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A MODEST FARMER

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What to do when market forces control exchange rate

Last week I discussed the implications of the likely export explosion of ordinary and energy minerals, and "congealed electricity" in the form of aluminium and similar electricity intensive products.

I said that, if the exchange rate was allowed to move with market forces, then exports of other products would be discouraged while imports would be encouraged.

Eccles complains that I did not warn people, and particularly the Government, that if the exchange rate was held artificially low, then we would soon be awash with money with devastating effects on inflation, as happened in 1972 when the exchange rate was held down by Country Party pressure.

This we must never allow to happen again.

However, on the assumption that we are going to allow, or even encourage, the exchange rate to move with market forces, what are the further implications of the expected expansion of mineral exports?

Bitter experience has made me cynical when governments or other people put on their prophet mantles, but they continue to do it in spite of their mistakes.

So if others do it, I don't see why I shouldn't have a go.

And I am encouraged to do so because I won't have to take the responsibility for my mistakes, so I will be like most of the other prophets in this.

And, because of my advanced age, I am likely to be dead when my theories are nailed out on the cross of action.

This comforts me a lot.

Fortified with a mixture of cynicism and fatalism, what advice should I give the country if the expected expansion occurs and we are men enough to let the market forces control the exchange rate?

My first advice would be not to invest money in industries that have to compete with imports because imports will become cheaper in our money as the exchange rate moves up.

The industries which are dependent on high rates of tariff and quota protection such as textiles and cars will be bad risks unless they can adjust to the changing situation.

This advice about avoiding investment in import competing industries applies to the rural sector also.

The citrus, mushroom, cheese, brandy, lamb and similar industries who need, or say they need, protection from the outside world, will be bad bets in the long term.

You don't have to be a financial genius to advise people to put money into industries that service mining.

The heavy machinery should be able to take advantage of this opportunity if they are not too busy on their knees asking for government help and so are unable to stand up and fight.

Because an export expansion will raise our living standards, I would put money into the service sector which will continue to expand.

I would be particularly attracted to soft living products such as beer, soft drinks and massage parlours.

I know that these are unworthy ways of earning money but I am giving advice about earning money, not morality.

I hope we could put a lot of our new wealth aside for wise government on social services.

I am not optimistic about being able to do this wisely but we should try even if we know that most of the milk of human kindness will end up on the cowshed floor.

At least, we won't be able to claim, as we can now, that we can't afford to be generous.

If we are properly tough with our exchange rate management, our inflation rate should be lower than in other countries so we should be able to expand those industries in which we have natural advantages.

But we must recognise that, if this expansion takes them into the export market, they too will help push the exchange rate still higher.

We should be able to learn from the experience of the OPEC countries who have had a much more rapid expansion of their export income than we can hope to have.

One result for them has been a compulsion to import at almost any price so that they can get paid for their exports of oil.

So they buy sheep at high prices because they just have to buy something and it might as well be sheep.

And that is why their wharves are choked with goods and their harbours with ships waiting to unload.

If the OPEC countries cannot import goods, they have to leave their money overseas so they invest it in all kinds of odd adventures.

They are pushed urgently along the paths of increasing imports and increasing overseas investment with a force that makes it hard for them to do either wisely.

We should not have this pressure on us but at least we should start thinking how we are going to handle the situation if things develop as they might.

I do not often give gratuitous advice. The advice you get for nothing is usually worth that. So if you don’t like it, I suggest you do some thinking for yourself.