.

We have always maintained that there should be a proper balance between the public and the private sector. In Government we took deliberate action to preserve it. There are growing demands for increasing Government programmes but conversely there is the realisation that the public sector can be sustained only by wealth generated in a healthy strong and growing private sector.

Government action is rapidly shifting the balance to the public sector at the expense of the private sector.

Within the private sector some industries are affected more than others. The mining industry is probably the most abused by the Government and the whole industry is marking time. It is not surprising that new investment in mining has slowed down and risk exploration investment has virtually ceased. The industry must continue to make its decisions but the Government will not write down the rules and stick to them. Many millions of dollars have been lost and opportunities lost as plans and pilot projects are rejected with a change in the rules.

It is confusing to the industry also, no doubt, to see the Government urging on the industry a greater processing in Australia on the one hand while introducing a wide range of investment disincentives.

Of course we should not be surprised at this squeeze on the private sector, because whatever the rhetoric and denials a shift to the public sector is part of their socialist objective, it is part of their terms of reference.

It is happening in various forms with differing degrees of subtlety.

In the gas pipeline takeover the only explanation for that Government involvement is ideology and power. Private enterprise would do it better, and quicker and at less cost to the consumer.

I believe that the A.I.D.C. and associated funds providing tax concessions and other privileges will certainly further shift resources from the private sector. It is likely to cause a withdrawal of capital from existing areas and undermine the securities market.

Nobody knows, of course, what the stand of the new A.I.D.C. Bonds will take on the market. We don't know how much is to be raised on what yield.

It is my firm view that bureaucracies are not very good at the sort of venture envisaged for the A.I.D.C.

We believe in enterprise capital, entrepreneurial management. We would like to see more mobility of Australian companies to pursue their enterprises vigorously. We believe in the plurality of an economic system and the efficient allocation of capital resources on the securities market. It is retrograde to create a highly institutionalised, centralised, bureaucracy to absorb new capital.

Another problem of organisations such as A.I.D.C. is that they can be subjected to political pressures and thereby influenced into activities which are uneconomic and wasteful of resources.

We have seen business development frustrated by measures against foreign capital including the absurd 25% deposit provision, private company taxation measures, the investment allowance and so on. In addition, the general mood of uncertainty and the huge dislocative effects of inflation are imposing great strains on the private sector and particularly, strains in the securities
One area of great confusion which is critical, not only to the business community but to Australia as a whole, is overseas capital investment.

Australia is as great as it is; our living standards are as high as they are, only because of capital investment. We will go no way towards realising our national potential without continued significant overseas capital involvement in our development.

In Government we imposed control procedures to protect Australian companies. The rules were made clear. Overseas investors knew the rules of the game and could play if they wanted to. The machinery we implemented was interim - we did not want Treasury as the permanent controlling body over takeovers. The new Government promised a new "Secretariat" - we proposed a commission. As I understand it, nothing has been done in the last nine months to provide adequate machinery.

The 25% deposit requirement, introduced for different purposes is operating an indiscriminate investment disincentive, making funding of programmes by Australin companies, as well as foreign companies, more difficult. Its seriousness has not been so great in the short term because of our recent liquidity and low investment levels, brought about by other factors.

The confusion and alarm resulting from statements by Ministers, as well as poor overall economic management, had led to a feeling of insecurity among investors abroad. The London tip out of Australian stocks is the biggest bear point on the market. It started as soon as Labor took over; it has accelerated incredibly since the interest rates decision. Knowing that we will as far as we can see ahead, have a need for foreign capital our international investment reputation seriously worries me.

There is no question that businessmen are increasingly coming to realise the extent to which decisions taken by the Government affect them. The Government can be a competitor, it is the rule maker for business behaviour, and it sets the infrastructure and economic climate.

But the Government also has an important planning function. I use the word planning carefully because there is a great deal of confusion and emotion associated with that word.

The concept of planning I support is based on establishing objectives for the nation's development and making them as clear and specific as possible for people. At base it means deciding what sort of development, what sort of economic systems we want for Australia, and then setting down guidelines of principles within which business should operate and as a stabilising and continuing frame of reference for Government decisions. These guidelines must be flexible to adapt to changing circumstances, but unless there is this sort of forward looking direction and leadership, Governments will continue to be crisis-oriented and ad hoc and business will continue to be seriously handicapped and confused.

Most progressive businesses are committing themselves to forward plans for five years or so and strategies for 10 and 20 years. New developments are leading to lengthening investment to pay-off lead times. Businesses depend more and more on effective planning and reducing their contingencies or unknowns. The success of their operations depends more and more heavily on how well they can anticipate.

Last year the Labor Party promised to co-operate closely with business to work in full consultation. They said they would take the public into their confidence, reveal their thinking,
publish reports, Treasury and other departmental forecasts and so on. This has become a huge joke. The open Government promise, like the promise to confide and co-operate with business, has proved empty.

I am in favour of the release of Treasury and other forecasts for the assistance of business, providing the limitations of the material are understood. In fact I think the Government should provide a very much greater information service for industry.

We should attempt to assist business by foreseeing as far as possible business problems and opportunities to help better national business planning.

This is a far cry from what is happening under Labor. Never before has there been so much uncertainty, ad hocery, and confusion.

The uncertainty has been made worse by a great deal of posturing due to Labor's ideological stance, and the serious anti-business prejudice in the Party. Still entrenched is the 1940's socialist class-war assumption that business and especially large scale and international business is intrinsically bad; this is reflected in the statements of many Ministers. There is the mistrust and suspicion of business motives of doctrinaire socialists such as the four 'C's' - Cameron, Connor, Crean, and Cairns. And there is the free wheeling pragmatism of Mr. Whitlam who has no views of his own on these matters, but is controlled in his public attitudes by the Caucus.

Perhaps there is no industry less understood by Labor than yours. The Labor Party has philosophical conceptual and administrative phobias about the Stock Exchange. There seems in many quarters, to be a refusal to recognise the Stock Exchange as a reasonable and efficient means of allocating resources.

Confusion remains the dominant problem in business-Government relations. Businessmen are finding it hard to determine whether their rhetoric is meant merely to pacify trade unions and Party ideologies, or whether Governments will make hard decisions on the basis of that rhetoric.

How much will the common sense of the practical men in the public service dilute the effects of their prejudices.

Another problem for the stability and quality of Government leadership is the sources of advice to the Government.

One very important aspect of the Canberra scene now is the net of advisors cast around some Minister and filtering - usually limiting - inputs and outputs of the Minister. This is further complicated by the network of think tanks and commissions which are grafted onto the system.

I have no quarrel with the idea of think tanks, and I believe there is an important role for advisers of high quality on the personal staff of senior politicians, but all must work in cooperation not confrontation, with the public service and complement the public service advisory function.

Businessmen have found they had been denied access to a Minister and discovered it no longer useful to talk to public servants because they did not know what was in the Minister's mind, or the direction of his thinking. The same process has had a serious effect on interdepartmental co-operation on policy development. Communications have broken down not only between the Government and the people, but within Government. They have broken down vertically between Ministers and departments, and laterally between departments.
There are some Ministers who frankly do not want advice which conflicts with their ideologically based prejudice.

I wish to conclude with some political statements - two important documents from last year's campaign. They are not propaganda from my Party and they speak for themselves. The first is from Mr. Whitlam's policy speech:

"My Fellow Citizens,

Are you prepared to maintain at the head of your affairs a coalition which has lurched into crisis after crisis, embarrassment piled on embarrassment week after week? Will you accept another three years of waiting for next week's crisis, next week's blunder?"

The second is a little election pamphlet - 'It's Time - Economics':

"Within its first year of office, a Labor Government will initiate a 5-year program ... it's a statement of intention. It will mean that in Australia, as in most countries like ours, public servants and businessmen, investors and employers will all know where the Government intends to go and when.

... All this, of course, is only the outline of our economic policy. If you would like further details on a particular subject, please write to the Leader of the Australian Labor Party, Mr. E.G. Whitlam, Parliament House, Canberra, A.C.T."

Ladies and Gentlemen ... I ask you!!!

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TAKEOVER BIDS AND FINANCIAL DISCLOSURE
By R.G. Walker M.Ec., B.Com., A.C.A.,
Senior Lecturer in Accounting, University of Sydney, assisted by R.J. Hartman B.Ec.,
A.A.S.A. (prov).

The Accountancy Research Foundation, publisher of this book, was established jointly by the Australian Society of Accountants and The Institute of Chartered Accountants in Australia for the purposes of consolidating and refining accounting and auditing principles and conducting research into unresolved problems of accounting and auditing. "Takeover bids and financial disclosure" most easily falls perhaps into the area of unresolved problems of accounting and indeed Bob Walker's conclusions give some prominence to the deficiencies of the accounting process and to the diversity in accounting practices adopted by different firms.

Mr. Walker also says that the evidence suggests that there are deficiencies in the statutory and stock exchange rules governing the conduct of takeover bids and that there is evidence to suggest that the unavailability of current resale prices of assets has contributed to the inequitable treatment of some shareholders. A conclusion, he says, which could be drawn from this evidence is that information concerning the contemporary net worth of firms should be made available by all offerors.

This book is well researched and entertainingly written quoting extensively from the day to day financial press and Sydney Stock Exchange official records.

- A.J. MacQ.