Sharemarket "madness" boosts Australia's wealthy

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"Up, up and away." That was last year's celebratory headline on the *Business Review Weekly's* Rich 200 List of Australia's wealthiest individuals and families. And why not? Their combined wealth had leapt 17.5 percent in 12 months.

This year, however, the note is a little more cautious, even though the fortunes grew even faster—by just under 20 percent. "Fast money in a changing world," is the 1999 headline. One of the articles in the business magazine's coverage begins by asking: "Has the market gone mad?" The answer the *BRW* gives is: "Most certainly yes".

"Wealth on the *Rich 200* has rocketed nearly 20 percent to $57.09 billion in 12 months," it states. "How? Because sharemarket fortunes that were barely on the radar screen a year ago, mostly in telecommunications, information services and travel services, have exploded into full view."

The magazine's concern is that this hothouse climate cannot last. The wealth concentrated in the hands of the elite 200 is growing at a staggering pace. Their combined holdings have mushroomed by 60 percent in just three years, or eight-fold since 1983.

A slightly wider layer, the top 1 percent of income earners, now controls 15.4 percent of the nation's private wealth, up from 12.2 percent since 1993.

Moreover, there is a burgeoning secondary stratum of millionaires. Since 1993 their numbers have grown from 71,700 to 208,000. Their share of the wealth has doubled—from 11.1 percent to 23 percent. In just six years, the total wealth of millionaires has risen by $288 billion.

The *BRW* is exhibiting some nervousness because these riches are almost entirely dependent on the extraordinary rise and rise of the share market.

Take, for example, Kerry Packer, whom the *BRW* classifies as Australia's richest man (only because Rupert Murdoch, who is worth $A8.6 billion, is no longer an Australian citizen). Over the past year Packer's assets have jumped $1.2 billion to $6.4 billion, an average of $3.29 million a day. Yet this is almost entirely due to the rise in share price for his listed company, Publishing & Broadcasting Limited. PBL shares have soared as part of a feeding frenzy involving media and Internet stocks.

A similar picture emerges for most of the other billionaires. The Smorgon family, which originally made its money in meat processing, saw its worth go from $1 billion to $1.8 billion in 12 months through the stockmarket float of a steel company. The newest billionaire, retailing entrepreneur Gerry Harvey, almost doubled his wealth—from $560 million to $1 billion—because of a run on shares in his Harvey Norman chain. (Nevertheless Harvey claims that he is simply a workaholic who accumulated his fortune by being personally mean and miserly.)

This pattern is even more pronounced among those holding the "fast money" that has burst on the corporate scene. On this year's *Rich 200* list there are 16 new fortunes and three entrants returning from previous crashes, with an amazing combined worth of $2.8 billion. Of these people, 13 are regarded as "paper millionaires". Their wealth is purely the result of the scramble for Internet and telecommunications stock.

They are personified by the aptly named Jodie Rich. Aged just 39, Rich splashed his way back into the *Rich 200* by suddenly expanding his worth to $775 million, largely through a single transaction—the $709 million sale to the Murdoch and Packer families of 40 percent of one of the country's few profitable telecommunications companies, One.Tel.

Rich last featured on the rich list in the late 1980s and early 1990s, before his previous corporate vehicle, a computer distribution company Imagineering, ran into debt problems. The son of a wealthy Bellevue Hill (Sydney) family, and graduate of the exclusive Cranbrook School, he was a sharemarket hero in 1986 when, at 26, he became the youngest ever member of the *Rich 200*. This time around, he is said to be less flamboyant and extravagant, but the foundations of his fortune may not be any more sound.

Rich is just one of many high-flying young operators who have become overnight multi-millionaires from technology-based companies that did not even exist a decade ago.

Among the others are Malcolm Turnbull, a former lawyer and protégé of Kerry Packer, who made his debut onto the *Rich 200* list this year by offloading his share of Ozemail, an Internet service provider for nearly $60 million.

Much of the rest of the increase in private wealth came from property speculation, particularly in Sydney, where house prices at the top of the market have nearly doubled in five years.

Most of this wealth accumulation is parasitic—that is, it is not derived from actual production. Another parasitic enterprise, gambling, also features heavily in this year's *Rich 200*. One of the top 10 is Len Ainsworth, whose assets doubled to $660 million because of rising shares in his family's poker machine making business, Aristocrat.

Ainsworth is not alone. Kerry Packer recently took a $1.7-billion controlling interest in the country's largest casino, Crown of Melbourne. In doing so, he boosted the flagging fortunes of two other gambling magnates, Ron Walker, now worth $150 million, and Lloyd Williams, now worth $170 million. Another prominent gaming millionaire is Bruce Mathieson, who has a stake in 25 hotels and controls 850 poker machines, which are thought to generate revenue of $13 million a year. Mathieson is worth $75 million.

The imbalance that this “new money” has produced in the economy can be seen in the ever-greater concentration of wealth in Sydney, which is now the unchallenged financial centre of Australian capitalism. Half of the aggregate wealth of the *Rich 200* is based in the state of New South Wales, whose capital is Sydney, one-third is in Victoria (Melbourne), with only 9 percent in Western Australia, 4.5 percent in Queensland, 1.7 percent in South Australia, 0.49 percent in the Northern Territory and 0.32 percent in Tasmania.

The economic distortions produced by the share bubble in Australia are dwarfed by those fuelled by Wall Street. Whereas Australian shares have trebled in price since 1983, international share prices have risen nine-fold, largely driven by the US market. *BRW* notes that the Australian market is “sedate” compared to the internet stock frenzy on Wall Street, where Microsoft chief Bill Gates (worth $US 90 billion) took just 12 years to become a billionaire, only to be outstripped by America's latest billionaire, Garry Winnick (now worth $US4.5 billion), who required a mere 18 months.

In order to not fall further behind, Australia's wealthy have had to increasingly invest and seek capital on Wall Street, thus tying their fortunes to the even more dizzy and unsustainable heights reached by that market.

There is an ever-more apparent disparity between the over-heated Internet and technology stocks and the rest of the economy. While share prices in these spheres have risen astronomically on the Australian market, those in mining, agriculture and manufacturing—long the mainstays of Australian business— have largely stagnated or declined.

Moreover, the latest survey of business investment plans shows that the outlook has slumped to a 15-year low. In the financial year 1999-2000, corporate investment could fall by 10 percent. Mining companies are expected to slash investment by 42 percent, manufacturers by 17 percent and other industries by 13 percent. Such falls will mean further cuts in output, employment and living standards.

Not only does this gap throw further doubt on the long-term viability of the share boom, it also points to the social gulf that increasingly exists between the privileged layers that have enriched themselves by riding the share market and the rest of society.

While a wealthy few have seized control of new technologies and profited enormously from the associated processes of globalisation, privatisation and corporate downsizing, the results for most people have been job losses, insecure low-paid work and poverty. In the same year that the *Rich 200* added 20 percent to their fortunes, homelessness increased by 12 percent nationally, including many working families.

Some within the political establishment are warning of social unrest. The *BRW* reports some troubled comments by opinion pollster Hugh Mackay. “Wealth has become a symbol of a very significant and regrettable fragmentation of Australian society,” he said. “The rich now live in an economic stratosphere that causes people earning less than, say, $100,000 a year to look aghast and say ‘There is no conceivable bridge between their world and ours'.”

In fact, as Mackay later acknowledges, most people earn far less than $100,000. Three-quarters of the population earn less than $70,000 and almost one-third of households have incomes of less than $20,000. Mackay described the latter statistic as “chilling”.