

Of Fiduciary Responsibility

John Hyde

My daughter asked me if she should place her savings with the West Australian Teachers' Credit Society; it was offering some two per cent better interest than Westpac. I gave her a patronising lecture to the effect that since no-one pays more interest than he must, there must be a reason why 'Teachers' could not get their money more cheaply. I later heard it referred to as the 'Kamikaze Bank'. She took my advice. Shortly thereafter when another small credit union collapsed and was wound up, I felt vindicated.

A friend was asked the same question by his wife but he answered quite differently. He said Teachers' has close connections with the union movement and friends in the government; if it crashes, the Government will bail it out. Your money may be tied up for a while but it will be safe; take the high interest while you can.

He, not I, was proved right. When the Teachers' Credit Society got into trouble the R & I Bank, in which the State Government has the majority holding, took it over. The R & I did not have to beat away competitors wanting a share of Teachers' carcass. An unfortunate precedent was set and a bad message went out to investors and intermediaries alike. The message was that friends in the government are negotiable assets; that the authority of the state stands behind people close to the government.

It does not back everyone, however. Two years ago the bottom fell out of farm-land. Within the space of a year farmers suffered paper losses of about half their capital--- about the same proportional fall as the stock market so far. Some of the more highly-g geared were forced into bankruptcy. One who farms near my farm was too small to interest the government. His land, sheds, machinery and livestock changed ownership and management. He suffered an unwanted change of lifestyle and his creditors, from stock agents to fuel agents, lost money. West Australians enjoy a socialist government, therefore they must be equal, but it seems some are more equal than others.

When Rothwells Merchant Bank was faced with the prospect of closing its doors several leading corporate investors chipped in for Rothwells. I believe they acted from self-interest rather than charity. They should: they have shareholders of their own to serve. My only reaction to the private investment in Rothwells is respect for the efficiency of the operation.

Mr Connell put a large part of his personal fortune into Rothwells in its hour of crisis. I have an old-fashioned view of business ethics which argues that that is the decent thing to do when a corporate entity's reputation is closely linked to one's own. He did, and I therefore have no quarrel with Mr Connell.

Rothwells went cap in hand to the government. While I would sooner live in a society where that sort of thing is a waste of effort, we are all mendicants who demand and get some alms from the state which is profligate in its generosity. It is a bit rough to criticize Mr Connell for asking for help. The ethics of a government which accedes to such a request are quite another matter.

Although Rothwells has to pay higher interest than some institutions, it enjoys the status of an authorised trustee under WA's trusteeship laws. Those laws are now properly the subject of debate; perhaps they should be less liberal and perhaps people who rely too heavily on the letter of the law when investing trust monies deserve to lose reputations. However those questions are ultimately settled, there can be little doubt that the government has breached its fiduciary responsibility to its involuntary depositors, the taxpayers. The government has a responsibility to future taxpayers which should prevent it guaranteeing Rothwells' creditors. Over the past few months the WA government has given surety for debts equivalent to about 20% of its annual tax take.

That the parliament had the legal authority to incur these liabilities is not questioned. However, Parliament's authority should not be used to dispense grace and favour to a chosen few---the mates of the Premier, subscribers to the Labor Party's Curtin Foundation, or the big players. There is the sickly sweet smell of corruption pervading West Australian politics. The Labor Party is committing the very sins for which, over many years, it has condemned the Queensland Nationals. And it is committing them on a grand scale. Examples include the Argyle Diamonds trust, the Fremantle Gas and Coke purchase and sale, sale of the Midland Abattoir site, Superannuation Board finance for the Anchorage Project, and dealing in the old Swan Brewery and Perth Technical College sites---when the government was not seen to be at arm's length from other interested parties.

Of course there are also disgraceful precedents from the other side of politics---taxpayer's funds squandered on a bankrupt entertainment centre and a canning factory and, in the Federal sphere, support for the Woodsreef Asbestos mine. Taxpayers' money is not MPs' money and they cannot escape the responsibilities of trustees. When they employ public funds for private ends they break their trust as certainly as a lawyer who uses his trust account to finance his brother's fish shop. Governments that do these things are corrupt.

Governments are authorised to act in the public (or general) interest. A public interest case for propping up Rothwells, or Rothwells' creditors, might have been sustained if:

! but for the government's help, Rothwells really would have defaulted (which is probably to say Rothwells' corporate backers would have backed it no further), and if
! in defaulting, it might have caused several other financial dominoes to fall.

But the people best able to decide that are the officers of the Reserve Bank. They not only have the expertise but they have no Curtin Foundations to affect their judgment.

Australia is not the Philippines; in the terms of our traditions government favouritism is corruption. If the stock market slide infects other markets many more people will look to the government for help. If that happens governments free from taint of favouritism will be important community assets.

Speaking of assets: I had intended to list the Burke Government's friendship among the more important assets of my forthcoming float---No Hope Gold NL---but how can I be sure that it has not now been withdrawn?

ENDS