

APRIL 4 MICHAEL PASCOE

Keeping Perspective – Economics, Politics & Life.

Michael Pascoe lived up to his reputation with an erudite thought-provoking overview of Australian finance and economics, looking at where the national economy is, how it got here, and the things that need to be addressed to get where it ought to go.

Later he diverted to his thoughts at a more personal level, drawing on themes from a semi-autobiography that he has written on his upbringing in rural Queensland and Brisbane boarding school, then later life realisation through old friendships and serious illness to what is really important in one's life.

His assessment of the economy focused on the recent performances of several Treasurers and the Reserve Bank, describing trends by use of many Reserve Bank charts, and the actions taken through the various cycles.

Covid led to the RBA "moneyarama", doing whatever it took to give a 0.1% cash rate, buying \$356b govt bonds, plus \$188b in the Term Funding Facility, signalling the end of its monetary piece of string. Arising from this, the Reserve Bank reserves disappeared. Meanwhile, given the cheap money, households used it to buy real estate, leading to massive housing prices and household debt (to record levels as % of disposable income). It also brought very low unemployment (to 1975 level), which has been good. Non-mineral/energy businesses also invested heavily in property, much more so than in revenue-creating investment in plant and equipment, hence productivity growth performance is poor overall.

A major complication has been inflation. The Reserve Bank mandate to try to keep CPI in the 2-3% range, led to raising interest rates at unprecedented frequency, with the press converting the RBA Governor from hero to villain. Per capita real consumption was negative in the Dec quarter, with real household disposable income 5% below a year ago. It is worse in real terms than during the 1990 recession. This picture gets even worse for many mortgage holders, who will transition from low fixed rates to much higher repayments over coming months. 15% of borrowers may be pushed into negative spare cash with a risk of defaulting. Meantime a housing crisis is arising because residential vacancy rates have plummeted, while social housing construction has barely changed.

However, he does not see a recession short term, because Australians will go to great lengths to keep their home rather than default. Many vulnerable people will be able to get extra jobs, plus the demand economy will be helped by the current surge in immigration. Australia is rich, running fantastic current account surpluses, with an extraordinary good trade balance, doing very well compared with most overseas countries, and having solid financial institutions. We do have a highly educated workforce, though it needs to get better and adapt as skills will change with emerging AI.

He decried the lack of perspective these days among politicians and sections of the press. This and a projector problem (which omitted slides on various government rorts, massive transport infrastructure spending, distortion between profit growth and wages, Trump etc), led to a segue into his recent book about keeping life in perspective. The "Summertime of our Dreams" looks back to his growing up in Outback Queensland, at a time when most left school at 15 and joined the workforce, saving to get a car and get a house by their mid-20s, starkly different to now.

It was written as a tribute to his parents; both lacking formal education, his father's frequent absences from home, his mother's intelligence and guidance, being driven to provide for their children what they themselves had been denied. Their values have guided Michael through life.

Aside from tracing his school days boarding at Nudgee, he gave snapshots of his early working life in Hong Kong and then in a career in journalism back in Australia, and his own family. He then had epiphanies, initially during a school reunion and then later as a special relationship reforged with an old school friend who was facing cancer and imminent death. These unusually deep man-to-man chats about what was really important, especially family and friendship with his friend and others, the bonds formed on the rugby field, etc, all became very important to him.

Later he faced his own health challenges, drawing on the past discussions with his friend. He read a couple of elegantly written passages from the book, giving poignancy and perspective to what is really important. Several fine questions on a very wide range of topics (immigration, writing, India, negative interest rates, productivity subsidies) were all deftly and expertly answered.

Then Max Moore-Wilton gave a superb Vote of Thanks, amusingly acknowledging his own past and leading to the respect well deserved for presenting us with such a fine analysis of the current economic challenges, plus showing us Michael's lyrical side as described in his book, of a man who not only thinks about the big issues but also the timeless issues of life.

The Summertime of our Dreams can be purchased through good bookshops, or through Booktopia.com.au. If a member prefers an ebook or audio book, contact John Doherty who can provide a link.

Peter James