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Commonwealth Debt Management Review

Dear Sir / Madam

I would like to offer the following submission to the Review of the Commonwealth Government Securities Market.

I do not agree there should be a role for the Commonwealth Government in the securities market. This has led to long-term debt being used for: pricing other financial products; as a reference for other financial products; for managing financial risk; as a vehicle for long-term investment; implementation of monetary policy; as a safe haven in times of financial instability; to attracting foreign capital inflow and promoting Australia as a global financial centre.

Neither Commonwealth nor State governments create wealth. They are a net consumer of private wealth. The market can very well create wealth without Government assistance. Hence, the argument for the continuity for CGS as a referent for other financial products, pricing financial products or as a vehicle for long term investment is pretentious. It is not required. The market will always find other investment vehicles and also a measure for risk free return.

I firmly disagree with active monetary policy and support the diminution of central bank fiat money, along with the legislative authority to manipulate interest rates via monetary policy. Hence, even though the Reserve Bank will have other financial tools to undertake monetary policy, I welcome the diminution of CGS as one of those financial vehicles. Again, I propose the argument advocated in the above paragraph, to answer the concern that CGS behave as a safe haven in times of financial instability. Even if there were no government bond market, the self-interest and profit motive of market participants would provide alternative sources of financial stability, albeit this concern has been previously well served by the CGS market.

There is also the argument that a CGS market will attract foreign capital and serve to encourage Australia to be a global finance centre. It is better that capital is attracted for investment purposes in Australia (e.g. corporate bonds) rather than simply attracting investment into Government bonds. Also, Australia will maintain its status as a global finance centre if the market is allowed to furnish lucrative capital investment projects for foreign investors.

I support option one (1): Winding down the Commonwealth Government Securities market. I support the option for the Government to allow all outstanding debt to mature. Even with ongoing budget surpluses, the building up of substantial financial asset holdings over time should be a signal for fiscal responsibility, in that the Government should simply return such funds to taxpayers or reduce taxes. This would lead to a net increase in the wealth of ordinary Australians.

Yours sincerely

Troy Lynch