

## FINANCIAL REVIEW

## Dick Smith just bad shopkeeping

It's ironic that what began as a nerdy electronics hobbyist store – emblazoned with the bespectacled image of founder Dick Smith himself – should fold as an unfocused mess, mixing up its shelves of exotic gadgets with cheap kettles and toasters, and unsure of what it really stood for.

Mr Smith started his retail chain in 1968 for \$610, and sold it to Woolworths for \$25 million in 1982. They sold it to private equiters Anchorage Capital for \$94 million in 2012, who floated it for over five times that amount two years ago. That equity is now almost wiped out. It owes its banks \$150 million.

Mr Smith, who also campaigns for a smaller future Australian population, rather oddly blames the debacle on too much economic growth – represented for him by greedy investors and the share markets in which the retailer flourished. But without decent national economic growth (and plenty of investment in it), all retailing is in deep trouble.

The simpler explanation is that Dick Smith was eaten by a massive inventory burden it could not unload after miscalculating the market. Nervous suppliers tightened their credit terms, forcing the retailer to increasingly rely on bank debt. It took a \$60 million write-down on the stock two months ago. When a disastrous Christmas fire sale failed to shift enough of it, the situation deteriorated even faster. The banks declined to take further risk, and administration beckoned.

Many are now pointing the finger at private equity for dressing up a company for market at an inflated price. But the record of private equity is too varied to blame it as a class; many other faded gems have been saved in private equity ownership.

In their glory days, the Dick Smith stores had ridden the 1970s CB radio boom and the arrival of personal computing in the 1980s. But competition got more intense and in the end, retail is detail. The company's shops were often understaffed and disorganised, and too cramped to host the huge product ranges that customers want to see.

They had been repeatedly rebranded and product lines switched around through the years. But against the comfortable mum-and-dad feel of Harvey Norman and the youthful industrial-grunge look of JB Hi-Fi, the Dick Smith shops somehow managed to lose whatever niche they had.

Gerry Harvey once suggested that retailing is simple: at least, he said, it is when compared to picking race horses. But it comes down to the right products shown in the right way at the right prices. Oh, and some underlying economic growth helps too.

## Hong Kong's disappeared

It's one of the more sinister scenarios that Hong Kongers could imagine before the 1997 handover to China: political dissidents simply disappearing off the city's streets without explanation.

Last week a fifth man associated with Mighty Current Media, which publishes books critical of China, disappeared. Lee Bo called his wife to say that he was over the border in China – he appears to have been spirited there, with no record of him crossing – and assisting with an investigation. Four colleagues vanished last October.

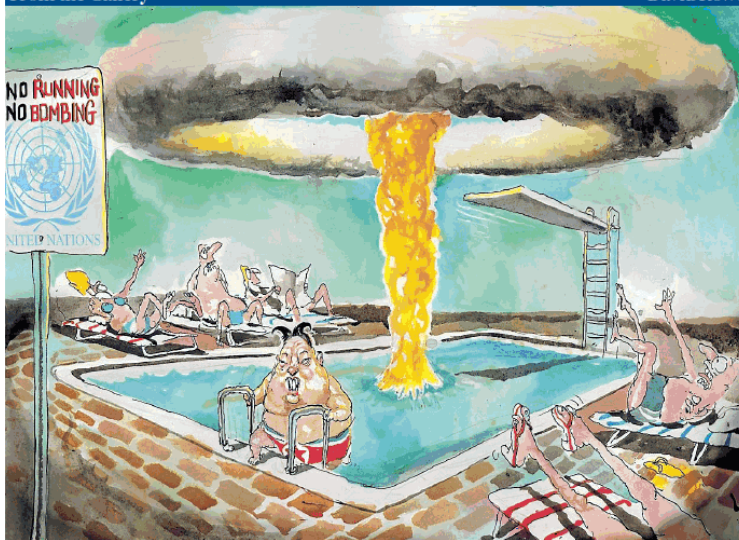
China under President Xi Jinping is cracking down on the evil of corruption, a threat to Communist Party rule. Chinese agents are pursuing suspects around the world. But they seem to be sweeping up political irritants too.

In pre-1997 Hong Kong, publishers could print freely. The British territory was not a democracy, but it was and still is ruled by law. The law is what makes Hong Kong different to China, and it does not include arbitrary disappearances of residents of this special administrative region.

Hong Kong's autonomous status under Chinese rule is becoming increasingly fragile. By the time of the great Occupy Central protests in 2014, it was clear that the handover had gone sour. The disappearances suggest China no longer really cares. It should: there is a lot at stake for its own development as a reformed economy.

From the Gallery

David Rowe



## Malcolm can take the middle

## Politics

The Prime Minister can drive market-based reforms that neither Labor nor his Liberal predecessor were capable of carrying out.



Richard Holden

A lot has been written in recent months about what a different and transformational Prime Minister Malcolm Turnbull has the potential to be. Some of it is even correct.

Turnbull is pro-market. He clearly believes that markets are a powerful force for steering resources to their best use – better than social engineering from the left or the right. This contrasts with his predecessor, Tony Abbott, who was pro-business, but had what bordered on contempt for markets themselves. It also contrasts with the current Labor philosophy which emphasises all kinds of interventions in markets, even when they function well.

Here are five areas where the pro-market approach could lead to bold and important reforms: the GST, childcare, infrastructure, university funding and the environment.

The big political topic for 2016 will be the GST, and whether the Coalition will support raising the rate to, say, 15 per cent and perhaps broadening the base to cover the roughly 50 per cent of goods and services that are currently exempted. Turnbull has already made clear that the regressive nature of an increase to the GST can and should be dealt with via compensation for lower-income earners. This is both good economics and good politics. Turnbull is suggesting what economists call a "Pareto improvement". If you make the pie bigger then you can cut it up to make everyone better off. Only someone with a genuine understanding of, and faith in markets, would frame the issue like this.

On childcare we have a tortured mess of a system. There is a simple cut-through: make childcare tax deductible and provide a subsidy for low-income earners. We allow tax deductibility of other work expenses and, for many families, childcare is a threshold issue for at least one parent returning to the workforce. The playing field between self-provided and externally-provided childcare is radically uneven – and it becomes more uneven the higher the earning power (and hence marginal tax rate) of the stay-at-home parent is. Labor can't be for this because it is painted as a benefit for high-income women. Conservatives are against it because it would cause more women to go back to work. Turnbull is alone in the sane middle ground.

A number of large infrastructure projects have been held up because the Abbott government bizarrely refused to allow cost-

benefit analysis to be done. Furthermore, the mantra of "deficits bad" made it hard to spend such large sums, even though they were wise investments. Turnbull's private sector experience – where cost-benefit analysis is the lingua franca – puts him in a good position to advocate these projects. He might also consider a change to government accounting to keep track of spending on investments versus recurrent expenditure. No private sector company would confuse capital expenditure with ordinary expenses, but government accounting forces the Commonwealth to make that error. Turnbull can easily finesse this with reference to his private-sector experience.

Abbott tried to radically overhaul higher education through fee deregulation and, despite having all but one vice chancellor on side, failed completely. Turnbull seems to appreciate that innovation is important, as is having at least one or two genuinely world-class institutions. But to provide those resources to all Australian universities is prohibitively expensive. What is needed is acknowledgment that what Australian tertiary education should aspire to be is like the extraordinary University of California system – ranging from fairly vocational education to research-intensive institutions with Nobel laureates. Allowing the G8 to increase fees for their already more prestigious offerings and dropping the pretense that every Australian university should aspire to be in the global top 20, is a no-brainer. Turnbull can triangulate to this position in a way that Labor can't and conservatives won't.

Finally, there's the environment. Turnbull will clearly need to be careful with his stance, lest he offend his base. But an exchange in question time late last year shows his true thinking and great advantage on the issue.

When pressed by Opposition Leader Bill Shorten as to matching Labor's renewable energy target pledge, the PM repeatedly pointed out that Shorten was "confusing ends and means". Turnbull said succinctly that he wants to reduce carbon emissions, but it was unclear that renewable energy targets were the best means to do so. Anyone who thinks a government plan rather than markets and prices are the answer should reflect on how Soviet and Chinese central economic plans worked out.

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