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A TALE OF AUSTRALIAN MONETARISM

OR

HOW THE BOOM BOOMERANGED ...

(A Precis of "Rise of the pork-belly crap-shooters" By Fay and Knightley 19/1/1986)

Sometimes the forester is too near the trees to see the wood and the rancher too near the sheep to see the shearing.

Thus it is instructive to read the tale of last year's catastrophic collapse of the Australian currency from a vantage point half a world away.

In a recent series in London's Sunday Observer two financial journalists covered the sad saga of the Australian dollar from its apparent strength in January 1985 trading at 82.78 cents to the American dollar to its decline by 20th February to below 70 cents. As Stephen Fay and Philip Knightley report:-

"The Australian dollar bottomed out that day and by the end of February it had recovered to 71.40 cents. But the impact had been staggering.

Australia was an innocent in the world of currency speculation. Most of Australia's top 40 companies lost money in the collapse. Some, like CSR, Tancred and the Electricity Commission of Victoria confessed their losses. Others spoke of them only in whispers. " \*

But far worse was to come, for as Fay and Knightley rightly remarked, Bob Hawke did not cause the slide of the Australian dollar. He was blamed for conceding to the Left over MX missile testing in the South Pacific. His only crime was to brag about his financial balancing act after an unconvincing election victory and draw the attention of the International money speculators to his plight. It needed only a critical financial editorial (in Financial Review) damning the trade deficit for panic to set in. On April 22 the dollar reached a new low:- 62.90 cents to the US \$. Gone was the dream of parity. Never bright confident morning again!

Poor Bob Hawke made the humiliating ritual obeisance to the money market speculators and the IMF vultures. Belying his name he was more dove than hawk. All to no use.

"The Australian Labour Party promised spending cuts and publicly denied it was a creature of the trade union movement. But the Prime Minister still failed to understand what was happening to the Australian Dollar. He spoke to his advisers as though he were the victim of a conspiracy.

'Why are they doing this to us?', he grumbled." \*

By dint of hard slog the dollar slowly climbed back to over 70 cents, but for how long was the worry. Those made to pay the cost were Australians who found their imports had soared in cost and those who found they had less to spend when traveling abroad, and who won?

"Those who gained were the speculators. Big speculators made fortunes. \* Who were they? The big banks- Commonwealth Westpak, A.L.I."

\* Sunday Observer 19/1/1986

Is this just an Australian nightmare? By no means. Great Britain was "raided" from October 1984 until January 1985 losing over 40 pence against the dollar. Italy in one day Black Friday 19th July 1985 was clobbered for 20% of the value of the lira. The Italian Prime Minister was to call it "monetary terrorism". Why is this happening?