Being the third speaker today might appear to give me an advantage. But all it has really served to do is to impress upon me the irregularities of a triangle, a cocked hat or a troika. And it’s no wonder to me now that the calculation of our currency parity appears to please no-one!

My first problem was to define “the market” which is responding to these changes and challenges.

I shall assume that “the market” refers to the activities and roles of the various financial intermediaries, of which of course there are many kinds. Some adopt an agency function, as brokers; some adopt the position of principals; and I have even heard tell that some naughty people sometimes do both! The banks, about which Mr. Hefron has spoken are, of course, just as much a part of the market as any other financial intermediary, as Mr. Hefron has pointed out. The same may be said of most financial institutions, though, whether you regard a life assurance company as an intermediary may be a somewhat personal matter, reflecting your own expectations.

On the basis that the challenge relates to changes in services provided by financial intermediaries, or required by their customers, it may be useful to examine what services are demanded by those customers.

The customers usually fall into two categories:— those who have money to lend or invest, and those who want to borrow money. Both parties are equally important to each other although there appears to have developed a fiction, or legend, that the lenders are the upper class and the borrowers the menial underlings. There is a tendency, therefore, to spoil the lender on the age-old basis of “to them who have, it shall be given”. Or, more simply, following the golden rule that he who has the gold makes the rules.

Apart from borrowers and lenders, there is, of course, a third category, namely those seeking salvation through mergers, takeovers or public flotation. The macro-economists might call this rationalisation, of which Australia is in for plenty over the next few years.

Others see it in terms of survival. One company chairman, when asked about a recent takeover, replied, “our survival was never in question, but this takeover will enable us to survive a little more quickly”.

One has to be careful, though, in this business of takeovers, for there are some people who are better at buying and selling companies than in running them.

Over the last twenty years, the development of the Australian money markets has brought home to many lenders the wisdom of putting cash to work, thereby completing the full spectrum of investment potential from overnight, with complete security, to long-term (sometimes infinite) equity investments through the Stock Exchanges, involving full risk and appropriate rewards — if a 6% dividend yield can ever be judged as appropriate . . . .

The lenders have sought, and have increasingly been given, five things:—

(a) higher earnings;
(b) greater liquidity for disinvestment;
(c) greater security;
(d) protection against inflation; and
(e) protection against interest rate changes.

The advent of inflation of such serious proportions as we have experienced these last few years has, I believe, accelerated the processes which were emerging in the earlier years.

Thus it is that there have developed ways and means to give the maximum earnings to an investor with the minimum of risk, i.e. the long term bond rate for a short risk-free investment. We have developed options markets in commodities, and in
shares, hedging markets in currency, roll-over options at varying interest rates and in varying currencies, an accommodation bill market based on roll-overs designed to match the changing cost of money. We have accepted the concept of real rates of interest to protect the lender from the ravages of inflation. We have accepted flat yield curves, to take the risk out of term investment. We have toyed with variable interest rate securities. In our underwriting and sub-underwriting, we consult the lenders first and place as much as we can firm before we commit to the underwriting. We have built up a pattern of lending to the larger borrowers only, forgetting the small businessman, and have then taken refuge in restrictive trust deeds.

In a word, we have sought to eliminate risk. We have sought to protect capital in a capitalist society, with the consequence that capital has become lazy and spoilt. There is, therefore, a marked shortage of risk capital in Australia, a country whose national sport is two-up, and where the weekly turnover is greatest on the T.A.B., the poker machines and the lotteries.

Only the small investor takes risks any more, and if he loses his money, or even looks like losing it, the political machine moves in to protect him. The City of London Lifeboat Operation should be a terrible warning to us all, remembering that the initiative for that was taken by the banks, not the politicians.

But, of course, risk cannot be eliminated if you are going to progress, or “give it a go”. So the risk is being passed on to the borrower, the entrepreneur, who is expected to carry the burden of inflation, variable interest rates and changing currency parities on top of all his other risks — a burden so great that one cannot be surprised if he gives it all away and does nothing. Which is largely what has been happening recently. So then there is no risk, because no one is doing anything very much.

I think it fair to ask, therefore, whether the market has played even part of its role in mobilising the capital for the right people in the right places and at the right cost to promote Australia’s balanced development.

It is equally fair, of course, to ask whether any such attempts would have had any chance of success against the range of State and Federal, often doctrinaire, discouragement to risk capital.

The whole panoply of stamp duties on issue and transfer of negotiable securities discourages the development of capital markets; the double taxation on dividends (on Australian residents only, of course) makes one amazed that any individual ever takes equity in an Australian company; the very concept of company tax, introduced originally (and not so long ago) as a tax on individuals, collected at source, is never questioned, if only to the extent of suggesting differential rates of tax on distributed or retained profits.

It is high time we seriously considered abolishing company tax except on retained profits.

We once had deductibility of risk subscriptions to mining companies but, as soon as people made money on them, the deductibility was removed.

On top of all these taxation inhibitions, the more recent increase of monetary policy controls, makes the inhibitions far greater. For now we have a managed system of interest rates and currency parities which would pretend to control our affairs for our own good, yet which tends to shuffle uncertainly in and out of the changing waves of market forces, often to outraged cries of “Speculator” at the retreating backs of those who follow the tide and not the surf.

The laws of supply and demand have been so interfered with that we do not know whether they apply any more.

All in all, the overbearing weight of State and Federal official attitudes — whether in their Treasuries, public servants or their politicians — is hostile to the proper motivation and efficiency of the sort of capital market necessary even to begin to develop Australia properly. The politicians might seek to deny this, but the practicalities of the taxation systems and the torrent of recent and pending legislation on the securities industry would belie their protests. And any suggestions of change put to public servants are all too often countered by recorded repeats of the conventional wisdom. To leave well alone.
As a consequence, our State and Federal governments turn to overseas groups and capital markets to promote Australia’s development — and then find themselves politically embarrassed when the foreigners succeed.

A few years ago, we were seriously discussing the possibility of Australia (or Sydney to be more exact) becoming a major financial centre in the Pacific, albeit in the knowledge that many State and Federal regulations would have to be swept away. It seemed a pipedream then; it is sheer fantasy today. We have retreated into the Fortress Australia, under protection, accepting a capital market which works hesitantly in two dimensions while everywhere else they work in three.

A market will experiment and innovate to the extremities of its environment, and that is what the Australian capital market has done over the last twenty years. It has done, in my view, an extremely good job in innovation and in upgrading its professionalism.

But its development has been diverted and circumscribed by community attitudes, expressed by institutions, public servants and politicians alike, that the risks and rewards essential to promote the development of Australia through our own capital resources, are socially undesirable and unacceptable.

For myself, I do not accept that. I think such economic inertia is foreign to the Australian character.

In any market situation, there are those who make markets and those who trade in them. The market makers are the ones who command my respect, for they move ahead of the field and take the greater risk. You will remember — when the millionaire-dumb-blond-actress was asked by a reporter why she did not read more newspapers and study current affairs, she replied that “some people make the news; others just read about it”!

The facts of the situation in Australia are that there are too few market-makers. We leave it to governments and public servants to make markets by controlling a host of variables, in the fond belief that governments are omniscient and omnipotent. And then we work our ways in a decreasing area of manoeuvre, under the illusion that inertia is stability, that protection is profitable and that risk elimination is efficiency.

The price we are already paying is high and will get higher as others see us as we are not prepared to see ourselves. The initiative, capital and pressure for Australia’s development is therefore coming from external sources.

I am often asked whether there is sufficient capital in Australia to finance its development. To which I reply that money is only a lien on someone else’s labour, and that there is more than sufficient capital in Australia to finance the workforce here, but the capital must be motivated and removed from its protective shroud. Only to the extent that our own workforce is insufficient to cope with the manufacture, the technology and the establishment of productive enterprise is it necessary to resort to overseas capital.

The challenge is quite clear, as to what part we wish to play in our own destiny. At the present time, we are giving it away by default. The fault, dear Brutus, is not in our seven governments, but in ourselves, that we accept the situation so meekly.