Australian dollar in sharp decline

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The sharp drop in the value of the Australian dollar in currency markets last week has revealed a certain nervousness in financial circles that the “miracle” which has seen Australian economic growth rates matching those in the United States may be coming to a close.

Last Thursday, the dollar hit a 17-month low of just over 60 cents US, down by as much as 10 percent from the levels of mid-January. While there was a small recovery on Friday when figures for the current account deficit were better than expected, there are fears that stormy times may be ahead, especially if interest rates rise in the US.

Besides these conjunctural factors—low commodity prices, the balance of payments gap and interest rates—the view is also being advanced that the decline in the dollar's value is an expression of deeper processes, bound up with the changes associated with new technologies and the Internet. These concerns are summed up in the claim that Australia is being increasingly viewed by international markets as an “old economy,” based on the export of raw materials and minerals, and does not have the new technology-based industries necessary to attract international capital.

The movement of Australian share markets is fueling the assertions of an “old economy/new economy” split. Last week the All Ordinaries Index hit an all-time high for three days in a row, even as the dollar declined.

But closer examination of the booming market revealed the same phenomenon which has been seen internationally—the growing divergence between a handful of technology-based and communications stocks and the broader market.

As the market hit new peaks, some 40 of the 50 so-called market leaders recorded a share price decline, with the big rises being limited to Rupert Murdoch's News Corp and the telecom firm, Telstra. In the broader market, the 10 most widely-held stocks have fallen 10 percent this year, wiping off some $20 billion from their market capitalisation, and are down 20 percent from their highs of last year.

However News Corp has increased its value by $43 billion in the past two months alone and in the past year its capitalisation has gone from $36 billion to $100 billion.

The falling dollar has also provoked press comment about the future direction of the Howard government's policies. In an editorial on March 4, the *Australian Financial Review* called for the maintenance of a “balanced budget” in the face of the weak dollar warning that with interest rates expected to rise in America “the prospect of a widening differential between Australian and US interest rates is haunting the market.”

This fear, it continued, seemed to be having a disproportionate effect on market sentiment as Australia, “regarded until recently as an economic miracle, is increasingly dismissed as an old (that is non-IT) economy.”

The editorial also noted “lingering concerns” in international financial markets about the size of the US current account deficit, adding that if “international markets suddenly were to become more nervous about the US deficit, they would be made even more nervous about ours, which, as a proportion of GDP, is bigger.”

While the *AFR* kept its comments confined to calls for a tight hand on the budget, the *Australian* newspaper, flagship of the Murdoch group, used the occasion of the dollar's plunge to launch another stinging attack on the Howard government.

Last month, a major article by the paper's international editor Paul Kelly labeled the government as a “national disgrace,” declaring Howard to be the most populist and poll-driven prime minister in 50 years, unable to meet the new policy challenges posed by economic globalisation.

In an editorial last Friday, the *Australian* resumed the offensive, declaring that the sudden weakness of the dollar was a “wake-up call that should ring across the land, but sound loudest in Canberra. The fall in the dollar was a sign that Australia was not regarded as part of the ‘new economy'.” The currency was “still seen as a commodity currency, reflecting our traditional reliance on mining and agricultural exports.”

Recalling the dollar crisis of the mid-1980s, which was the signal by international money markets to the Hawke-Keating Labor government to initiate tariff cuts and sharp reductions in government spending, the editorial said the dollar slide contained a new lesson for the start of the 21st century.

“This is that Australia and its political leadership have to embrace more enthusiastically the rapid change of the global new economy.”

It castigated the Howard government for “lock[ing] competition and innovation out of the digital television industry”—a reference to the government's decision to restrict the broadcasting of digital services, to the detriment of the Murdoch group—for holding a lacklustre “innovation summit” which achieved nothing, and for becoming embroiled in controversy over the decision to pay entitlements to workers at the failed National Textiles company.

“It is no wonder then,” the editorial continued, “that there is no coherent policy for placing Australia at the forefront of the new economies when the Prime Minister adopts such an inward-looking and averse attitude to governing. The compelling case for change, innovation and reward sits uneasily with Mr Howard's preference for a ‘balanced' pace of economic reform and a message that we can be ‘comfortable.'”

In addition to the particular gripes of the Murdoch organisation over digital television, the *Australian* editorial reflects wider concerns in ruling circles that the Howard government is falling well short of meeting the new tasks imposed by the changes in the global economy and that a political reorganisation needs to be effected to fashion a government more in tune with the needs of international finance.

As in the mid-1980s, a major currency crisis could be the catalyst for such a reorganisation. And as took place then, it would see deep-going attacks on jobs and living standards in the form of cuts to government spending in health, education and social services.