Australian dollar plunge an expression of global tendencies

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Last week's fall by the Australian dollar to a new record low of 47.75 cents against the US dollar has prompted further warnings in business and financial circles that Australia is “off the screen” as far as international investors and financial markets are concerned.

The official line from the government and Australian financial authorities is that the “fundamentals” of the economy are sound, and that the fall in the dollar is largely a result of the strength of the US currency. But these explanations are starting to wear thin.

One indication of the growing concern was the suggestion by the head of the Australian Stock Exchange, Maurice Newman, that there should be a national debate on whether Australia should adopt the US dollar as its national currency. While the Howard Liberal government quickly scotched the “dollarisation” proposal, Newman said government and business should approach the issue with an open mind. If Australia were part of a larger currency bloc “you would be less subject to speculative raids on your currency,” he declared.

By any measure, the fall in the Australian currency has been precipitous. Less than five years ago, for example, in late 1996, the $A was at US82 cents and stood at 60 index points on the trade weighted index. (The TWI measures the dollar's value against a basket of currencies, according to the proportions in which they figure in Australia's international trade.)

Since January 2000, the Australian dollar has fallen 28 percent against the US dollar and 20 percent on a trade-weighted basis—putting paid to the claim that the fall is simply a result of the surging greenback.

According to a comment published in the *Australian Financial Review* on April 3: “The $A's capitulation is a function of the lack of interest in Australia, including the stock market, the bond market and the absence of direct investment opportunities.”

It pointed out that although the stock market has maintained its Australian dollar value in the recent period, when currency changes are taken into account an international investor would have lost more by investing in Australia than in the US, where markets have fallen sharply.

“Investors want nothing to do with Australia. In the words of a senior dealer with a local bank, when the low inflation, low public debt, solid growth story is told to offshore investors, ‘they couldn't give a stuff'.”

While the dollar has “recovered” slightly since the record lows of last week, it is still under US50 cents and a renewed slide could take place at any time. The *AFR* noted that one Hong Kong Fund had a target level of US40 cents, while a local bank saw the Australian currency going as low as US37 cents but could not go on the record “for fear of talking the Australian economy down.”

The financial authorities seem to have no clear idea as to why the currency has continued to fall, much less what to do about it. Last November the governor of the Reserve Bank of Australia, Ian Macfarlane, admitted that the exchange rate was acting in a way that no one had predicted. Since then he has offered no explanation for the currency's continued slide, merely repeating that it is “undervalued.”

But while official government and financial sources insist that the fall of the dollar is inexplicable, there are clear indications that it reflects concerns by global capital that Australia does not provide sufficient profit opportunities. The view in these circles is that much firmer government action will be needed on so-called “reform” of the labour market and welfare system, as well as the provision of greater opportunities in the high-tech “new economy,” before capital inflow increases.

In its annual report on the Australian economy released last month, the International Monetary Fund noted that the current account deficit had remained at around 4.5 percent of gross domestic product throughout the 1990s and that "net external liabilities remain relatively high at over 60 percent of GDP." Both these factors tend to induce a fall in the dollar's value.

But the IMF pointed to other issues as well. The weakness of the exchange rate, it said, "raised questions about Australia's long-term growth potential" and "particularly whether it is well positioned to take full advantage of the 'new economy.'"

Political factors could also be playing a part. According to the report, IMF staff "raised the concern that pressures in a pre-election period could imply large new spending initiatives which could erode the fiscal surplus, and reiterated the need for fiscal policy to be focused on underpinning investor confidence in light of Australia's still large external imbalances."

Turning to policy prescriptions, the report called for the introduction of legislation to "reduce impediments to labour market flexibility from the current restrictive dismissal laws."

The IMF also wants further action to force people currently receiving welfare payments back into the workforce and for basic changes to be made to the pension system. The report noted that while time would be needed to achieve "reform objectives in full, the staff would caution against an excessively 'softly, softly' approach. Key to balancing the various, potentially conflicting objectives is to take early action to delink pension and disability payments from wage growth, while substantially increasing participation requirements for welfare recipients."

While not saying so explicitly, the IMF clearly shares the views of international financial markets that Australia will continue to be by-passed unless the Howard government initiates a more deep-going attack on working conditions and social welfare provisions than it has undertaken so far.

Apart from the immediate demands of global capital, the Australian dollar's decline is also illustrative of wider tendencies in the world economy as a whole, in particular the disconnection of finance from immediate trade or investment. This separation is revealed in the exponential growth of foreign exchange transactions over the past quarter of a century.

In 1973, global daily foreign exchange transactions amounted to between $10 billion and $20 billion, with the ratio of foreign exchange trading to world trade less than 2:1. By 1980, however, daily foreign exchange trading had reached $80 billion, with a ratio to world trade of 10:1. By 1992, daily foreign exchange transactions were $880 billion, with a ratio to world trade of 50:1. By 1995 the figure was $1.26 trillion and a ratio of 80:1. Today, around $1.5 trillion surges through international markets.

The Australian dollar, the sixth most traded currency in the world, is particularly vulnerable to rapid movements of finance. And, as these figures indicate, such movements are increasingly unrelated to trade and investment transactions, but arise from the attempt to accumulate profits through currency speculation.

The growth of this speculation is, in turn, one expression of a fundamental contradiction within the global capitalist system, arising from the over-accumulation of capital relative to the availability of profits.

As an article in the April 6 edition of *BusinessWeek* noted, there is a certain logic uniting the international crises of recent years—from the Asian crisis in 1997-98, to the current downturn in the United States.

"Too much global capital seeking high returns is chasing too few good worldwide investment opportunities. The underlying imbalance between capital supply and investment opportunity means dangerous shifts in the global economic fundamentals are bound to happen."

And the reason profitable investment opportunities have declined is not because of the lack of productivity, but precisely the reverse: it is the increase in productive capacity in all major industries that has exercised a downward pressure on profit rates.

Placed within this context, the plunge of the Australian dollar has a broader significance. It is a particular expression of profound contradictions within the global capitalist economy as a whole.