

SMART TALK

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DID YOU KNOW?

> In Los Angeles Australia's Trade Minister recently declared that Australia was just about the most attractive place in the world in terms of the ease of doing business. We are ranked number three in the world ranking of economic freedom, behind only the island states of Hong Kong and Singapore, according to The Heritage Foundation, a conservative US Think Tank.

> "With an economy that benefits from sound fundamentals including monetary stability, low public debt, and a vibrant employment market, Australia has weathered the global economic uncertainty well," the Heritage Foundation said. "Openness to global trade and investment is firmly institutionalised, supported by a relatively efficient entrepreneurial framework and a well-functioning independent judiciary".

Message from Philip Enger

The new government has had to face difficult issues immediately it came to power. One such issue is (and this always invokes fierce debate in the media and among all interested people who try desperately to understand what it is all about and what is fair and good for the nation)

Should governments be pro-market or pro-business?

This issue is clearly on the table in the case of Holden, Qantas and SPC Ardmona. The view in the case of General Motors was (is) that what is good for business is good for Australia. In not supporting the continued manufacturing presence of GM in Australia the Government has clearly decided it is no longer in the interests of the nation to continue the financial support of the car industry. Economic journalist Ross Gittins (SMH) recently wrote a very interesting article on this subject that I would like to share with you.



He points out that, Governments always make hard work of deciding whether it should run the country to please its business backers or to benefit all of us? The notion that what big business wants of government always coincides with what's best for the rest of us is something only a chief executive could believe.

The economic side of our lives is about producing and consuming; you can't have one without the other. **To be pro-business is to favour producers, making life easier for them when they ask for help, whereas to be pro-market is to favour consumers, the people market economies are meant to serve.** As Adam Smith put it: "Consumption is the sole end and purpose of all production and the welfare of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer."

It's easy to tell yourself that by helping an industry you're helping its customers, though it's more usual to tell yourself you're saving workers' jobs. Business people lobbying to protect their profits almost invariably hide behind their workers' jobs, often making perhaps exaggerated claims (claims they're rarely asked to substantiate) about how many jobs will be lost if their demands aren't met.

When you think it through, however, you realise that giving business people the easier life they seek isn't the way to maximise the benefit going to consumers, nor to maximise productivity or total employment. You may imagine that capitalist economies are designed to benefit the owners of capital above all others. In fact, in an efficiently functioning market economy the suppliers of capital get little more than a reasonable return on their investment, with most of the benefit going to consumers in the form of an ever-expanding range of reasonably priced goods and services, (and a more robust and competitive economy).

The magic ingredient that brings this about - shifting the benefit from producers to consumers - is **competition**: competition between the producers but, just as important (and often lacking in our busy lives), competition between consumers and producers as consumers seek out the best deals and the best service. >>> **continued next page**

>>> When industries lobby governments for favours, what they're usually seeking is a reduction in the competition they're facing or about to face - all in the name of protecting their workers' jobs. In fact they're seeking an easier life than the rough and tough life the capitalist system would otherwise serve up to them within the framework of a very competitive economy.

Often they're seeking protection from competition with imports. In the old days protection was achieved by imposing a tariff (import duty) on imported goods; these days a similar effect is achieved by granting the industry a subsidy from the taxpayer. Either way, the protection comes at the expense of the public, (and the opportunity cost of not spending money on other and perhaps more worthwhile things).

But does it save jobs? It may save them in the particular industry being protected, but only at the expense of employment in the rest of the economy. How so? Consumers are left with less money to spend on the products of other industries. People in the protected industry don't care about that, of course, but the rest of us should. Longer-term, protection involves keeping your head in the sand and pretending the rest of the world isn't changing. This is unsustainable. When the world we live in changes, we have to adapt to that change or become an industrial museum.

One view is, that the way to maximise employment for everyone who wants to work is for us to pay the world price for everything and produce those goods and services where we have an advantage, and leave it to others to produce stuff where we don't have an advantage.

So, being pro-market means examining requests for help from particular industries from the perspective of the economy as a whole. This of course avoids another problem: often one industry's request involves being favoured against rival industries. Give in to one and the others redouble their screams of pain. You can't help them all, and if you try to you end up with a molycoddled, inefficient economy.

In the case of General Motors, the Government has decided that it will no longer succumb to corporate or industry pressure to support what it considers is a non viable business. The question is whether it has the courage to maintain this conviction in all cases that they are confronted with down the track.

Then there's the protection for local pill-making companies (not to mention retail chemists) hidden in the pharmaceutical benefits scheme. And coming up is a bid by manufacturers to be exempted from paying the world price for gas when the eastern states become part of the world gas market in the next year or two. We'll hear a lot more about this one. I want to note that companies such as Santos, Shell and Origin Energy are said to be sinking vast amounts of capital into LPG and coal seam gas projects. And of course there is the plight of Qantas, and now crucially - Toyota! The end of an era is nigh.

P.S. The Treasurer has said many times in recent months that it is the intention of the Government to end the practice of corporate subsidies. It has to be said that many noble intentions often falter in the face of stone cold realities. I will keep you informed, as this issue has the potential to alter the structure of the Australian economy and the way Dollar Growth Financial Planning invests money on behalf of its clients. Malcolm Fraser once famously said that life wasn't meant to be easy: well it's not, as you can see.

Finally, we expect the year ahead to produce key changes at Dollar Group Financial Group as we strive to expand our business and improve our service offering, but one thing that will not change is our commitment to providing our clients with the highest level of service possible.

Kind Regards,

Philip Enger
Managing Director



For more information or to talk to one of our team, visit our web site or call us on **9787 5555**.

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