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Commonwealth Debt Management Review Office  
C/- Department of the Treasury  
Langton Crescent  
PARKES ACT 2600

Dear Review Office

## REVIEW OF THE COMMONWEALTH GOVERNMENT SECURITIES MARKET

I welcome the opportunity presented before the Australian public by the Department of Treasury to comment on the future of the Commonwealth Government Securities (CGS) market. Whether the ultimate decision will need to be made now or at some point in the future, I believe that this discussion is important in conceptualizing the justifications for the institutional framework of the nation. If we are to move in one direction or another we must do so consciously, not as a result of an inertia that we never bothered to define.

I believe that once the government has the means with which to retire its outstanding debt a market for CGS's has no justification in a liberal democracy such as Australia. Many of the arguments put forward both in favour of the continuance of the market and for its diminution tend to have taken some form of a cost benefit approach to the issue, assuming that the greatest addition to wealth (or least subtraction of wealth) should be the criterion by which the ultimate decision is made. I would like to propose that such a methodology is fraught with problems and can lead to an unintended dilution of the very principals by which our government is called into existence.

We can not know with any certainty what the best of outcomes should be, not because of any lack of sophistication in our calculations, but because the information needed simply does not yet exist. No one person, or body of persons could possibly know enough to steer an entire market, much less an entire economy in one direction or another for the ultimate benefit of the participants. The information required resides in the conscious and unconscious decisions made by myriads of private individuals who collectively make up the market and thus society, each utilizing their own limited amounts of information to shape the outcomes of their interactions. Often such persons are influenced by the actions of others, and often they follow rules in making their decisions of which they are not themselves fully conscious of.

Statements in defense of the continuance of the CGS market often cite the current institutional framework of the financial markets of Australia and the role which CGS's play within this framework. They make many references to the way CGS's are used as a proxy for a risk free asset, their subsequent usefulness in pricing other financial products, managing financial risks, providing a safe haven investment option, and a host of secondary macro effects such as reducing overall financial

volatility, reducing the cost of capital and attracting foreign capital inflows. I concede that as long as a sufficiently deep market in CGS's is maintained it will continue to fill the above roles outlined for them, and continue to have broad effects on the macroeconomic fundamentals of the nation, even if these are not fully identifiable as they cannot be isolated and quantified in the proper scientific manner. I also concede that the removal of the CGS market will no doubt produce some painful changes as alternatives are sought out and long standing practices become obsolete.

Moving meticulously through each of the proposed uses and benefits of the CGS market and describing how the markets would function in their absence is not the purpose of my submission, as I believe that such a task has already been undertaken by a number of other participants in this debate with varying degrees of aptitude. My point is rather to highlight that by the government abandoning its current function of providing a "risk free" asset for the financial markets of the nation it would not necessarily be exterminating the existence of such a security, rather it would be passing its provision to the realm of free enterprise. That such an asset is demanded by participants in the market is enough to assure us of the fact that there will be organisations compelled to provide it. What form such alternatives may take is impossible to fully predict, but we can be sure of the fact that organisations will strive together, whether in competition or co-operation to furnish the best possible product.

I argue that this very act of striving to fulfill the demand for a risk free asset will fundamentally change the institutional landscape of the financial markets. Organisations which attempt to provide a risk free asset for investors will have nothing but their reputation, transparency, soundness of management, and perceived responsibility to bolster the success of their product. For too long now financial institutions both in Australia and around the world been able to neglect these concepts in the running of their businesses, due to the effect of government attempts to guarantee such functions for the consumers of financial products. With each governmental imposition upon financial markets the tenuous relations that exist both between organisations and between providers and consumers of financial products to ensure the safety of their contractual relations are further eroded and replaced with a centralized alternative. This then frees competing organisations from the need to guarantee their own trustworthiness, as the government now supposedly does this, and allows the organisations to focus more specifically on short term profit maximization, provided they are seen to be meeting the minimum standards required under legislation. A brief look at some of the financial collapses over the last few years will serve to highlight the inadequacy of governmental attempts to ensure the prevalence of sound practice in the financial markets or any markets for that matter.

Therefore, if we are truly a free society, comprised of free and enterprising individuals and organisations the government has not only the choice, but also the duty to abandon the CGS market once it is able to retire its debt obligations. The compulsion to continue to CGS market must be seen for what it is: a combination of self interested parties trying to perpetuate their own privileged positions, and a fear of the uncertainty of true freedom. No, we can not guarantee what will happen if the CGS market is removed, but what we can guarantee is that we will have moved closer to the attainment of a truly free society, and with it a free market economy. No amount of statistical evidence will ever be enough to convince determined minds of

whether a free market is the optimal means to generate wealth, but without a free market we forgo freedom, and that the government never has the right to take.

Please feel free to contact me if you require further elaboration on any of the above points.

Yours sincerely,

Rowan Parchi