Digging Deeper into National Debt: Australian Governments' Foreign Borrowings

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In the past two years, the Australian Federal Government has become a major borrower on the international capital markets. To a large extent, this borrowing has been designed to supplement Australia's foreign exchange reserves, which have been starting to run down for some time now due to a deteriorating balance of payments situation. The borrowing by the Federal Government is not earmarked for investment in 'productive' projects of a long term developmental nature. On the other hand, the State Governments are beginning to embark on a series of major international borrowing programs, mainly for infra-structural projects, such as power stations, coal loaders and port facilities, most of which will be of substantial benefit to private corporations, particularly transnational mining corporations. The result of both sets of borrowing programs will inevitably be to further integrate Australia into the world capitalist system and the international division of labour, and will be paid for by Australian workers and taxpayers.

EXTENT AND TYPE OF BORROWING

The Australian Federal Government's total outstanding debt at the end of March 1979 amounted to more than $4,700 million, or over $340 for every person in Australia. Table I indicates the extent and type of borrowing since September 1977.

Table I: Australian Federal Government Overseas Borrowing, 1977-79

Date	Currency (millions)	$A equivalent (millions)	Interest Rate (percent)	Maturity Rate
Sept 1977	$US250	227	7.5, 8.25	1984, 1992
	DM 750	291	5.5 6.0	1983, 1985
Oct 1977	DM 500	187	5.25, 5.75	1982, 1989
Nov 1977	$US225	200	8.25, 8.875	1984, 1997
Feb 1978	Yen 50,000	184	6.6	1990
Mar 1978	$US350	306	8.0	1982
Apr 1978	Sfrs 50	23	3.75	
May 1978	$US250	220	8.45, 9.125	1983, 1993
	Dgldrs 300	117	7.652	1988
July 1978	Sfrs 400	195	4.0	1986
Aug 1978	Dgldrs 300	120	8.25	1993
Sept 1978	DM 300	122	6.0, 6.5	1988, 1986
Oct 1978	Yen 80,000	374	7.1, 7.6	1988, 1998
Nov 1978	Yen 50,000	227	5.6, 6.5	1983, 1988
Jan 1979	Dgldrs 300	132	9.25	1989
Feb 1979	Sfrs 500	264	3.25, 3.125	1984, 1986
Mar 1979	Sfrs 250	133	3.625	1989

Sources: Treasury Press Releases

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As can be clearly seen, the Australian Government has been borrowing in a variety of currencies, which, with the exception of the US dollar, have all been rising rapidly in value in relation to the Australian dollar. This will necessitate higher payments in the future when the loans and bond issues mature. Some of the money has been raised as loans from the large international banks, e.g. the 300 million Dutch guilder loan from the Algemene Bank Nederland in August 1978; some has come from public bond issues in the domestic capital markets of the larger countries, e.g. the 50,000 million yen issue in the Tokyo market in November 1978 (which represented the largest amount raised by a foreign government in the Tokyo market through a public bond issue); some has been raised as private placements through selected banks in the domestic capital markets of the larger countries, e.g. the 250 million Swiss Franc issue in February 1979, arranged by the large Swiss bank, Credit Suisse; and some has been raised as Eurodollar bond issues, the source of the funds coming not from the domestic capital markets but from the offshore international foreign currency markets, e.g. the $US250 million bond issue in September 1977, arranged by the Deutsche Bank from Germany.

Further, it is obvious from Table I that a large proportion of this borrowed money must be repaid, with interest, during the 1980s. As the Bank of New South Wales noted:

> The period of heaviest burden of capital repayment when debts mature starts in 1981/82 and does not ease until 1987/88 ... If in three or four years hence Australia were still in the position of being a net borrower overseas, over and above its requirements to roll over borrowings, it could indeed be building up intractable problems on the external account.[1]

One of the major problems facing many underdeveloped countries is the burden on their balance of payments of debt servicing. For example, debt servicing in Peru accounted for 55% of all export revenue in 1976, while the figure for Brazil was 40% and Argentina 22%.[2] The World Bank has estimated that for the underdeveloped countries as a group, the debt service ratio averaged about 10% over the period 1970-76.[3] Of course, the situation in Australia is nowhere near as bad, but there is no doubt that the potential exists for a further deterioration in Australia's balance of payments position. In the next decade, given the present level of borrowing, Australia will be obliged to pay over $2,300 million in interest, at an average of over $250 million a year. The Bank of N.S.W. has estimated that the peak year will be 1979-80, when interest payments will amount to $344 million, which represents about 3% of exports.

WHY ARE WE BORROWING THIS MONEY?

The money is being borrowed by the Federal Government essentially to prop up the balance of payments, to prevent a severe rundown in the size of Australia's international reserves and a devaluation of the dollar. At the end of December 1977, Australia's international reserves stood at $2,879 million, but by April 1979 they had risen to $3,677 million.[4] Hence, even after borrowing over $4,000 million in foreign currencies, all of the proceeds have gone and the official reserves have only risen by $800 million. As the situation stands now, the reserves are only sufficient to pay for about three months worth of imports, whereas in the late 1950s, they were large enough to cover at least six months of imports.

The question that must be asked then is why the balance of payments is continuing to deteriorate? One main reason has been a substantial cutback in private capital inflows into Australia. In the late 1960s and early 1970s, private capital inflows by foreign investors were substantial, and served to bolster Australia's international reserves and counter the imbalance between imports and exports. But with the onset of the worldwide recession in the mid-1970s, capital inflow was substantially reduced, and that investment which has continued to come in is increasingly not for productive purposes; rather, the category in the official statistics of "Portfolio Investment and Institutional Loans", which includes money used to buy shares in Australian companies, has increased in relative importance.

Related to the reduced inflow of new investment has been the increased outflow of profit and dividends by foreign companies in Australia. Outside of Canada, Australia is probably the developed country most penetrated by foreign, or transnational corporations (TNCs), with over 34% of manufacturing, 59% of mining and 34% of financial corporations controlled by foreign companies.[5] With such a high degree of foreign control, and previously high levels of foreign investment, outflows of profits and dividends are likely to be substantial, particularly when it becomes less profitable for these companies to invest in Australia. There has clearly been a marked increase in such outflows since the beginning of the 1970s: income payable overseas in 1977-78 totalled $1,170 million, which is double the figure for 1967-68.[6] And in certain industries, it has been rising very rapidly. For example, in the period 1964-76, the total inflow of direct investment into the mining industry was $1,540 million, while the income payable overseas amounted to $1,350 million for the same period. However, the outflows have consistently risen, and at a much faster rate than the inflows, particularly since the early 1970s.[7]

A third factor, closely related to the worldwide economic crisis, has been the slowing down in the rate of growth of Australia's exports and increased imports, resulting in a worsening <u>balance of trade</u> (that is, the difference between the value of exports and imports). Australia's major exports are primary products, minerals (coal, iron ore and bauxite/alumina) and agricultural/pastoral products (wool, wheat and beef). The recession in the developed capitalist countries, particularly Japan, has meant shrinking markets for Australian products. Since Japan takes over 50% of Australian mineral exports, including 75% of black coal and iron ore, the downturn in the Japanese economy has meant both cutbacks in orders and demands for reduced prices of Australian exports. Despite attempts by the Minister for Trade and Resources to institute price and production guidelines for Australian minerals producers, competition between the Australian producers (for example, between the low-cost open cut black coal producers, such as the Utah Development Company, and the higher-cost underground producers in N.S.W.) and concerted pressure by the organised Japanese buyers have resulted in some price reductions. The overall result of reduced demand and enforced price cuts has been to reverse the position of the early 1970s when export revenues were rapidly increasing and substantial trade surpluses were adding to Australia's international reserves.

The fourth factor relates to the increasing <u>invisible debits</u>. These include freight and insurance charges on imports, other transportation costs incurred in the use of foreign shipping, aircraft etc., travel expenditures by Australians overseas, investment income payable overseas by foreign companies in Australia, and payments for royalties and copyrights. Apart from investment income payable overseas, which has been dealt with above, the main component of the invisible debits are freight and transportation charges on imported goods. The total invisible debits in 1977-78 amounted to $5,971 million, of which over $2,000 million was for transportation charges. The figure for net invisibles, that is, the difference between invisible credits and debits, was $3,321 million.[8] The category of invisibles in the balance of payments has been consistently negative for many years, and continues to represent a very large drain on the foreign reserves. It should be noted that Australia shares this problem with many of the underdeveloped countries, and its solution is a priority item in the discussion sessions of the United Nations Conference on Trade and Development (UNCTAD), a forum in which Australia plays a rather schizophrenic role because of its position as an affluent primary producing country. The reason many countries, including Australia, incur such large invisible debits is because of the concentration of the ownership of the international transportation industry amongst a few countries and companies, and the existence of a number of transnational insurance corporations. Australia's problem is exacerbated by the fact that many of the corporations involved in exporting are foreign corporations, which use their own ships and aircraft. As a result, not only do we suffer from the large profit and dividend outflows of foreign corporations, but we also have to pay large amounts for the transportation of the exports of these same corporations. The problem can only worsen if, as expected, Australian mineral (both processed and unprocessed) exports increase in coming years, since a considerable proportion of mineral exports are accounted for by a small number of TNCs.

To summarise, Australia's balance of payments has been deteriorating for four main reasons: reduced foreign investment inflows, increased profit and dividend outflows, reduced rate of growth of export revenue and increased imports, and increasing invisible debits.

WHERE IS THE MONEY COMING FROM?

One of the most important developments in the world economy has been the increased importance of lending by the international banks. They now account for substantial proportions of the flows of financial resources in the world economy. Because the Federal Government's borrowing has been spread across a number of currencies, a considerable number of banks have been involved in the financial arrangements. However, two very large banks have been important: the American investment bank, Morgan Stanley and Co., and the Deutsche Bank from Germany. Both have been involved in a considerable number of the foreign currency raisings of the Australian Government.

> While a variety of bankers are slogging through Australia's rugged hinterlands trying to sell loans to nascent mineral projects, the fiercest struggle has been in the public sector, where Morgan Stanley and Deutsche Bank have jousted in a microcosm of the battle between American investment banks and European universal banks.[9]

The foreign currency finance arranged by these two institutions for the Federal Government since September 1977 are listed in Table II.

There is no doubt that the large international banks are interested in lending to Australia, but as is always the case they require political stability, low rates of inflation, and security for their loans. As the bankers themselves have pointed out:

> It (Australia) seems like the answer to an international banker's prayers: a sovereign borrower rated triple-A by everyone, yet underborrowed by every measure; politically stable and financially sophisticated; blessed with vast quantities of the world's most valuable resources; and best of all, intent on borrowing large sums of money in foreign capital markets in the near future.[10]

Table II: Foreign Currency Finance Provided by Two Major Foreign Banks

	Morgan Stanley and Co		Deutsche Bank
Nov 1977	$US225 million bonds	Sept 1977	$US250 million Eurodollar bond issue
Mar 1978	$US350 million		DM 750 million loans
May 1978	$US250 million bonds	Oct 1977	DM 500 million public issue and private investments
Oct 1978	Yen 80 billion loans	Sept 1978	DM 500 million public issue and loan

Sources: Treasury Press Releases

But, as was noted above, the Federal Government's borrowing program is not directly intended for developmental projects but to support the ailing balance of payments. This is not to say, however, that the international banks are not lending to Australian companies and State Governments for such purposes. The large mining companies have been particularly active in raising finance in the international capital markets, especially through Eurodollar bond issues.

The role of the Federal Government can be seen as one of establishing the conditions for increased profitability of private capital. And this crucially relates to the whole of the Fraser Government's economic policy strategy. The main emphasis of the Government's economic policy is to reduce the rate of inflation and produce economic stability, including exchange rate stability. It is instituting policies similar to those imposed by the International Monetary Fund and the international banks on those countries which run into serious economic difficulties.

Cheryl Payer, in her book The Debt Trap, has pointed out that the main emphasis of the IMF is to reduce the rate of inflation in order to produce exchange rate stability. The policies it 'encourages' countries to follow are normally referred to as a stabilisation program, and include reductions in wages, reduced governmental expenditure, particularly on social welfare, restrictive monetary policies, and increased incentives for foreign capital.[11] These are exactly the policies being pursued by the Federal Government, without direct pressure from the IMF and the international banks. It is clearly misleading to talk of the Fraser Government as being misguided and irresponsible: it is pursuing policies consistent with its strategy of making Australia more attractive to foreign capital and further integrating Australia into a world division of labour dominated by transnational corporations. Of course, the main costs of such a strategy are borne by Australian workers, particularly in terms of reduced real money wages and reduced social wages.

If the Government finds it is becoming difficult to service past loans, then the pressure from the international institutions for further repressive policies will undoubtedly increase. In some countries, notably Argentina, Chile and Peru, governments have been forced to sell off profitable public enterprises, including telecommunications and electricity generating enterprises, to private enterprise, which inevitably leads to a further takeover of strategic areas of the economy by large corporations. The debt relationship can thus be an extraordinarily powerful factor in the further "denationalisation" of crucial sectors of the economy, particularly when it is the much weaker State Governments which are heavily indebted to the international banks.

THE ROLE OF THE STATE GOVERNMENTS

One of the most significant changes in the Australian political economy was announced following the Premiers' Conference in Canberra in November 1978. At that conference, the Federal Government accepted changes in the Loan Council guidelines which will now allow the States to borrow overseas on their own behalf, and borrowing programs amounting to over $1,800 million were approved.

The Loan Council was formally set up in 1928. It had as its basis the tenets that all of the States should have equal access to finance for their development, and that this development should result in the equalisation of the average level of income and wealth between the States.[12]

> Australia is unique among other federations because it has for a period of over fifty years coordinated the loan programmes and loan raisings of both federal government and the various States as well as the larger loan raisings of local government and semi-government authorities ... Such coordination was required to eliminate the competition by the individual States on the international, especially the British, loan market as well as on the domestic capital market, which tended to raise interest rates on these loans. It also aimed at improving the efficiency of loan raisings in general.[13]

The recent changes thus represent a distinct change in the history of Australian federalism, and can be seen to represent those forces working towards the break-up of the Australian federation, or at the very least major political strains between the various levels of government. The Fraser Government, under the banner of "new federalism", is beginning to give back to the States many of the governmental functions that have been the responsibility of the Federal Government since World War II, and there have been significant changes in the income tax system which have resulted in an increase in the independent tax power of the States.[14]

The result will inevitably be a major change in the wealth and income disparities between the States, since both Western Australia and Queensland will find it much easier, and cheaper, to borrow overseas, using as security their enormous mineral deposits. Tasmania and South Australia, with few mineral reserves and declining industrial bases, will become the poor States, with declining populations. And for both Victoria and New South Wales there will be intense competition to attract industry and employment. We have already seen the beginnings of this as the State Governments bid against each other in offering cheap power and other concessions to attract foreign capital to invest.

To a large extent, the borrowing programs announced will directly benefit large corporations, notably the mining TNCs. The programs generally involve projects such as coal loaders and power stations which are too large and too unprofitable for private capital to be involved. They are almost all designed to encourage export-oriented production.

In addition, it will be the international bankers who will benefit directly from the changes in the guidelines, and many of the States have been inundated with offers of loans.

> The Federal Government go-ahead for State borrowings overseas has signalled another onslaught on the State treasuries by the major international banks and merchant banks eager to get into the $1.8 billion loan bonanza. Over the past 18 months or so, they have already beaten a rather well-worn path to the doors of the various under-secretaries to the Treasury to express their interest in becoming involved in any possible overseas borrowings.[15]

Table III lists the projects approved by the Federal Government which the State Governments can borrow overseas to finance.

Table III: Overseas Borrowing Plans by State Governments

State	Project	Authorised Borrowing
New South Wales	Balmain-Port Kembla coal loader	$89 million
	Eraring electricity project	200
Victoria	Loy Yang power station	343
	World trade centre	56
Western Australia	Dampier-Perth gas pipeline	416
	Worsley alumina project	41
	Pilbara power supply integration	111
Queensland	Hay Point coal export facilities	75
	Tarong, Wivenhoe power stations	130
Tasmania	Hydro-electric power project	75
	Water supply projects	35
South Australia	Redcliff project	186

Source: Australian Financial Review, 7 November 1978

Prime Minister Fraser, in reply to a question in the House of Representatives, defended the changes to the guidelines:

> At earlier Premiers' Conferences the Western Australian Government had pointed out that major resource development would require a greater input by government for the future; that the world was more competitive and the market situation tougher than in the past; and that there were a number of projects that would be difficult to get off the ground unless the Government was prepared to support the basic infrastructure in a number of instances.[16]

But in the financial press recently, we have seen that Sir Roderick Carnegie, chairman of Conzinc Riotinto of Australia Ltd (CRA), which is the largest mining group in Australia, and controlled by the British giant Rio Tinto-Zinc Corporation, has rejected the idea of government handouts. It is interesting to read his comments when it has been widely reported that CRA will be the major beneficiary of the Tarong power station, which the Queensland government is borrowing millions of dollars overseas to finance, since CRA owns the large coal deposits near the proposed site.

> It is not possible for us to legitimise private enterprise and at the same time run to the skirts of government every time we have a problem ... It we are to be legitimate we must reject the Government handout, the Government bounty, the Government subsidy.[17]

CONCLUSION

The overall strategy of borrowing on the part of the Federal and State Governments can be seen as part of the efforts to further integrate Australia into the world capitalist economy. The Governments are all attempting to attract more private foreign investment, which can only lead to further foreign control of Australian industries and resources. At the same time the Federal Government is borrowing substantial sums overseas to prop up the balance of payments, which to a large extent is in such bad shape because of the existence of foreign corporations in Australia. As a corollary, it is pursuing economic policies of reducing wages and cutting government spending to attempt to reduce the rate of inflation so that foreign capital will find it more profitable to invest in Australia. And the State Governments are beginning to borrow unprecedented sums of money for infra-structural projects which will directly benefit private capital. The overall result is likely to be severe polarisation in Australian society as the process of uneven development creates further disparities between the living standards of certain sections of the Australian society.

FOOTNOTES

1 Bank of New South Wales Review, February 1979, p. 7.

2 Subcommittee on Foreign Economic Policy, Committee on Foreign Relations, US Senate, International Debt, The Banks and US Foreign Policy, US Government Printing Office, Washington, 1977, p. 54.

3 Banker Research Unit, Trends in International Banking and Capital Markets, London, October 1978.

4 Australian Bureau of Statistics, Balance of Payments.

5 ABS, Foreign Ownership and Control of Manufacturing Industry, 1972-73, Foreign Ownership and Control of the Mining Industry, 1974-75, Foreign Control of Registered Financial Corporations, 1975-76.

6 ABS, Balance of Payments.

7 For more details, see G.J. Crough, Foreign Ownership and Control of the Australian Mineral Industry, Occasional Paper No. 2, Transnational Corporations Research Project, 1978.

8 ABS, Balance of Payments.

9 H.D. Shapiro, "Bidding for Australia's borrowing", Institutional Investor, December 1977, p. 122.

10 *Ibid.*

11 C. Payer, *The Debt Trap*, Penguin, Ringwood, 1974, p. 33.

12 R.S. Gilbert, *The Australian Loan Council in Federal Fiscal Adjustments 1890-1965*, Australian National University Press, Canberra, 1973, pp. 2-3.

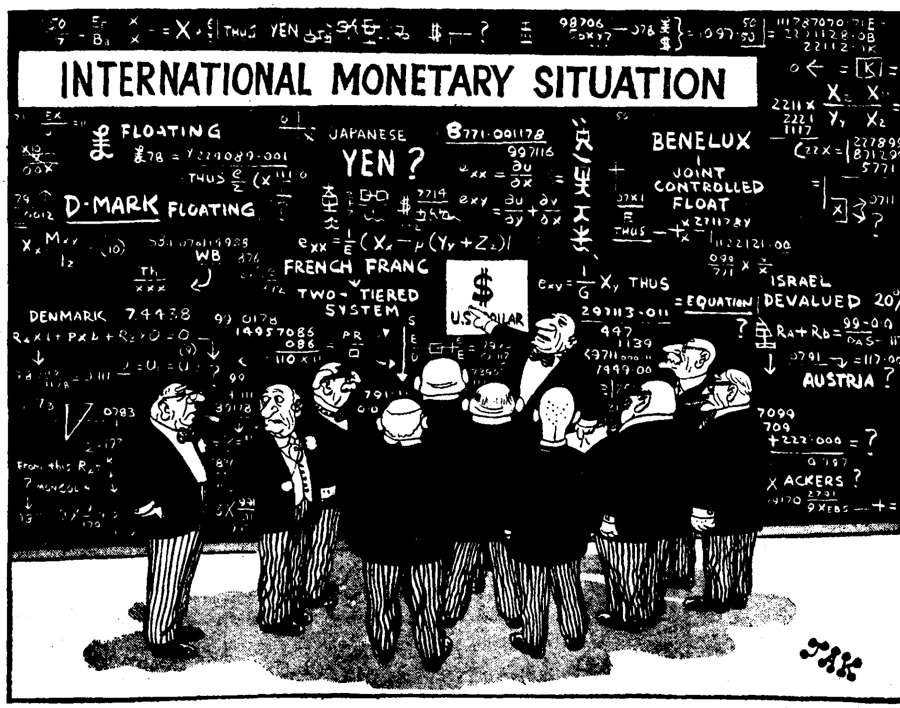
13 P.D. Groenewegen, *Public Finance in Australia*, Prentice-Hall, Sydney, 1979, pp. 161-2.

14 *Ibid.*, p. 195.

15 G. Korporaal, "Bankers hustle for slice of the action", *Australian Financial Review*, 8 November 1978.

16 "Overseas borrowings by the States", *Parliamentary Debates*, House of Representatives, 15 November 1978, p. 2805.

17 "Business 'should reject handouts' ", *Sydney Morning Herald*, 10 March 1979.



'I didn't even understand the old system!'