



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



**HOUSE OF REPRESENTATIVES**

**ADJOURNMENT**

**Economy: Australian Dollar**

**SPEECH**

**Tuesday, 31 October 2000**

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

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## SPEECH

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**Questioner**  
**Speaker** Cox, David, MP

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**Mr COX** (Kingston) (10.30 pm)—The *Australian Financial Review* carried an interview with the Treasurer this morning. The questions went to some substantial issues, including exchange rates. The Treasurer's answers contained hype and evasion but little substance. The Treasurer said:

I have a policy of never commenting on the level of the Australian dollar.

For him to do so would be difficult as it would involve his admitting there is a serious problem. Australia's international accounts reveal a picture that is far from reassuring about his economic management. The US-Australian dollar exchange rate has been below 60c for much of this year. The Treasurer may recall that it was also below 60c for a period during 1998. The only other time it has recorded a period below 60c was during the currency crisis of 1986. Peter Walsh wrote in his autobiography:

Finally it bottomed at 57.2 US cents and only then because the Reserve Bank intervened heavily.

That was on the morning of Monday, 28 July 1986. The difference between then and now is that in 1986 the government recognised that a dollar below 60c required a policy response. The public recognition that the government gave the problem then contributed to the fall, but it also provided the basis for public acceptance of policy action.

Transparency is essential in managing an open economy. It requires frankness about the state of the economy and the appropriate stance of monetary and fiscal policy. If the government wants a positive market response to a policy adjustment, the signals must be clear. If policy makers hide or dissemble about major problems, they cannot expect the public or markets to understand or support their policy actions. If they camouflage those actions because they fear that frankness would be an admission that there are problems, they cannot expect the market to respond to their policy changes as directly as would be the case with a clear set of signals. If policy actions are camouflaged because they involve political pain, a heavier policy response and greater pain will be required to achieve the intended outcome than if there had been no dissemblance or camouflage.

Under this Treasurer, the dollar has fallen today to a new historic low of US\$1.1c. This situation has been going on for some time but, from the Treasurer's public utterances, he is either in a state of denial or he believes he can afford to ignore it and eventually it will correct itself without doing major damage. I do not expect him to run a daily commentary on the Australian dollar's movements, but I would expect a responsible Treasurer to be talking about the fundamentals underlying the value of the dollar and taking appropriate action. Either he does not understand the connection between the fundamentals and the dollar, or he knows that to recognise the problem would contradict the political line he has spun about the brilliance of his economic management. Even more frightening is the possibility that he actually believes he is brilliant and has the economy under control.

Here are the fundamentals he should have been concentrating on for the last two years. First and foremost, the current account deficit has been too high—running at six per cent of GDP for a period and at 5.3 per cent for the year to June 2000. That is unsustainable. It compares with a current account deficit of 4.7 per cent in March 1996. That was uncomfortably high, but it was heading down into the sustainable threes the following year, mainly as a result of policy action taken in 1995 by Labor. Largely as a result of the Treasurer's neglect of the current account deficit, net foreign debt has grown from \$193 billion in March 1996 to \$268 billion in June 2000. It was 38.7 per cent of GDP then, and it is now 42.4 per cent. So Australia is not growing its way out of that problem.

With a US\$1.1c dollar, the Treasurer should contemplate the fact that the bigger the country's foreign debt and the lower the dollar the more expensive it becomes to service. The Treasurer waxed eloquent today about a seasonally adjusted surplus of \$677 million on the balance of trade in goods and services. However, the ABS attributes \$1.4 billion of that to a one-off effect from the Olympics. Without it there would have been a deficit of around \$700 million. Even with the one-off Olympic boost, the deficit on the balance of trade has been \$11.1 billion over the last year. That compares with a deficit of less than \$5 billion for the last 12 months Labor was

in office. These are some of the major reasons why the Aussie dollar, which was US77.93c when Ralph Willis was Treasurer, is now languishing at a historic low of US51.1c.