



the final word - JOHN JOHNSTON CEO

INTERESTING TIMES

A lot has been made in the media of the five quarter percent interest rate rises that Australia has had over the last three years. Very little has been said about how far they came down in the decade or so since we last had a change of government.

As a consequence of lower interest rates, property values have soared to the point that Australia once again finds itself faced with low housing affordability. Borrowers find themselves stretched, not so much by the height of interest rates, but by their levels of gearing.

The current situation is doubly difficult for anyone under thirty to comprehend. They have not experienced low housing affordability in their adult lives and they certainly weren't around during the crazy 20% plus interest days of the late 1980's and early 1990's.

We were fortunate last time that democracy intervened in time to save us, just as it had done previously (for those of us 'mature' enough to remember the Whitlam years).

Given the added interest rate uncertainty we now face with an election looming, the question must be asked if it might be possible for governments to ever get it so wrong again. Could an economy that is as strong as ours is presently be reverted to the financial anarchy of previous administrations?

To be alarmist for just a moment., just a generation ago, Zimbabwe was the jewel of Africa on many fronts with an economy

second only to the mighty South Africa itself, and a lifestyle many argue as 'second to none'.

How all of that has changed and how quickly! Zimbabwe is now the economic basketcase of not just the 53 African nation states, but of the entire world. Where former Prime Minister Paul Keating was concerned we were heading for 'Banana Republic' status, Zimbabwe has done it. The country is in total meltdown. Interest rates approach 5000%, unemployment levles are at a sickening 90%, and basic foodstuffs barely exist.

Returning home, international political convention contends that 'populist governments stuff up the economy, pragmatic governments then fix it'. However true this is, must it be true? Why can't we as a first world country become sufficiently mature, sufficiently worldly, that we collectively (including the media) spurn, not encourage, political parties that offer only financially inept policy?

There are examples in the world that such a desirable situation is possible. Switzerland certainly seems to have the economic balance right. Also the Republic of Ireland in less than a generation has gone from being a near-moribund economy of high unemployment and public debt, to it's current position as the wealthiest economy in the European Union.

What was Ireland able to do to bring about such a modern economic miracle? Very simply, Ireland opened up trade by removing tariffs on goods and greatly increased the

incentive to work by radically reducing Income and Corporate Tax rates. Ireland now has the lowest taxes of all the 27 member states of the European Union, collectively the largest economy in the world.

We in Australia can take some comfort from what Ireland has achieved. Their key strategies are the very same that are being progressively implemented into the Australian economy, the benefits of which are already showing through. It is no coincidence that our record low unemployment rate of 4.6% is exactly the same as Ireland's.

Economic strength however casts shadows. It now costs more to live in Ireland than it used to and this includes property prices that have appreciated as steeply as they have in Australia as more people earning more income are able to acquire more property.

Unfortunately, when country's get very much on their feet economically, populist ideology returns to favour. Nations go back to believing that it is possible to have your financial cake and to eat it too.

We are now at that critical time in our nations history where we must seriously ask ourselves which is better for the nation long term., the short term discomfort of a few modest interest rate rises meant to moderate free-wheeling spending habits, or a all out return to the economic anarchy of the 1980's,

a time when a great many Australians lost absolutely everything.