

## **Australian Productivity Commission Inquiry into Migration – Submission Alex Finch:**

As GMO's Jeremy Grantham wrote in his 2Q 2015 Quarterly Letter:

*“The central point that emerges from our research is that economic elites and organized groups representing business interests have substantial independent impacts on U.S. government policy, while mass-based interest groups and average citizens have little or no independent influence” – this is the killer conclusion of a paper last fall by Gilens and Page – and “when the elite detest an issue, it is like passing a death sentence: about 1% of these bills pass!”.*

It's no different in Australia, if the elite want high net overseas migration, who are we, average citizens, to protest! Take care, average citizen.

### **Australia's “Song and Dance Economics: Keep Smiling!”**

**Not unlike China, we find ourselves today near the end of an epic 20-year bull market in housing thanks to high Net Overseas Migration NOM (the demand side of housing, debt and other services).**

***After going 24 years without a recession, and our net foreign liabilities now at a record high level of over 60% of GDP, the RBA has put us at serious risk of a liquidity crunch and deep recession (now that our Terms of Trade is collapsing). Instead of slowing growth by lowering NOM to counter a temporary 1-in-100 spike in our Terms of Trade and keeping our dollar low, the RBA acted like the spike was permanent and increased NOM accordingly, adding a staggering 2.136 million net overseas migrants in just 10 years and pushing the value of the dollar much to high. This was pure madness. Having wasted the spoils of the past - the mining boom - we are now stealing consumption from the future by constructing well over 500.000 residential dwelling-units in just three years (June 2013- June 2016), and all on debt (adding about \$250-billion on mortgage debt in that time). Reducing unemployment by creating many new jobs is of little help, if productivity is collapsing. We are at risk of becoming the next country to suffer a financial crisis.***

**Australia's high Net Overseas Migration policy (NOM) has *tripled* the population in just 65 years, going from 8 million in 1950 to 24 million today, a massive and rapid demographic change, not unlike China's over the last 30 years – both countries undergoing huge urbanisation and migration. Today 7 million of our population were *born* overseas! In Australia this process was controlled by a group of political and economic elites – the highly concentrated media, powerful unions, the ‘*faceless men*’, as well as the big end of town, and all their cronies – they basically wrote the rules, effectively creating a new nation, to suit their preferences and greed, with few historical guidelines or principles and with a lack of foresight or concern for the wellbeing of the majority. When it comes to nation-building, 65 years is nothing, yet in that short time, those in charge managed to effectively change the fabric of our society. **Already back in 1963 Donald Horne wrote in his book ‘The Lucky****

**Country': "Many of the nations affairs are conducted by racketeers of the mediocre".** Nothing has changed. When you think about it, it's actually a disgrace that despite all the wealth generated over the last decade for Australia through the mining boom, even our infrastructure is still quite inferior compared to most other developed countries, and that is an indication of just how poorly this country has been run by those in charge. Cronyism is surely also rife in most socialist countries in Europe, as well as in most Asian countries, but *at least their infrastructure was fixed and is now vastly superior to ours.* Just compare, for example, the metro/subway and railway systems in Singapore, Hong Kong, Paris, London, New York, Spain or Vienna, to name just a few, with our capital cities – and we're the ones who got a trillion dollar gift from the largest spike in Terms of Trade in one hundred years. It's pathetic and it's embarrassing.

**Just how happy are Australians really?** Sure, first migrants tell you it's a great country, pretending to be stupid is what Australians are supposed to do, but I've spoken with recent migrants, as well as migrants who have lived here most their lives, and many miss the regular traditional local community festivals of their countries of origin. They find Australia boring and not really that friendly. Yes, this is a very subjective comment, and Australia is well known for it's friendly people, but that's the feedback I'm getting. Many migrants are not really content here, hence the huge number that travel 'back home' overseas each year. It's hard to explain, but something is missing – there's a vacuum, an emptiness, a lack of warmth, a lack of pride, a lack of honesty and a lack of trust. If you disagree, then tell me why there is so little trust in our politicians – our chosen representatives. Many people simply either pursue their dream of wealth and work long hours, or take pills, drugs and alcohol to fill the void. Forget about all your impressive charts and graphs on migration. Take for example the Sydney Gay and Lesbian Mardi Gras – what mood does this festival create? The effort put into this festival is indicative of the spirit put into community-building: Throw some bed-sheets over a truck and dance on top in your undies. It's pathetic and it's shameful. It comes down to a lack of government funding and a lack of community commitment. Some Australians will aggressively declare that these comments are un-Australian, and that we are proof that multiculturalism works, with migrants from all over the world living here side by side in harmony. Prisoners in a jail may live side by side in harmony, but does that make the prison a community? I live on an acreage and was born in a small town in the Outback of WA sixty years ago, after my parents migrated here from Austria. A lot has changed since then, and now most Australians live in an urban jungle and wouldn't know what the Outback was.

Around

20 years ago the construction, poker-machine and superannuation industries began developing strong ties with politicians and the media. These ties were mutually beneficial and they all took part in the spoils of Australia's high migration policy. It's astonishing how much is spent in Australia on advertising by the real estate, gambling and superannuation industries. These industries in particular expanded enormously and grew into powerful lobby groups, and I would argue, to the detriment of society. The building industry has managed to help push **household debt to disposable income to a staggering and worrying 180%**, and the gambling industry, with its now wealthy clubs and pubs, has managed to dominate hospitality and create a country in which socialising and gambling have become

synonymous. These excesses have not been tolerated in other countries. **Nobel laureates Shiller and Akerlof write in their new book 'Phishing for Phools': "[100 years ago] slot machines were ruining so many people's lives in America they had to be outlawed.... They disappeared from public life, regulated almost entirely to the fringe: to special places designated as casinos, and to loosely regulated Nevada".** In stark contrast sadly for Australia, no one was looking out for the welfare of our people, instead those in charge chose to take advantage and turn the whole of Australia into one big "loosely regulated Nevada". As for Australia's \$2 trillion in superannuation-assets (\$433 billion *controlled by unions*), I find it interesting that it roughly equals our total household debt. It's like we just went out and borrowed the money back, that was taken off us for super-contributions, like a merry-go-round, but at least it created about 85,000 new jobs! We can probably thank the mining boom for half of that \$2 trillion, a quarter of which the banks simply recycled back into the community as home loans. This has helped push the value of Australia's housing stock to a huge \$5.5 trillion. All the mining boom did was pay for bigger houses, and a lot more of them, but everything else was badly neglected.

**Having nurtured and encouraged a culture of tolerance and conformity, apathy towards any criticism has allowed those in power, the 'faceless men' and the rich, the plutocracy, to have their way without much interference. As Nick Bryant writes in 'The Rise and Fall of Australia – how a great nation lost it's way': "It is a 'no worries' nation in which one in five people suffer from a mental illness, most commonly depression and anxiety disorders, and the consumption of anti-depressants has tripled over the past decade".** This past decade also coincides with the period where our plutocracy ramped-up Australia's NOM threefold. If it's such a great country, as we are repeatedly being told by the media and the politicians, then why are there so many unhappy people? Gambling, drinking and drugs have become the main forms of entertainment for many people, with our two most celebrated events, Melbourne Cup Day and Anzac Day, both associated mainly with drinking and gambling. One in five might be depressed but our 20-year Housing Bull Market has also created a large group of property owners whose perceived prosperity has produced a misguided over-confidence and arrogance not found in other countries. With dwelling prices spiralling up, for many property investors the illusion of wealth has given them a false sense of confidence in our leaders. I believe this illusion of real-estate wealth and the hope of many to partake of it, is what has kept Australia going as a nation, and for that you need continued high net overseas migration and a mountain of household debt. For this dream of wealth, many in our society will put up with a lot of negatives, work and commute long hours, but I just wonder what happens when one day the housing bull market ends? Once locked into the system, most migrants will be too busy working and commuting for long hours, leaving little time to comprehend let alone engage in what is going on.

Past and present members of the board of the Reserve Bank (which included union bosses and billionaires) were unquestionably implicit in sustaining Australia's high NOM policy and long drawn-out property bubble, putting us at great economic risk, while helping those in power to get richer (the suppliers of housing, debt and other services). The Reserve Bank Assistant Governor Malcolm Edey made a telling comment in a recent speech: "What we can say is that the risks in that sector [residential property] are now being more prudently managed than they were a year or so ago". **So in 2015 the RBA, APRA and ASIC discovered**

that the risks in the residential property market were not managed prudently enough up until a year ago. That's a profound discovery and an alarming admission! Talk about closing the gate after the *house* has bolted – alone in the last 2 years, up until June 2015, we have had a record number of 390.000 Dwelling-unit Commencements (enough to house almost one million people), and currently the number of 'Dwelling Units Approved' is running at 220.000. That's double the *normalised* U.S. equivalent, and all we are doing is dragging future consumption forward into the present. Once this latest wave of construction is over, then what? Construction currently employs 9% of the workforce compared to the U.S. and Europe where it's half that. Edey quoted Reinhart and Rogoff's "This Time Is Different" - a famous book that details the causes and aftermath of financial crises. Most property investors in Australia will never have read this 392-page book. Governor Edey chose not to mention the following details: On page 221 Reinhart & Rogoff write: "In the U.S. many red lights were blinking brightly well in advance, .....above all, the huge run-up in housing prices, especially fuelled by rising leverage, ..... in 2008 the total value of mortgages in the U.S. was 90% of GDP" (In Australia it's now 100%). On page 219: "a financial crisis begins only after a real shock slows the pace of the economy.... especially when growth in real per capita GDP (PPP basis) falls below 1%". Our Terms of Trade is collapsing, that's the shock, and our real per capita GDP growth is below 1% (with GDP growth now running at about 2% and population growth at 1.4%).

**Reinhart/Rogoff: The aftermath of a financial crisis is a plummeting dollar, very high unemployment, soaring interest rates and exploding government debt (due to a collapse in tax revenues).** With the US Fed about to raise rates (due to US *household net worth* now rising too much too quickly) it risks triggering a liquidity crisis in commodity countries like Australia. If there was ever an elephant in the room that might harm the profits of big business - over the last 20 years it's always been effectively ignored by those running the country, and it's grown bigger. **The RBA should have done everything to slow high NOM (the demand side of housing and debt).** Why didn't they?? Ask the RBA this simple question: how are we not a classic textbook example of Reinhart and Rogoff's book? No country goes without a recession forever and our next recession will test Reinhart and Rogoff's theories. We are now relying on a falling dollar to save us, but as the dollar falls ever further, so too will the standard of living of the average Australian (but at least we'll be living in comparatively large dwellings). It's never clever to try and predict a recession (as I learned in 2009 and 2011) so maybe I'm wrong again, but then, not many saw the huge tailwind of a 1-in-100 year terms of trade spike coming, and now that's turning into a headwind. **The U.S. subprime crisis showed, even a relatively small number of indebted households can produce considerable turmoil, as Timothy Geithner writes in his book 'Stress Test' on page 112: "Subprime was only one-seventh of the mortgage market, barely \$1 trillion out of the nation's \$55 trillion in financial assets". But as he writes, it's the attendant contraction in credit, the liquidity crunch that causes the shock to the system and sends unemployment numbers spiralling higher.** Back in 2010, when the Australian dollar was *rising rapidly*, there was an article in the SMH by Chris Zappone: "Foreign investors [in Australian debt] worried about Australian debt levels". In 2010 mortgage debt was \$1.1 trillion. Now the dollar has been *falling rapidly* and mortgage debt is \$1.5 trillion (headwinds). In that article GMO founder Jeremy Grantham was quoted saying, rising interest rates will inevitably pop an Australian housing bubble. Our banks have just begun raising rates (headwind). We got rid of Joe Hockey because we've always needed

a song and dance man to keep things rolling. Turnbull has been able to play that role quite well till now – he’s the kind of showman Australia has always needed (Keating was the greatest showman – he should have been on Broadway). While we are distracted by the song and dance, our leaders have found new luck: “Hot Money” from Chinese real estate investors is helping to prop-up prices. The show goes on with new surprises, but the only thing that’s been reliably stable in Australia’s economy has been the growth in nominal debt.

**Clever leaders will point out that we have a AAA-rating, the IMF thinks we are OK and most international surveys consistently find us in the top 10 of “Best Cities to live in” and “Happiest Countries”. But these surveys are generally “gathered from country-level government data and public opinion surveys”. Does anyone really believe the latest OECD “Better Life Index” where Australia ranks higher than Switzerland and Austria in Safety, when it comes to assaults? They rank us #1 for “Civic Engagement” mainly due to a high voter turnout, which happens to be compulsory (and strongly enforced) - no mention of the high 6% invalid votes. A student I tutored in maths told me their teacher advised any student stressing over the Pisa test not to participate, no doubt to enhance aggregate results, but that defeats the whole purpose of this international test (it is of course possible this might have been just a one-off teacher). I’m convinced people are not complete fools and are growing ever more suspicious with each new Prime Minister A-List spruiker declaring “there’s nothing to worry about, we’ve got your back!”.**

For all it’s effort to become a major world power with multicultural cosmopolitan cities, in reality Australia is still simply a handful of large sprawling cities, a thousand miles apart, each run like a small independent and poorly managed municipality. No doubt the drug/crime gangs in Australia are better organised than the politicians and police (except where the politicians and police *are* the criminals, which seems to have been quite often). Forget for one minute the size of the country, for it’s misleading, instead think of Australia as just another island in the Pacific, like Vanuatu or Fiji – ***we’re a quarry and we sell rocks*** - don’t expect more, don’t expect less. Yes, once our dollar falls (even further), we may eventually become a major exporter of LNG, education and tourism, but hope is not a plan.

**As for the 20-year Housing Bull Market:** Today the best way to lose friends in Australia is to say anything negative about property prices (it’s understandable, there’s a lot at stake). It wasn’t like that 30 years ago. With interest rates around 20% leading up to the 1987 stock market crash, houses were selling at half their intrinsic value, *this was an asset class that nobody liked at the time*. After the 87 crash, with rates coming down, house prices suddenly doubled within just a few years, peaking and then falling again after the 1990 ‘recession we had to have’ back to around fair value in 1996. It was a volatile time and in 1990 Australia’s first billionaire Robert Holmes a Court died suddenly of a heart attack.

**Then in 1996 it all started, Australia’s modern day Gold Rush - Housing began an epic 20 year bull market! First boosted by the Sydney Olympics and then by huge net migration numbers, coinciding with an unexpected gift from China, going through it’s own bubble, the 1-in-100 year mining boom that enabled us to get away with a *massive 6% average annual growth in our ‘aggregate compensation of employees paid’* (compared to just 3%**

pa in the U.S. during that time – see ‘Flow of Funds’). According to the ABS National Accounts: ‘Australia’s Total compensation of employees’ in 1999 was \$303 billion, and in 2015 it was \$773 billion – that’s a massive growth in wages of +6% pa for 16 years! There were alone over half a million *new* healthcare jobs created in the last 12 years. That boost in total, and real wages *plus* the massive growth in mortgage debt fuelled the housing bubble in Australia like no where else. That boosted household net worth to unsustainable levels – a recipe for deflation and lower living standard. Now even after a 30% fall in our dollar, our wages are internationally still uncompetitive.

The latest UBS Global Real Estate Bubble Index has Sydney in 3rd place, behind London and Hong Kong. Their chart also shows a massive rise in the house-price to income ratio in Sydney from 1996 to 2003, reaching a level in 2003, almost as overvalued as Tokyo’s peak in 1990. We did not suffer the price crash that Tokyo suffered (creating their ‘zombie banks’), because we were able to massively inflate our population and wages, thanks to the mining boom that coincidentally started in 2003 (it’s not called the lucky country for nothing). The UBS Report also shows the Sydney price-to-income ratio coming back to almost fair-value by 2008/09 and remaining there till 2012 (no zombie banks to be found here). What these international comparisons don’t show is that where as cities like Tokyo got their ratio back down to fair-value through a large deflation in prices, we got back to fair-value by *inflating wages/rents, and increasing demand through massive population growth*. A crash was avoided and prices were “held up” by rapidly increasing demand. But that’s a temporary short term, and amateurish quick fix – adding 2 million people without the necessary infrastructure in place, and no guarantee of future job security. Now in 2015 we are again back to bubble levels, the recent massive rise even attracting hot-money out of China, but it’s called hot money, because it can leave as fast as it comes.

**Poor government leadership and high NOM have led to: very high household debt, a dwelling-investment and price bubble, very poor and neglected infrastructure, a lack of government spending on entertainment compared to other countries to promote a stronger community spirit, and generally a society held together mainly by the collective pursuit of ever increasing real estate wealth – Australia’s modern day Gold Rush.**

**Instead of lowering NOM (thus slowing excessive growth) to counter a temporary 1 in 100-year spike in the Terms of Trade and attendant growing bubbles, we acted like the spike was permanent and increased NOM accordingly - instead of containing the fire we added fuel. The temporary spike in the Terms of Trade and high population growth pushed wages, rents and dwelling prices much higher – adding to the bubbles.** The Reserve Bank’s conundrum of needing both higher interest rates and a lower competitive dollar, was exasperated by higher NOM. Funds were chronically drained away from badly needed infrastructure into overinvestment in housing and into inflated and internationally uncompetitive wages. With households leveraging up, public debt and spending needed to be kept low, but that’s a recipe for creating an unhappy society. No wonder, as Nick Bryant writes, young people are “traveling to Gallipoli in search of their country”.

**At a recent conference on “Fundamentals and Flexibility” (Oct 2015) Phillip Lowe the Deputy Governor of the RBA claimed that “during the years of the resources boom, very**

*large wage increases were mainly confined to the areas where skills were in the shortest supply and they did not spread across the economy as a whole".* But Goldman Sachs compared OECD *average annual growth rates of wages* from 2009-2013 and the *real hourly minimum wage* of different countries in US-dollars and adjusted for PPP. According to their "Wages World Tour", in 2013 Australia had by far the highest ppp-adjusted minimum wage at \$10.50/hour (USA \$7.25, UK \$8, Germany \$7, Canada \$7.80, Japan, \$6.70 and Spain \$4.80) – so not just 'some skilled' wages, but even our minimum wage was about 40% higher, PPP-adjusted, than in the US or Europe. Mr Lowe believes that "the slowing in aggregate wage growth" shows that the "labour market has proved to be quite flexible", but labour markets are rarely flexible, wages are notoriously sticky, and should Mr Lowe be right, where does that leave rents and dwelling prices, how flexible should they now be? One could argue that if the minimum wage (adjusted for PPP) was about 40% higher than in other countries in 2013 (not adjusted, it was double the US min wage), then this might have pushed rents and the value of dwellings also up by about 40% compared to other countries. This in fact seems to be the case in Australia. **Rather than focus on the median price of dwellings, I find it more telling and astonishing to see that the cheapest dwellings, one bedroom units, now cost over \$500.000 in Sydney, and in Melbourne over \$300.000. Now that's a bubble!** This year a quarter of all units sold in Vienna, Austria's capital city of 2 million people, sold for under \$180.000 (114K Euro), and their GDP (PPP) per capita is now higher than ours!

I would argue Australia's rapid population growth has made it impossible for us to ever "catch-up" with ourselves, to get things in order. The first thing that strikes you when you land at Sydney Airport is how chaotic and messy it has become. That's probably also the best way to describe Australia in general today – it's chaotic and messy. During the last 65 years a lot of people got on board and did well for themselves, but it may yet prove to be a steep learning curve for a country so young and perhaps in reality quite rudderless. Should our dollar fall back to Euro/U.S. 60c or lower, then what have we really achieved? Our wealth is then just an illusion.

Corruption exists in every country, but I suspect when it comes to cronyism and "fat cats", in Australia it's been on a scale as large as the country itself. Whether it's the construction industry (with a workforce of over 1 million), the clubs/pokie industry (Clubs NSW alone with 42.000 employees), the superannuation industry (employs 85.000), the mining industry, utilities, countless public servants earning more than the Prime Minister, just to name a few beneficiaries. As Ross Garnaut writes in 'Dog Days' professional economists have become commercialised, employed by business and their work was riddled with conflicts of interest. Only in a country with no traditional principles to guide the judgment of it's people, could it be possible for a book like Chris Masters' 2006 "Jones Town" to make absolutely no difference. **As Masters writes on P.390: "while Jones constantly pretended to be out there battling for the little man, he was receiving back pocket deals from the biggest of the big"**. Talk-back radio has developed a relatively small but influential cult-like following, addicted to the daily aggressive and one-sided ranting of shock-jock gurus very skilled at either changing the subject as soon as they start losing an argument, or simply ignoring the truth. Print media has been no better, with ex-directors of big business receiving generous "golden parachutes" just before becoming editors of major newspapers. *Loose* regulations have formed Australia's modern day muddled society and

culture in just a few decades and that's reflected in our chaotic parliamentary Question Time. I've been overseas many times and I would always fiercely defend Australia and our culture, but in the last few years..... I'm no longer proud to be an Australian.

When I returned from studying in Europe in 1983, there was such a shortage of teachers, I was immediately offered three jobs as a senior high maths and physics teacher. School principals desperate to fill jobs were even employing maths teachers who didn't understand their own subject. The same would have applied in most professions, and right up until today. And if you do this for over 65 years you create a culture of "she'll be right mate", where adding more staff just does no good because no one ever learned to do things properly, it's the blind leading the blind.

Rural Australia, SA, NT, WA etc all argue that "skilled" migration is needed to meet the demands of employers, but most these skilled migrants eventually move to a major city – a constant flow of migrants filling unwanted jobs and then moving to a major city, requiring more migrants, in a constant cycle. Why, after decades of bringing in skilled workers, do we still need more skilled workers?

In 1977, anti-drugs campaigner Donald Mackay was murdered in Griffith by an Italian crime gang, but 38 years later, not only is the Italian mafia more active than ever (see recent 4-Corners report), but now we have police struggling more than ever with countless new 'outlaw motorcycle crime gangs' and today we even need a 'middle eastern crime squad' all dealing with vast amounts of drugs, and crime. What must Mr Mackay be thinking? His death was in vain. A lot of mostly useless talk-back radio talk (and highly lucrative advert-breaks), have gone under the bridge since 1977, but Australia's drug problem is bigger and badder than ever. I'm convinced that 'keeping society chaotic' is actually good for business. Did high NOM help us here?? And as long as the 'big end of town' kept these 'leaders' and their mates happy, they all got rich together, to the detriment of Australian society as a whole, with most people kept in blissful ignorance.

In the 1970's the Woodward Royal Commission recommended the launch of a long term anti-mafia campaign but it was ignored and the mafia threat was hidden from the the public because it was too big a political problem (according to 4-Corners). This is my whole point, it is naive to think that high NOM won't include more organised criminals, so if you can't deal with the existing crime gangs why increase NOM? School principals, nurses, police, traffic controllers, small business employers, renters and many others have *always* been complaining about the difficulty coping with existing conditions. Those in charge must have known that increasing migration would not fix these existing problems, but only make them worse. That's why I think Australia is probably a misguided, over-confident plutocracy. It's recession-proof economy and our lifestyle may be the envy of the world but it's an illusion. We are one of the most urbanised nations on earth – a handful of vastly spaced-out, large cities with nothing in between. Each city, and it's hapless disillusioned community struggling, mostly in silence, with the same problems.

Clever leaders will point out that we have a AAA-rating, the IMF thinks we are doing OK and most international surveys consistently find us in the top 10 of "best cities to live in" or "happiest countries". But as far as I can tell, all these surveys are conducted by locals in each country, even the IMF relies on house price, unemployment and income statistics *mainly*



*supplied by us.* The credibility of the ABS Employment data was severely eroded after releasing the dubious August 2014 jobs growth number of 121.000 (later revised down to 32.100) – the equivalent of the US creating 1.7 million jobs in one month! Staff blamed the debacle on budget cuts, which makes you wonder just how reliable any government figures really are. Now the ABS just released the results of their survey on “Community Trust in the ABS and ABS Statistics” and it shows 81% of the “*general community*” and 100% of the “*informed users*” of ABS stats trust the ABS. Only North Korea achieves stats like that! If you look at Graph 2 of the RBA’s Feb. 2014 Submission to the Inquiry into Affordable Housing, you will see that they have used *median* dwelling prices in our capital cities compared to *mean* dwelling prices of the international comparison. That just seems strange to me. A similar chart showed up in the IMF Country Report Australia – no doubt probably simply supplied by us. Other stats show a different picture: The latest Mercer Liveability Index has Sydney’s congestion much worse than in New York.

Say anything negative and you’re out, like Defence Minister Johnston who said “he wouldn’t trust the Government-owned defence builder, the Aust. Submarine Corp. to build a canoe”. Lying was always considered an acceptable misdemeanour, but the truth was never much appreciated in Australia.

Man-made global warming and the cruelty of live animal exports is generally denied by Australia, the world’s biggest exporter of coal, iron ore and live animals. Internationally we are now a pariah state after the UN cancelled their Australia visit because of human rights issues and the censorship of immigration workers in detention centres. Pretending to be pristine while dealing in dirt means we start to look like George Orwell’s *Animal Farm*, and that’s where I lose all respect. If Australia wants to be taken seriously as a modern society, it needs to be honest about things. The plight of the poor Outback farmer is in reality about the practice of putting cattle and sheep into well known drought prone areas under the premise that if it rains they make a lot of money for Australia and if it doesn’t, the livestock dies a miserable death. Ever seen them muster cattle in the outback by chasing and knocking them down “gently” with a large 4WD? We have become a plutocracy, with the majority of Australians kept clueless about most things, and with over 2 million having just arrived here in the last decade, still trying to find their bearings. Now and then you hear about another scandal like recently, the practice of *live-baiting* in the greyhound “industry” that’s gone on for decades, but most official investigations fizzle out and soon it’s back to status quo. Speaking of Australian culture, this live-baiting story (exposed by a handful of brave women) sent a chill down my spine but one prominent shock-jock thought the greyhound industry should simply stop this “nonsense”. As for being the 7th happiest country (2015) – living beyond your means will always make you happy for a while. One thing Australia does have is beautiful weather, so if you are happy to sit in the shade, drink beer, place a bet, play the pokies, you don’t mind commuting for hours to get to work or searching for a park space at the local mall, you are not bothered by the endless corruption allegations, corrupt councils, rumours about crime gangs running major construction/development sites etc., then Australia is the place for you.

**High NOM has caused Australia’s two big bubbles - household debt and house prices.** The RBA’s latest Chart Pack shows that House Prices and Household Debt to Disposable Income (now at a staggering 180%) are once again rising rapidly. Many economists believe that

Monetary Policy cannot contain a bubble once it develops and that it will run its own course. In fact the following statement from the RBA's latest Economic Outlook (page 3 – Aug 2015) conveys a sense of capitulation:

“Household credit growth has been stronger than income growth, although it remains relatively moderate by historical standards, and the debt to income ratio is expected to increase gradually.....supported by rising housing prices”.

So while the rest of the world is in the process of household debt deleveraging, we are still leveraging up to record levels. For the RBA to argue that debt growth is now relatively moderate by historical standards is simply playing with numbers. Household debt is now so big that in absolute terms adding 5% to our current debt means we are actually adding more debt in one year than back in 2004 where debt growth was +10%. This sort of misleading reporting is not evident in other OECD countries. The RBA has produced many research papers on “Household Debt and Dwelling Prices in Australia”, or “Modelling the Australian Dollar” and similar. Usually these investigations end with the conclusion that “it is difficult to estimate the appropriate level” of these things.

The health of Australia's banks and homeowners depend on land scarcity - by keeping supply low and demand high, high NOM has protected these vested interests till now. The upside of high NOM has been to avoid a recession for over 24 years, but someone has to pay the piper in the end.

Recently wealth management guru and non-bank rival Mark Bouris was asked about property values in Australia on Channel 7's morning show and his advice was *“the best rule of thumb is to look at the asset price to general income ratio where 5 times income is the sweet-spot, and apply that rule to all asset classes”*. He made the example, if the average income of people living in Chatswood was \$20,000 then a fair price for an average unit there would be \$100,000. This advice is bizarre, I don't understand it, firstly applying the 5x rule to all asset classes is nonsense and secondly, rule of thumb for owner-occupied dwelling purchases ‘in the sweet-spot’ is 3.5x to maximum 4x household disposable income, and 5x is generally considered a bubble by experts in most countries. However, even applying 5x median net household income, means the median dwelling price in Australia should not exceed about \$500K and currently in Sydney it's \$1M, Melbourne \$750,000. His advice was to buy Australian bank shares because they are an oligopoly and will *always, always* make money. But

Australian banks are currently all selling at around PE 12 – so the asset price to income is 12x (not 5x).

Am I missing something here? I was a member of the Mensa but I didn't get it. That's the problem in Australia, we have lots of oligopolies, many lacking world's best practice, run by cocky people on high incomes, and high NOM has kept them all going gangbusters, but to the detriment of many already living here.

**Australia's lack of infrastructure.** No other developed country has had such a high population growth rate as Australia, over the last 65 years the population of Australia *tripled!* Yet government debt was kept low by building *less* infrastructure than in other countries, when it should have been much more. With such high household debt, to

retain our AAA rating, government could not borrow and could not build the infrastructure we needed. We would have needed to triple the number of schools, hospitals, prisons, roads etc. One could argue that looking after the migrants once they got here was not such a concern, as long as big business got more customers and union members regularly got substantial wage increases. That may explain why many migrants living in the western suburbs don't seem that happy – the lucky country may only be lucky for some. Graz, the second largest city in Austria with a population of about 300,000 (with about 16% foreigners), has a superb 60km network of tramways serving 54 million passengers a year, yet locals there complain that a subway system like in most international cities would have been better. Sydney, with a population over 16x that of Graz, is now undertaking what the NSW Gov calls 'one of the biggest transformations ever seen in Sydney' by adding about 13km to its existing 13km light rail network at a cost of about \$2-billion to be completed in about 3 years – the "illusion of action" seems to work. Vienna with a population of 2 million has 180km of tramways and a modern 80km metro/subway system. Most of Australia's frustrated commuters would never have travelled on the Hong Kong, Singapore, Paris or London metros. And all these cities arguably also have a better road system than our cities. Even the tiny tourist town of St. Wolfgang in Austria, with a population of just 2800, has a 700m long tunnel, built in 1993 to take the extra traffic away from the town centre. Where is Bondi's tunnel, where is Manly's tunnel, where is Terrigal's tunnel?

You would think that the government would at least try to organise a reliable taxi service for its frustrated commuters, but then again, we are a plutocracy and the taxi-lobby is strong. And if I ever had trouble with a customer on a Saturday night, it would take the police an hour to arrive, with the station just 5 km away. Mostly I had to sort out any problems on my own.

Comparing how much we spend on infrastructure with other countries is also misleading – our latest piece of infrastructure, the \$300 million, 200m Barangaroo pedestrian tunnel Wynyard Walk has cost well over *20-times* as much to construct as a similar tunnel in Europe would cost. Australia now has 5 times as many billionaires and much higher wages than back in 2001, but productivity per capita has gone backwards, and the best we have to show for it all is a 200m pedestrian tunnel. High population growth in Australia has also led to short cuts in high rise dwelling construction, for example lack of sound proofing – most CBD residential towers have only single glaze windows and residents have to put up with constant traffic noise even on the 20th floor (most CBD units in Europe generally have triple glazed windows where you can't hear a sound). The work of some of the largest residential high-rise construction firms in Australia is absolutely shoddy, and the courts are clogged with defects claims. This would not be tolerated in other countries. In 2001 a developer in Europe told me they were lucky to make 10% profit on any residential apartment development.

And what about our Healthcare system? Almost 30% of all jobs created in the last 5 years are in Health, Health created half a million new jobs in the last 12 years, now employing over 1.5 million or about 13% of the workforce. Yet if you have spent some time in a hospital, it's chaotic. On just one ward of 60 beds, all nine rooms with just a single bed were apparently occupied by patients carrying a dangerously infectious superbug. While I was there caring for my father who was dying of a melanoma in 2013 I learned that he had

actually tested positive a year earlier, but we were never informed (having been told a year before that it wouldn't prove malignant). Most of the work done by GPs and hospitals is paperwork, yet here it failed. In other countries if you come into a public hospital and you have private health insurance, *you get upgraded!* Not in Australia. Many argue that private health insurance is a waste of money in Australia. Staff in Australian hospitals don't get informed about whether you have paid tens of thousands of dollars on private health insurance or if you paid nothing – in Australia's public hospitals everyone gets the same treatment. Yet for most treatments and operations, private patients end up in a public hospital anyway – because that's where the funding goes and the necessary equipment is found. It would make far more sense to put public and private hospitals together, just with different sections.

And then there's the envy of the world, our \$2-trillion superannuation industry, our pride and joy, Australia's retirement nest egg, with apparently *85.000 employees*, and with about \$433 billion *controlled by unions* (Keating's 1992 Labour Government 'gift' to Australia). Now, after 23 years of super, APRA wants to change the rules to 'safeguard the integrity' of super. No matter what it is, we always seem to close the gate after the horse has bolted. For example I find there is a conflict of interest when superannuation money is used to purchase CBD office towers, at inflated prices, being built by large construction firms with close ties to unions. One such tower was built in Sydney and sold to a Super Fund about 16 years ago. As far as I can tell, a *larger* tower could have been purchased *in Manhattan* for the same price at the time. Most of this \$2-trillion in super is invested in Australian assets, so as the dollar falls so does the value of our nest-egg internationally.

**The lack of entertainment in Australia.** Clubs have become very powerful lobby groups and this is something that started only about 30 years ago once poker machines became more sophisticated and we effectively turned almost every club in every town into a bigger and bigger casino. Thanks to the poker machine profits, clubs grew rapidly in size, and employed more and more people from the community, creating a powerful lobby group in each town (Clubs NSW for example has 42.000 employees compared to 62.000 in the NSW Teachers Federation). Then owners of pubs became wealthier and more powerful after their lobby groups scored poker machine licences for pubs. In Australia community spirit mostly revolves around clubs and pubs, but in reality clubs and pubs only contribute a very small token amount of their revenues toward community activities. Basically pubs are designed to enhance the profits of pub-owners, and a large portion of the revenue of clubs goes towards the wages of club-employees, thanks to their generously negotiated remuneration awards (overseas hospitality workers can only dream about such wages). Clubs and pubs spend a lot on advertising so the media is very reluctant to say anything negative. Tim Costello describes the poker machine industry as a rort and a manipulation of communities on a grand scale with the governments beholden to them.

Overseas councils contribute financially to many annual functions and festivals organised by numerous local groups. These activities help promote a community spirit, give people a sense of belonging and keep them entertained. Also, one of the first things that strikes you when travelling in most other developed economies overseas is the total lack of menacing "bouncers", security gorillas, standing outside and inside venues at night. One also sees very few pumped-up, steroid-enhanced body builders, something that is very common in

Australia. Drugs and violence go hand in hand. But Australia has always nurtured a culture of biffy and violence. Football is a dementia factory. Back in the sixties when I went to school in Sydney and on the Central Coast, school fights and bullying was a problem, and now 55 years later it's still a big problem. Domestic violence has reached epidemic proportions. We can't fix the problems we've already got but with high migration we are importing more problems. Overseas, under age drinking and drug use are not a big problem and don't require the resources needed in Australia. Instead of taking the \$1 trillion mining boom gift we were given, a 1-in-100 year gift to the Lucky Country, to finally get things in order, if you ask me we blew it. Australia may be a very ethnically diverse country but apart from it's fascinating vastness and warm weather do we really have much else to offer migrants wishing to come here?

Usually the peer group response in Australia has always been 'if you don't like it why don't you just go back to where you came from?'. It's just possible that some migrants might really 'go back' one day, if they see what's going on in their home countries in the way of progress, compared to here. I think it's possible that a country can have a lot of luxury homes and penthouses, yet still end up being a banana republic.

Is it really 35 years since Joe Dolce recorded "It's-a not so bad; Shaddap You Face"? Maybe too many Australians followed that advice....? Having spent much time and effort myself on researching this topic, I'm now reluctant to make any further contribution to this debate. I have better things to do.

All the Best