OECD
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

AUSTRALIA

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

DECEMBER 1972

André Vuillermy

BASIC STATISTICS OF AUSTRALIA

THE LAND

Area (1 000 sq.km)	7 686.8	Urban population, 1971, % of total (cities over 100 000)	64
Agricultural area, 1968, % of total	63.8	Population of major cities, 30.6.71 (1 000):	
Tillage and temporary grassland, 1968, % of total	5.8	Sydney	2 800
		Melbourne	2 498
		Brisbane	866
		Adelaide	843
		Perth	701

THE PEOPLE

Population, 30.6.1971 (1 000)	12 728	Civilian employment, 1971 (1 000)	5 425
No. of inhabitants per sq.km	1,5	*of which:* Manufacturing (plus electricity, gas and water)	1 560
Natural increase rate, per 1 000 inhabitants, average 1960-1970	12.0		
Net immigration rate, per 1 000 inhabitants, average 1960-1970	8.2		

PARLIAMENT AND GOVERNMENT

Present composition of Parliament:

Party	Senate	House of Representatives[1]
—	—	—
Australian Country Party	5	20
Liberal Party of Australia	21	46
Australian Labour Party	26	59
Australian Democratic Labour Party	5	—
Other	3	—
Total	60	125

Present Government: Liberal/Country Party coalition
Next general elections for House of Representatives: 2 December 1972

PRODUCTION[2]

Gross National Product, 1971 ($ A million)	33 107	Gross fixed capital formation, 1971 Percentage of GNP	26.4
GNP per head (US $)	3 098	Per head (US $)	859

THE PUBLIC SECTOR % of GNP in 1971[2]

Expenditure on goods and services	12.9	Current revenue	29.1
Current transfers	6.2	*of which:* Direct taxes	15.4

FOREIGN TRADE

Exports[2]		Imports[2]	
Main exports in 1972, % of total:		Main imports in 1972, % of total:	
Food and live animals	35.3	Machinery and transport equipment	37.0
Crude materials, inedible, except fuels	27.4	Manufactured goods	21.3
Manufactured goods	11.5	Miscellaneous manufactured articles	10.8
Machinery and transport equipment	7.7	Chemicals	10.2

THE CURRENCY

Monetary unit: Australian dollar		Currency unit per US Dollar:	0.8396[1]

1 Since the EDRC review of Australia on 20 November 1972 there have been two important developments. The Australian Labour Party was voted into office in the general elections on 2 December and has a majority of 9 seats in the new House of Representatives. The parity of the Australian dollar was revalued by 4.85 % on 23 December 1972. The market rate was fixed at the new parity against the US dollar. The new market rate of $ A 0.7843 per US dollar represents an appreciation of 7.05 % on the former market rate.
2 Fiscal year ended 30 June.

Note: An international comparison of certain basic statistics is given in an annex table.

OECD ECONOMIC SURVEYS

AUSTRALIA

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The Organisation for Economic Co-operation and Development (OECD) was set up under a Convention signed in Paris on 14th December, 1960, which provides that the OECD shall promote policies designed:

- *to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;*
- *to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development;*
- *to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.*

The Members of OECD are Australia, Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

The Socialist Federal Republic of Yugoslavia is associated in certain work of the OECD, particularly that of the Economic and Development Review Committee.

This Survey was prepared in November 1972 by the Economic and Development Review Committee which had discussions with officials of the Australian Government. The Committee held its first Annual Review of Australia on 20th November 1972. A change of government occurred as a result of elections on 2nd December 1972.

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DIAGRAMS

This Survey does not take account of measures announced by the Government which assumed office after the general elections held on 2nd December 1972. On 23rd December the Australian dollar was revalued by 4.85 per cent from the previous parity or by 7.05 per cent from the effective market rate.

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I INTRODUCTION

Australia, which became the 23rd member of the OECD in June 1971, is a relatively "young" country. Although earlier landings are reported, it was not until 1770 that possession was formally taken of the continent's eastern coast in the name of the British Crown. Colonisation began in inauspicious circumstances with the arrival of the first convict fleet in 1788. During the 19th century free immigrant settlers gradually extended British sovereignty to the entire country. Six "Colonies" were established and attained self-government with respect to domestic matters in the latter half of the century. The Commonwealth of Australia came into being on January 1, 1901, with federation of the six Colonies by virtue of an Act of the United Kingdom Parliament. This Act, the Commonwealth of Australia Constitution Act, established the federation's complete independence from the mother country and forms the Australian Constitution. The federal system remains to this day— a source of some obstacles to efficient government but firmly rooted in the political institutions and public opinion of the various States[1].

The surface area of Australia exceeds that of all Western Europe and approximates that of the continental United States excluding Alaska. The distance from Sydney in the east to Perth in the west is about 3 400 km by air, equivalent to that between London and Damascus (or Gander, Newfoundland). The population of 13 millions, less than that of the Netherlands, lives almost exclusively in the non-tropical coastal fringe, with the greatest concentration in the southeast corner, and in large towns and cities[2]. The main explanation for the low density of population is the same as for the northern half of Africa: most of the interior is either uninhabitable or at best usable for sparse pasture, apart from isolated mining settlements. Almost half the total area receives on average less than 250 millimeters of rain per year. Over almost three-quarters of the continent rainfall is exceeded by evaporation and is unusually variable (there are sheep stations where it rains once every 2-5 years).

From the earliest days, Australian attitudes and policies have been profoundly influenced by the country's empty spaces and harsh environment. To fill some of the empty spaces and develop the country's natural resources by bringing in people and capital has been an imperative of national policy that has begun to be questioned only in very recent years. Until World War II, the inflow of people came almost entirely from the

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1 See Annex A for an account of Australia's system of government.

2 No less than 41 per cent of the total population live in the two largest cities, Sydney and Melbourne, and a further 21 per cent in other cities of more than 100 000 inhabitants.

British Isles[1]. Since then, nearly one-half the immigrants, some 1.4 million, have come from continental Europe (and in recent years some 8 000 a year from Asia)[2]. The inflow of capital during the 19th century, also almost wholly from the United Kingdom, took the form partly of loans raised in London by colonial governments for railways and other public works, and partly of private investment, direct and through banks and finance companies, in the developing rural industries and later mining and some manufacturing. Since World War II, capital inflow has consisted almost entirely of private direct and portfolio investment mainly in manufacturing and more recently in mineral development, and has come from the United Kingdom (45 per cent), the United States (40 per cent) and from various other countries including recently some from Japan. Despite century-long efforts by Australian governments to encourage settlement in rural areas and "decentralisation of industry" most of the people and most of the capital have, for basic economic reasons, flowed into the cities. It is the relatively labour-intensive rural industries, such as dairying, dried and fresh fruit and sugar, which have in part resulted from policies for closer settlement, that are among the high-cost industries requiring subsidies or other forms of protection. The same might be said of those parts of textile and other manufacturing industries which were encouraged by earlier efforts towards decentralisation. Recent questioning of the policy of large-scale immigration has been based mainly on concern about urban problems and doubts whether the economic benefits justify the social and other capital costs of equipping a rapidly growing population. Public criticism of the open-door policy for foreign investment has fastened mainly on concern over foreign ownership and control of Australian industry. Yet, development, which in Australia means population growth as well as growth of income per head, remains central to the thinking of most Australians about national policy objectives.

The unfavourable natural environment, with its constant menaces of drought and flood and its enormous distances, induced social attitudes and public policies in Australia rather different from those characteristic of 19th century America, with its emphasis on private initiative and competition. Its effects were reinforced by the very different background of most of the immigrant settlers. Unlike the waves of immigrants to the United States who came mostly from pre-industrial societies, most of Australia's immigrants came from British industrial cities and were urban working-class people, not a few imbued with the ideals of the incipient trade union movement. An egalitarian philosophy thus permeated not only the labour movement, which was able to organise and to gain political influence relatively early in Australia, but a broad cross-section of the community.

The impact on the country's economic and social development has been profound. One effect was acceptance, even in the heyday of laissez-

1 At the 1947 census, only 2 per cent of the population was of non-British origin.

2 Opposition, especially by organised labour, to the introduction of indentured labour from the Pacific islands led to the adoption of the " White Australia Policy " in the 1890s. In recent years, the " restrictive immigration policy " has been liberalised to admit immigrants from Asian countries in numbers and with qualifications likely to facilitate assimilation.

faire liberalism, of a relatively large measure of government intervention in the economy and a relatively large public sector. Railways and other public utilities have always been almost exclusively public enterprises, while in the more commercially viable fields of transport and communications (e.g. shipping, airlines, radio and television) as well as in banking and insurance, state and private enterprise commonly compete. A no less important effect has been a widely felt sense of obligation to protect the small man— be he worker, shopkeeper, farmer or manufacturer— and a generally protectionist commercial philosophy extending to the protection of both capital and labour. Australia's position as a pioneer of the Welfare State in social security and labour legislation, Australia's system of compulsory arbitration to resolve labour market disputes and its price support schemes for farmers and tariff protection for manufacturing industries, all these may be regarded as manifestations of this attitude. Perhaps in consequence, income and wealth appear to be relatively evenly distributed[1].

The Australian economy emerged from the limitations of a convict settlement through the development of the wool industry in the 1830s, the gold discoveries of the 1850s and an increasingly broadly based rural, mining and manufacturing development in the latter part of the 19th century. The pastoral and agricultural industries were naturally land and capital intensive, with rural holdings large by European standards, typically operated on a family basis with limited reliance on hired labour[2]. Mining, apart from gold, was for long confined mainly to silver, lead and zinc. Modern manufacturing began in the 1860s with cotton textile weaving. The application of British enterprise, capital and technology to ample natural resources yielded high living standards. Around 1860 Australia's per capita income may have been the highest in the world[3]. For most of the remainder of the century, an average annual rate of growth of real income per head of 1.2 per cent was maintained[4]. But during the half-century from 1890 to the outbreak of World War II growth slowed down, to an estimated annual rate of 0.4 per cent to 1914, and little if any growth of income per head thereafter. Among the reasons were prolonged labour unrest, droughts and a drying-up of capital inflow in the first half of the period, and the First World War and the Great Depression, with their disruptive effects on international trade and factor flows, in the second half. Another factor may have been the policy of across-the-board industrialisation which, while effective in its major objectives of reducing the country's dependence on agriculture and providing employment for immigrant labour, fostered and maintained relatively high-cost industries behind tariff walls. The Second World War gave a major new stimulus to the development of

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1 See Report of the Committee of Economic Enquiry, 1965, p. 588.

2 The median size of rural holdings in 1966 was almost 140 hectares. The immense size of " stations " (pastoral properties) on land with low carrying capacity is conveyed by the fact that the average size of all holdings is 1 950 hectares, with 1 per cent of holdings accounting for 70 per cent of the total area.

3 This may be inferred from N.G. Butlin in C. Forster (ed.), *Australian Economic Development in the Twentieth Century*, Allen & Unwin, London, 1970, p. 275.

4 Ibid.

the manufacturing sector and did something to rationalise it as many "non-essential" industries were squeezed out.

During the post-war period, economic development in Australia, as indeed almost throughout the world, has been more rapid than in any previous period of comparable length. Although the average rate of growth of income per head has been slower than in most other OECD countries, Australia has retained its place among the richest countries with an estimated per capita income (1970) about equal to that of Germany (F.R.). During the 1950s economic development concentrated on the manufacturing sector, especially and increasingly on heavier industries such as consumer durables and other engineering, steel and chemicals. In the 1960s enormous mineral discoveries gave a new shift to the emphasis of development. These domestic trends, and others in the world economy, have brought marked changes in the structure of the Australian economy in the past twenty-five years.

Between 1950 and 1960, the contribution of manufacturing to GDP rose from 24 to 29 per cent and has since remained around this figure which is higher than in either the United States or Canada, though much below that in the main Western European industrial countries (Table 1.A). In the same two decades, the contribution of agriculture to GDP declined by over two-thirds from 27 per cent to 8 per cent, while that of transport and other services rose to 50 per cent. In terms of occupational structure, the share of manufacturing in the employed civilian labour force has remained stable at a higher figure (27 per cent) than in the United States or Canada, while the share of service industries (including transport) has risen at the expense of the share of agriculture (Table 1.B). In contrast to most other OECD countries, there has been little net movement out of agriculture where incomes have, for the most part, remained above average. International comparison of the shares of the manufacturing sector in GDP and employment suggests that relative labour productivity in manufacturing in Australia remains lower than, for example, in the United States or Canada, but that the gap has narrowed.

These changes in the domestic structure of the economy have been accompanied by similar changes in the commodity structure of Australia's foreign trade. Although not a particularly open economy —the ratio of foreign trade to GDP has in recent years averaged only 12.1 per cent— Australia counts among the dozen or so major trading countries of the world in terms of total value of trade and trade per capita (Table 2). Australia's exports, unlike those of most other countries with as large a manufacturing sector, still consist predominantly of products of primary industries (including mining). Australia remains the world's largest exporter of wool (accounting for more than one-half of world exports) and an important exporter of wheat, beef and sugar. But the share of rural products in total exports has declined, partly under the impact of adverse world market trends —replacement of wool by synthetics and agricultural protection in industrial countries— from an average of above 80 per cent twenty years ago to around 50 per cent in recent years. The share of manufactures has risen to about 20 per cent while that of mineral ores

Table 1 **GDP and Civilian Employment by Sector**

		Australia	Belgium	Canada	France	Germany	Japan	Netherlands	Sweden	UK	US
A Gross Domestic Product											
Agriculture	1950	27.0	8.4	13.2	14.7	10.4	21.4	14.2	10.3	6.1	7.0
	1960	13.2	7.3	6.9	9.5	5.7	14.9	10.5	7.2	4.0	4.0
	1970	8.1	4.5	5.2	6.0	3.1	7.8	6.2	4.0	2.9	2.9
Manufacturing	1950	24.3	29.3	28.6	38.3	38.9	23,2	30.0	30.5	36.7	29.2
	1960	28.9	29.7	26.1	36.6	42.2	29.2	31.6	28.2	36.3	28.4
	1970	27.8	31.8	24.5	35.8	43.0	29.9	29.0	26.1	33.1	25.6
Other Industry	1950	10.1	12.3	11.7	9.0	10.7	15.7	9.8	10.9	11.5	9.5
	1960	12.7	10.8	13.1	11.4	12.3	16.3	11.0	12.0	11.8	9.5
	1970	14.4	10.8	12.5	12.6	11.7	16.1	13.0	10.9	11.0	8.6
Services	1950	38.6	50.0	46.5	38.0	40.0	39.7	46.0	48.3	45.7	54.4
	1960	45.2	52.3	53.9	42.5	39.8	39.7	46.9	51.0	47.8	58.2
	1970	49.7	53.0	57.8	45.6	42.2	46.2	51.8	59.0	53.0	62.9
B Civilian Employment											
Agriculture	1950	14.6	11.1	22.9	n.a.	24.7	n.a.	14.3	n.a.	5.6	13.5
	1960	11.1	8.7	13.3	22.4	14.0	30.2	11.5	13.6	4.1	8.3
	1970	8.2	4.8	7.7	14.0	9.0	17.4	7.2	8.1	2.9	4.4
Manufacturing	1950	27.8	34.1	26.4	n.a.	33.1	n.a.	30.9	n.a.	38.7	25.8
	1960	27.5	34.8	30.3	28.0	38.6	21.3	30.6	32.3	37.5	25.5
	1970	26.5	34.1	22.7	27.2	40.4	27.0	28.9	27.6	36.6	24.6
Other Industry	1950	12.0	12.8	9.1	n.a.	9.7	6.1	10.5	n.a.	13.7	8.3
	1960	12.6	11.9	2.8	9.8	10.1	7.2	11.7	19.3	11.3	6.9
	1970	12.4	10.7	8.7	11.7	9.9	8.7	12.1	10.8	9.9	7.7
Services	1950	45.6	42.0	41.6	n.a.	32.5	33.2	44.3	n.a.	42.0	52.4
	1960	48.8	44.6	53.5	39.8	37.3	41.3	46.2	34.8	47.0	59.3
	1970	53.2	50.4	60.9	47.1	40.7	46.9	51.8	53.5	50.6	63.3

Note *Australia:* Civilian employment 1950: interpolated between 1947 and 1954 Census results; 1960: refers to 1961 Census.
Belgium: 1950 refers to 1953.
Japan: 1950 refers to 1953 *net* domestic product. Other industry includes transport and communications.
Germany: Civilian employment in manufacturing estimated for years 1950 and 1960.
Sweden: 1960 Secretariat estimate.
US: Civilian employment in manufacturing refers to persons on payroll of private establishments.

Sources: OECD, *National Accounts*; OECD, Labour Force Statistics; Australian National Accounts; Secretariat estimates.

and metals has also been rising rapidly, from about 5 to almost 25 per cent over the same period, in response to the mineral developments of the past decade[1]. Since Australia is able to meet most of her requirements for foodstuffs and raw materials from domestic production— following the oil discoveries of the past decade this applies increasingly also to crude oil— her imports continue to consist predominantly of manufactures. Among these, producer goods (equipment and processed materials) account for two-thirds.

Table 2 **Foreign Trade, Selected OECD Countries**

	Total $ US billion	Per Capita $ US	Ratio to GDP %
USA	38.6	190	4.1
Germany	27.4	450	17.3
UK	17.3	310	15.5
France	15.8	310	11.4
Japan	14.2	140	8.3
Canada	14.0	670	20.3
Italy	11.4	210	13.6
Netherlands	10.4	810	36.8
Belgium	7.7	790	32.9
Switzerland	6.3	1 010	33.4
Sweden	5.9	740	21.1
Australia[1]	*4.1*	*330*	*12.1*
Denmark	3.3	680	23.6
Austria	2.7	370	21.0
Norway	2.7	690	26.2
Finland	2.1	440	22.2
Ireland	1.2	410	33.6
Iceland	0.1	590	27.4

1 Based on fiscal years beginning 1 July.

NOTE Data are based on merchandise exports and imports averaged over the three years 1968, 1969 and 1970. Exports are valued fob and imports cif except for Australia where imports are fob. The figures for Australia are therefore understated.

Sources: OECD, *National Accounts*; CBCS, *Overseas Trade*.

An even more striking change has occurred in the country pattern of Australia's trade, part of a wider reorientation of Australia's external relations towards Asia and the Pacific. Until World War II, Australia, as a member of the British Commonwealth and Sterling Area, relied on the United Kingdom for nearly one-half of her exports and imports under Commonwealth preferential arrangements. In the past twenty years, Britain's role as Australia's chief export market has been taken by Japan which now accounts for more than a quarter, while the United Kingdom's

1 Australia's terms of trade (1955/56 = 100), after reaching a peak of 179 in the Korean war boom year 1950/51, had by 1963/64 fallen back to a level (100) little above that of the late 1930s (av. 1936/37-1938/39 = 96). By 1971/72 they had fallen by a further 23 per cent (to 77).

share has fallen to 9 per cent, and the United States has replaced the United Kingdom as the largest supplier of Australian imports (Table 3). These changes are largely explained by world economic trends, especially the exceptionally rapid growth of the Japanese economy whose needs for industrial raw materials and foodstuffs Australia has been in a favourable position to meet. But they have been reinforced by other factors— the weakening of British Commonwealth ties and the replacement of the United Kingdom by the United States as Australia's chief defence ally— and have been actively promoted by Australian commercial policy. Symptomatic of Australia's growing engagement in the Asian-Pacific area is her development assistance programme. Two-thirds of this has in recent years been directed towards Papua New Guinea which Australia is preparing for independence and most of the rest to Indonesia and other countries in the southeast Asian and Pacific region.

Table 3 **Shifts in Structure of Australia's Foreign Trade**
Per Cent

	Exports				Imports			
Year ending June 30	1951	1961	1971	1972*	1951	1961	1971	1972*
UK	32.7	23.9	11.2	9.0	48.0	31.3	21.4	20.9
EEC	23.0	15.9	9.1	9.6	9.1	11.7	13.3	13.6
USA	15.2	7.5	11.9	12.6	8.2	19.9	25.1	21.8
Japan	6.3	16.7	27.1	27.8	2.1	6.0	13.8	15.7
Other Asia	7.2	15.3	16.2	15.6	19.8	15.5	9.9	11.3
New Zealand & Territories	2.1	6.4	5.3	5.7	0.4	1.6	2.3	2.8
Australian Territories & Other Pacific Islands	1.4	3.4	5.7	5.1	1.1	1.3	1.2	1.2
Other	12.1	10.9	13.5	14.6	11.3	12.7	13.0	12.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Preliminary.
NOTE Both exports and imports are valued fob.
Source: CBS, *Overseas Trade.*

Australia has through almost all her history been a net importer of capital and has therefore normally run a deficit in the balance of payments on current account[1]. Whereas during the 1950s and early 1960s most of the capital inflow took the form of direct investment by overseas companies, the mining boom of the late 1960s attracted much portfolio capital and institutional loans, and even larger flows of such capital have come in during the last two years, partly attracted by interest differentials and probably by speculation on an appreciation of the Australian dollar. Since

1 The balance of trade, with merchandise exports and imports valued fob, typically yields a surplus while a sizeable deficit is incurred on account of services and income payable abroad.

at least 1965, capital inflow, together with an improvement in the current account balance, has relieved Australia of concern about balance-of-payments deficits which were a recurring worry in earlier periods. In the last eighteen months, indeed, the rate of inflow has assumed such dimensions as to cause Australian policy-makers problems not unlike those that have been troubling, among others, Germany and Japan.

Part II of this survey assesses the performance of the Australian economy in the past two decades with respect to the three main policy objectives of internal balance (full employment with price stability), external balance and growth. It tries to explain Australia's relative success in maintaining internal balance, her increasingly strong external position, and her rather low rate of economic growth in terms of real income per head. Part III selects for discussion four issues of medium-term policy which have figured prominently in recent public and professional debate in Australia: tariff protection, rural reconstruction, immigration and capital inflow. Part IV traces recent developments with respect to internal and external balance and attempts an assessment of short-term prospects. The Conclusions include some comments on the medium-term outlook. Since this is the first OECD Survey of the Australian economy, some background information has been provided in four Annexes— on Australia's system of government, on instruments of economic policy, on the structure of the financial sector and on the system of wage determination.

II ECONOMIC PERFORMANCE

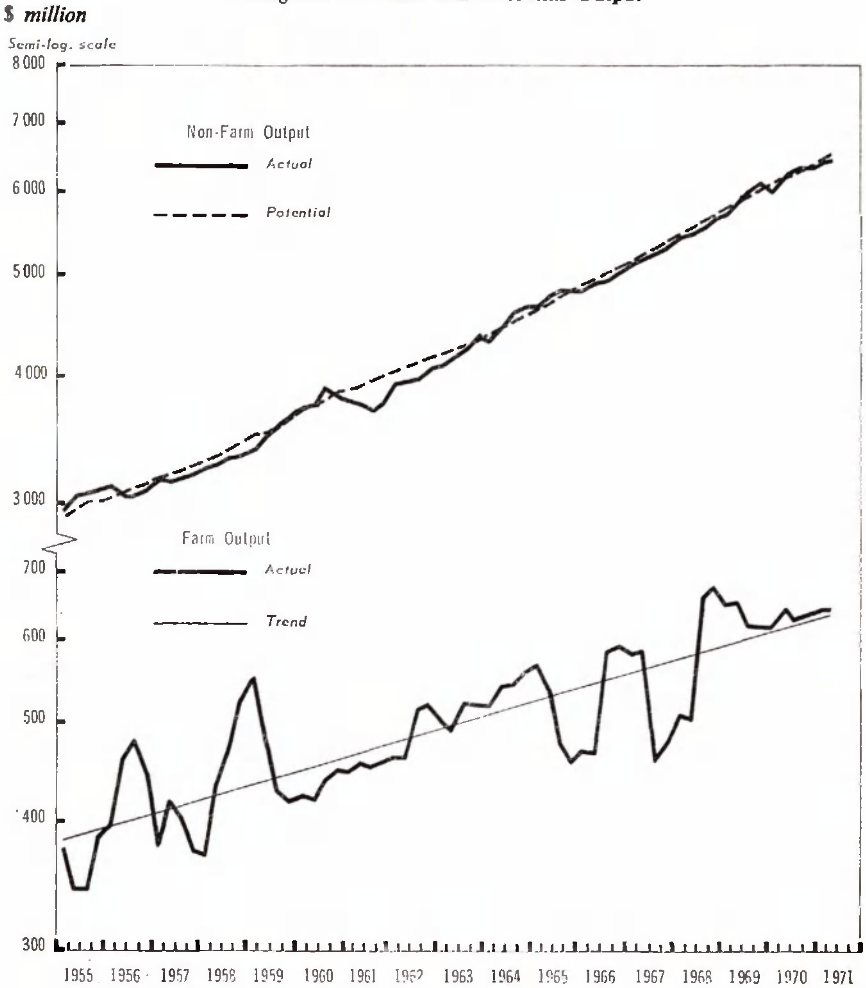
In this Part the performance of the Australian economy is compared with that of other OECD countries with respect to the three main macro-economic policy objectives. Under each heading, some attempt is made to account for the factors behind Australia's relative performance.

Internal Balance

During most of the 1950s and 1960s the Australian economy moved close to a path of stable growth (Diagram 1). It is possible to trace a cycle in economic activity with a 4-5 year periodicity, but the downturns were considerably shorter (10-13 months) than the upturns (16-45 months)[1]. The only significant shortfalls from full employment were in 1952, following the collapse of the Korean boom, in the recession of 1961 and in the recent slowdown which began in 1971 and from which the economy is now emerging. Even on the most serious of these occasions (1961) the unemployment rate did not rise much above 3 per cent. Like most other

1 See M.G. Bush and A.M. Cohen, " The Indicator Approach to the Identification of Business Cycles ", *Occasional Paper No.* 2, Reserve Bank of Australia, Sydney 1968.

Diagram 1 **Actual and Potential Output**



Source: Australian National Accounts and Secretariat estimates.

OECD countries, Australia has had to contend with inflationary pressures throughout the post-war period. But in this respect, too, Australia's record has, at least until recently, been relatively good.

International comparisons of unemployment rates are complicated by differences in statistical coverage and labour market structure. Among the OECD countries, only Germany appears to have been able to maintain a significantly lower average level of unemployment than Australia during the period 1955-1968 (Table 4). Similarly, few of the major OECD countries have a better record in terms of price stability. Over the period 1953-1970 as a whole, it is true, Australia's average annual rate of price inflation (as measured by the GDP deflator) was only marginally better than the OECD average (Table 5) and exceeded that of Belgium, Canada and the United States. But during the decade of the 1960s, it was significantly below the OECD average and compared well with the major countries.

Since one might expect a tendency for countries with high levels of employment to experience relatively high rates of price inflation, Australia's relatively good performance with respect to internal balance can perhaps be illustrated most clearly if both criteria are applied simultaneously. Diagram 2 attempts to do so, giving equal weight to the average unemployment percentage and the average annual rate of price inflation over the

Table 4 **Unemployment Rates**
1955-1968

	Average Rate	Mean change[1]		Average Rate	Mean change[1]
	Per cent	*Percentage points*		*Per cent*	*Percentage points*
Australia*	1.7	0.4	Italy*	4.9	0.7
Austria[2]	3.3	0.3	Japan*	1.6	0.2
Belgium	4.4	1.2	Netherlands	1.9	1.3
Canada*	5.2	0.8	Norway	1.4	0.3
Denmark	5.5	1.0	Sweden[4]*	1.6	0.3
France[3]*	2.1	0.3	UK*	2.6	0.5
Germany*	1.1	0.3	US*	4.9	0.7

1 Disregarding sign.
2 Refers to 1957-1968.
3 — 1959-1966.
4 — 1961-1968.

NOTE Unemployment as per cent of civilian work force. For the countries marked with an asterisk unemployment has been adjusted to the US definition. Data for the other countries (except Denmark) relate to registered unemployment and may therefore understate the unemployment percentage. Danish figures are from trade union statistics.

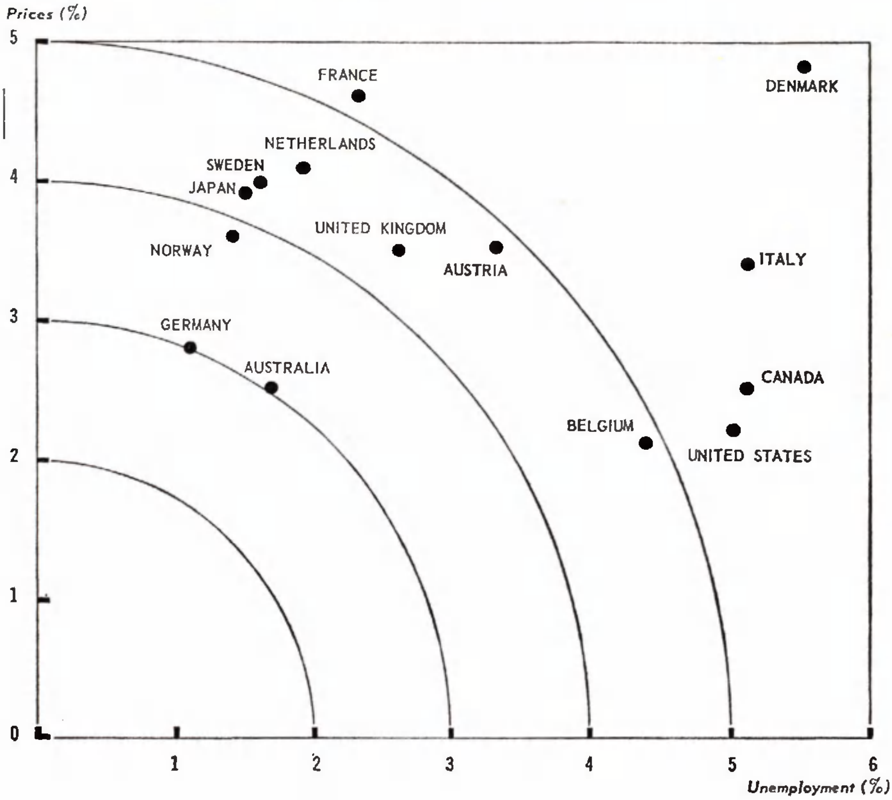
Sources: Dept. of Labour and National Service, *An Analysis of Full Employment in Australia*, Melbourne, 1970; U.N. Monthly Bulletin of Statistics.

Table 5 **Rate of Increase of GDP Deflator**
Per cent

	1953-1970	1960-1970	1965-1970		1953-1970	1960-1970	1965-1970
Australia	2.9	2.8	3.5	Japan	4.1	4.9	4.7
Belgium	2.7	3.4	3.8	Netherlands	4.3	4.8	4.8
Canada	2.7	3.0	4.0	United Kingdom	3.6	4.0	4.7
France	4.7	4.4	4.8	United States	2.6	2.7	4.0
Germany	3.0	3.4	3.4				
Italy	3.6	4.4	3.4	OECD	3.1	3.4	4.2

Sources: OECD, National Accounts; Australian National Accounts.

Diagram 2 **Internal Balance**



NOTE Data refer to the period 1955-1968. Prices refer to the annual average growth rate of the GDP deflator and unemployment is expressed as percentage of the work force.

Sources: Table 4; OECD, National Accounts; Australian National Accounts.

period 1955-1968. Assessed in this way, Australia's record with respect to internal balance is equalled only by that of Germany[1].

Any attempt to explain Australia's relative success in maintaining its economy close to internal balance must be largely speculative— too little is known as yet to identify, let alone measure, the relevant factors. Undoubtedly, certain features of the Australian economy and its development in the past twenty years helped in the maintenance of both a high level of employment and relative price stability. But policy also appears to have made a contribution.

1 An alternative method of presentation which tends to confirm this conclusion is to estimate a " Phillips curve " for Australia on the same basis as that used in a recent comparative study of such curves for twelve other OECD countries (E. Spitäler, " Price and Unemployment in Selected Industrial Countries ", *IMF Staff Papers*, November 1971).

The achievement of a sustained high level of employment has been assisted by two structural factors, which together have ensured a virtual absence of structural unemployment. One is the concentration of most of the non-rural work force in a few cities, so that structural change has required little inter-regional movement of labour. The other has been the continuous inflow of migrants which has given to the work force as a whole an unusual degree of occupational and regional mobility. The fact that only a small fraction of the work force has been employed in the main export industries— rural and more recently mining— has also helped contain the impact of external fluctuations on the level of employment.

How far structural or institutional factors have contributed to keeping price inflation at bay is more difficult to say. The decline in farm incomes during the 1960s removed a traditional reason for assuming increased capacity to pay higher wages in other sectors. Whether the arbitration system as such has contributed to wage and price stability is a much debated question. Commentators have suggested that it may have eased wage pressure by giving unions less cause for militancy, by introducing extra lags into the system and by containing pressures arising from attempts to maintain or adjust wage differentials. But such suggestions must confront the fact that the arbitration authorities have not felt able to allow award wages to fall seriously behind over-award rates secured by collective bargaining outside the system[1]. Insofar as the recent acceleration in inflation in all OECD countries is correctly attributed to a tendency towards more elastic price expectations— all sections of the community increasingly adjusting their decision-making to the expectation of further inflation— Australia's relative immunity from the virus until the last year or so may reflect its longer sustained record of relative price stability. It may also reflect a lag in Australian reactions to trends in other Western countries.

Against this background, Australian governments have consistently throughout the post-war years made the maintenance of internal balance a major objective of economic policy. It is probably fair to say that they have enjoyed more public support in policies for full employment than in policies to counter inflation. So traumatic was the experience of the great depression of the 1930s in Australia that any post-war Government was thought likely to face political defeat if it allowed the unemployment rate to rise for any length of time above (say) 1.5 per cent[2]. It seems to have been much more difficult to persuade the public of the need for drastic measures to maintain reasonable price stability.

The main instruments for internal balance, as elsewhere, have been fiscal and monetary policy[3] and both have been used flexibly. Fiscal policy

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1 See also Annex D, p. 84.

2 This refers to the conventional Australian measure in terms of registered unemployed which has averaged 1.4 per cent compared with the adjusted average of 1.7 per cent shown in Table 4.

3 Other measures have been used from time to time. In 1960 quantitative import restrictions were largely abolished, in order to ease demand pressures on local supplies; attempts have been made to adjust the migrant intake to current domestic conditions and the Commonwealth has in recent years intervened in national wage cases to urge restraint.

has sought to influence the level of spending mainly through tax changes, including surcharges or rebates on personal income tax, changes in rates of company tax and investment allowances, and in sales tax especially on motor vehicles, but has also operated through varying the rate of expansion of government expenditure[1]: On several occasions supplementary budgets have been introduced. Monetary policy has been used both to reinforce the main stance of fiscal policy and to influence spending in between annual budgets. During the 1950s the earlier restraints imposed by a low-interest policy were gradually relaxed, and in the 1960s the central bank moved increasingly from reliance on direct controls over the trading banks towards market-oriented policies aimed at influencing also the behaviour of non-bank financial intermediaries and the general public[2].

No satisfactory techniques as yet exist for measuring the contribution of discretionary fiscal or monetary policies to the maintenance of internal balance[3]. A qualitative assessment of the effectiveness of demand management in Australia in the period since the Korean boom might well start out from the proposition that the proof of the pudding is in the eating. For most of the period, the economy was maintained closer to internal balance than in most other OECD countries; and if it is admitted that demand management has a less difficult task because structural and institutional conditions were relatively favourable, by the same token, the effectiveness of demand management in such conditions cannot be judged by the magnitude of the impact of discretionary policy changes. For if the economy is moving along a path of steady growth there is no need for drastic management.

There have been two occasions in the past decade or so when Australian fiscal management appears, in retrospect, to have been inappropriate. The first, and more serious, occured in 1960/62[4]. A strong boom had developed in 1959. Partly in order to ease pressure on resources the Government, in February 1960, removed virtually all quantitative restrictions on imports. One result was a large influx of imports reflected in a sharp

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1 See also Annex B, pp. 70-71.

2 See also Annex B, pp. 71-73.

3 For Australia, one attempt has recently been made in each field. The study of the impact of discretionary fiscal policy during the 1960s concluded that the net impact (i.e. the contribution to the change in GDP at current prices) was stimulatory in all years, ranging from a low of 1.6 per cent of non-farm GDP in 1960/61 to 4.5 per cent in 1961/62, with a narrow range of variation (within a margin of about 0.5 percentage points) in other years, and that the impact of changes in taxation rates was significantly less than that of changes in expenditure (J.W. Nevile, " Discretionary Fiscal Policy in Australia, 1955-1970 " in J.W. Nevile and D.W. Stammer (eds.), *Inflation and Unemployment*, Penguin, Melbourne, 1971). Both these conclusions, however, were considerably influenced by treatment of all changes in government expenditure as discretionary and by exclusion of " built-in " effects on the tax side. The technique of measurement also does not take full account of psychological and liquidity effects of fiscal measures and the impact of lags. The study of the impact of monetary policy confined itself to measuring the net change from year to year, resulting from central bank action and exogenous factors, in the cash base of trading bank credit (" reserve money ") and in legal minimum reserve requirements (" SRD ratio ") (W.G. Dewald, " Indicators of Monetary Policy ", *Economic Papers*, August 1970). It could therefore tell us little more than that monetary policy was more restrictive in some years than in others.

4 Most Australian economic statistics relate to the fiscal year which begins on July 1.

downward movement in reserves. A package of tough restrictive measures both fiscal and monetary was introduced, but not until November 1960. As became clearer subsequently, the boom was then already losing steam and the measures undoubtedly aggravated the subsequent recession, the most severe of the post-war period. It is generally held that the authorities were also slow in reversing gear, so that it took two annual budgets (1961/62 and 1962/63) and a supplementary budget (February 1962) to bring the unemployment rate back below 1.5 per cent. The authorities saw the need to root out thoroughly inflationary expectations which had built up in the preceding period and, more immediately, to resist pressures (which were being reinforced by the rapid rundown in reserves) for the reintroduction of import controls. The second occasion, which was complicated by accelerating wage and price inflation, occurred in 1971/72. This is described in more detail in Part IV. During the intervening decade, demand management appears to have been as successful in Australia as can reasonably be expected in a modern market economy.

External Balance

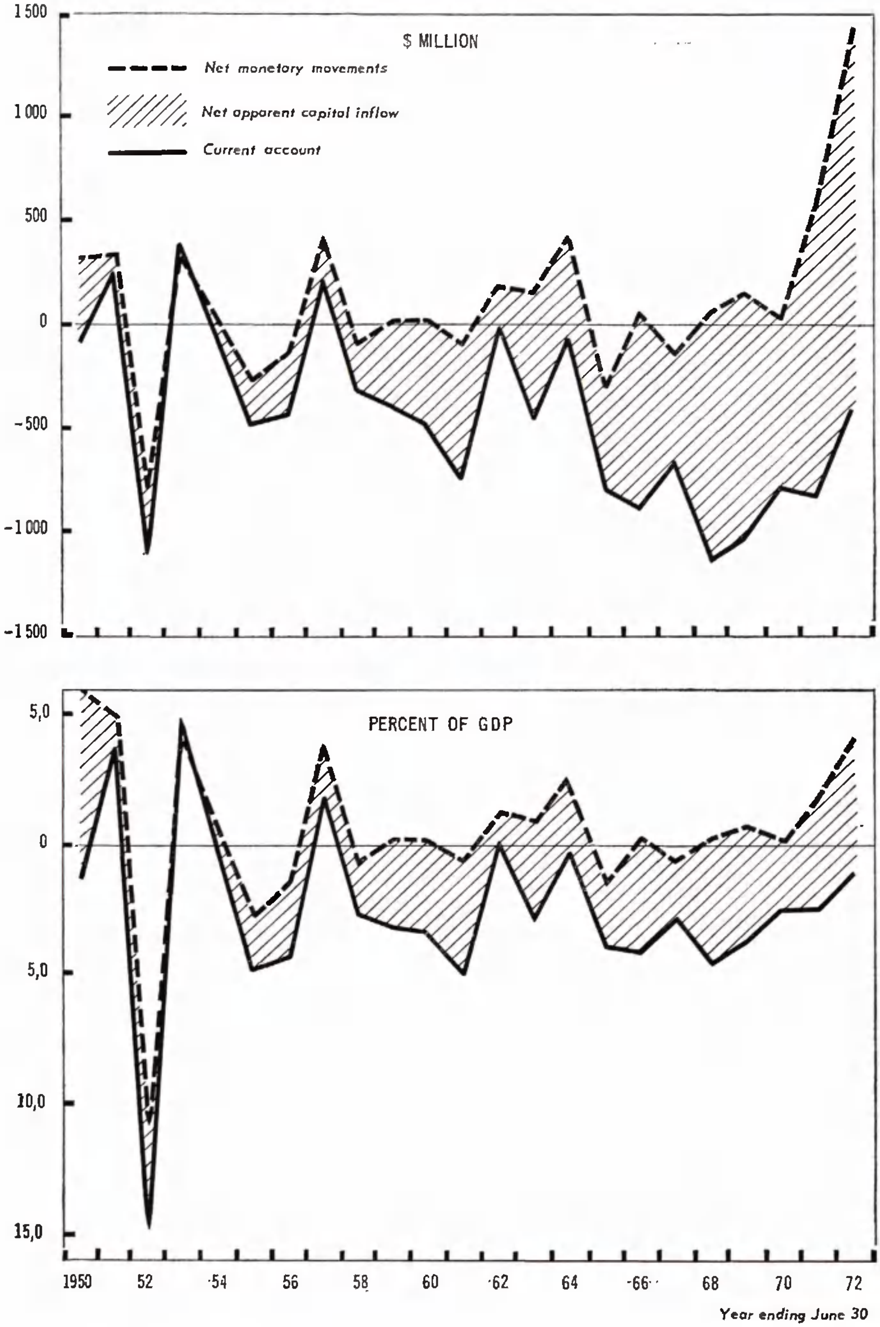
The balance of payments has in many countries been an important constraint on the pursuit of full employment. In the 1950s and early 1960s this was also Australia's situation: external balance presented as much of a problem as internal balance. Growth in import demand in line with domestic economic expansion seemed unlikely to be matched by growth in export capacity in the face of adverse world market prospects for Australia's rural exports. There were doubts whether it was possible or desirable to offset this tendency towards growing deficits on current account by capital inflow, and therefore fears that Australia was facing a fundamental disequilibrium. Given this weak underlying external position, spillover of domestic demand into imports was liable to cause balance-of-payments difficulties in periods of boom. In addition, exports suffered from a greater degree of variability than in the major industrial countries[1].

During the 1960s external balance gradually ceased to be a major source of concern. One reason was diversification of exports into manufacturing and mining products together with import substitution especially in oil. For most of the decade the resulting improvement in the balance of merchandise trade was not sufficient to offset the growing deficit on account of invisibles. But the last few years have seen a striking strengthening in the balance of payments on current account. Secondly, even while the current account deficit was still growing it was more than offset by capital inflow. This brought problems of its own[2], but in the short run at least it eliminated external balance as a constraint on domestic policy.

1 The variability of merchandise exports (as measured by the standard deviation from the mean of percentage changes) even during 1960-1970 was 0.97 in Australia, as compared with 0.65 in the United Kingdom, 0.59 in France and 0.51 in the Netherlands (the next three highest among the major OECD countries).

2 See pp. 38-40.

Diagram 3 **Balance of Payments**



Source: Commonwealth Statistician.

Diagram 3 shows the trend in the balance of payments on current account and in capital inflow over the period 1950-1972 in $A. But this gives a misleading picture of the magnitude of the deficit and of capital inflow in the latter compared with earlier years of the period, as it does not allow for rising prices and growth in Australia's real GDP during the period (Diagram 3)[1].

Growth

In terms of total real GDP, Australia's growth rate over the whole period 1950-1970 at least equalled the (weighted) average for all other OECD countries. In contrast to the experience of the majority of the other countries included in Table 6, Australia's rate of growth continued to accelerate in the second half of the 1960s. Thus, while during the 1950s it had been below that of Japan and all the EEC countries (except Belgium), it was exceeded during 1965-1970 only by Japan, Italy and France.

On a per capita basis, Australia's performance appears much less impressive. Its growth rate for the whole period was well below the OECD average and barely above that of the slowest-growing countries. The high growth rate of total real GDP was thus more a reflection of relatively rapid growth of population rather than of output per head. Here,

Table 6 Total and Per Capita GDP Growth
Average annual volume growth rate
Per cent

	Total				Per capita			
	1950-1970	1950-1960	1960-1965	1965-1970	1950-1970	1950-1960	1960-1965	1965-1970
Australia	4.7	4.3	4.9	5.3	2.6	1.9	2.6	3.2
non-farm	4.4	5.2	4.8	5.5	2.3	1.6	2.7	3.4
Belgium[1]	4.1	3.0	5.1	4.7	3.5	2.5	4.4	4.2
Canada	4.5	4.0	5.5	4.5	2.2	1.3	3.5	2.8
France	5.2	4.5	5.8	5.8	4.2	3.7	4.5	4.9
Germany	6.2	7.7	5.0	4.6	5.2	6.7	3.7	3.7
Italy	5.6	5.4	5.3	6.0	4.8	5.0	4.3	5.4
Japan[2]	9.8	8.4	10.1	12.1	8.6	7.1	9.0	10.9
Netherlands	4.9	4.7	5.0	5.2	3.6	3.4	3.6	4.0
UK	2.8	2.7	3.4	2.2	2.2	2.3	2.6	1.8
USA	3.7	3.2	4.8	3.2	2.1	1.5	3.3	2.1
OECD	4.5	4.1	5.2	4.5	3.3	2.8	3.9	3.4

1 1953-60, 1953-70.
2 1952-60, 1952-70.
Sources: OECD, National Accounts, Australian National Accounts; Secretariat estimates.

1 The difficulties due to the recent inflow of portfolio capital and overall surplus are discussed on pp. 50-55.

too, a marked improvement is apparent over the period. During 1965-1970, the rate of growth of Australian non-farm GDP per capita equalled the OECD average. But it remained substantially below that of Japan and most of the EEC countries; and the improvement reflected increasing participation rates rather than increasing labour productivity[1]. On both an absolute and a per capita basis, Australia's growth performance resembles that of Canada, a country whose stage of development and geographical problems are in some ways comparable with Australia's.

In attempting to account for Australia's relative growth performance, it is clearly important to distinguish between growth of total real GDP and real GDP per capita. Throughout the period 1950-1970 Australia had one of the highest investment ratios of all OECD countries. In terms of growth of output per head of population, this high rate of capital formation appears to have yielded a low return, with an incremental capital productivity ratio nearly three times that of Japan (Table 7, col. 5). A major part of the explanation is no doubt Australia's high rate of growth of population and work force which was also the highest among OECD countries (Table 8). Much of the capital becoming available has been required to meet the needs of the rapidly-growing population for housing and other social infrastructure and to equip the growing work force, leaving less for productivity-raising deepening investment. But this, by itself, is not an altogether satisfactory explanation. For rapid growth of the work force might be expected to have contributed in various ways to the efficiency of the economy, by ensuring relatively rapid "embodied" technical progress in a high rate of widening investment, by facilitating structural adjustment and by yielding economies of scale[2]. In any case, it does not account for Australia's relatively modest performance in terms of total GDP[3] at least until the later 1960s.

Comparison with the experience of other OECD countries draws attention to two other factors that may have been significant. One is brought out by Diagram 4 and Table 9 which show the relationship between investment ratios and growth rates of per capita GDP during the 1960s. The data indicate that the highest rates of growth for given investment ratios were achieved by the less-developed group of countries, followed by the large rich countries. Australia is to be found (admittedly near the periphery) among the smaller rich countries with relatively low rates of growth for given investment ratios. This suggests that inability to take

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1 The rate of growth of the work force increased substantially relative to that of total population from the mid-1950s, partly because of a marked rise in the participation rate of married women. This is estimated to have risen from 14.2 per cent in 1954 to about 35 per cent in 1971.

2 The effects of immigration on economic growth are further discussed in Part III, p. 38.

3 Part of the explanation of the higher growth rate after 1965 may be the long gestation period of investment in oil and mineral exploration and development. Another part may be that the prices of investment goods are relatively high in Australia (cf. B.D. Haig, *Real Product, Income and Relative Prices in Australia and the United Kingdom*, Australian National University Press, Canberra 1968) so that the investment ratio overstates the real value of capital formation relative to GDP.

Table 7 Investment Ratios and Growth Rates

	1950-1970					1950-1960					1960-1970				
	Investment ratio %	GDP growth %	ICOR	Per capita GDP growth %	ICPR	Investment ratio %	GDP growth %	ICOR	Per capita GDP growth %	ICPR	Investment ratio %	GDP growth %	ICOR	Per capita GDP growth %	ICPR
Japan	31.6	9.8	3.2	8.6	3.7	24.9	8.4	3.0	7.1	3.5	33.0	11.0	3.0	9.9	3.3
Italy	20.7	5.6	3.7	4.8	4.3	20.5	5.4	3.8	5.0	4.1	20.8	5.7	3.7	4.8	4.3
France	22.6	5.2	4.3	4.2	5.4	18.2	4.5	4.0	3.7	4.9	24.1	5.8	4.2	4.7	5.1
Germany	24.4	6.2	3.9	5.2	4.7	21.6	7.7	2.8	6.7	3.2	25.1	4.8	5.2	3.7	6.8
Australia	25.6	4.7	5.4	2.6	9.8	23.8	4.3	5.5	1.9	12.5	26.0	5.0	5.2	3.0	8.7
Canada	22.6	4.5	5.0	2.2	10.2	23.2	4.0	5.8	1.3	17.8	22.0	5.0	4.5	3.2	6.9
Netherlands	24.6	4.9	5.0	3.6	6.8	22.7	4.7	4.8	3.4	6.7	25.3	5.2	4.9	3.8	6.7
Belgium	20.3	4.1	5.0	3.5	5.8	17.5	3.0	5.8	2.5	7.0	21.4	4.9	4.5	4.3	5.0
USA	17.0	3.7	4.6	2.1	8.1	17.3	3.2	5.4	1.5	11.5	16.7	4.0	3.9	2.7	6.2
UK	16.7	2.8	6.0	2.2	7.6	14.8	2.7	5.5	2.3	6.4	17.7	2.8	6.3	2.2	8.0

NOTE ICOR = Incremental capital/output ratio.
ICPR = Incremental capital/productivity ratio.

Sources: OECD, National Accounts; Australian National Accounts.

Table 8 **Growth of Population, Labour Force and Immigration**

	Population			Labour Force
	Size 1970 *Million*	Average annual growth rate, 1960-1970 (%)		Average annual growth rate, 1960-1970 (%)
		Total	From Net migration	
Japan	103.5	1.1	0	1.3
Italy	54.5	0.9	0	-0.7
France	50.8	1.1	0.4	0.8
Germany	60.6	0.9	0.5	0.3
Australia	12.6	2.0	0.8	2.7
Canada	21.3	1.5	0.4	2.6
Netherlands	13.0	1.3	0	1.1
Belgium	9.7	0.6	0.2	0.6
United States	204.8	1.3	0.2	1.8
United Kingdom	55.8	0.6	0	0.2

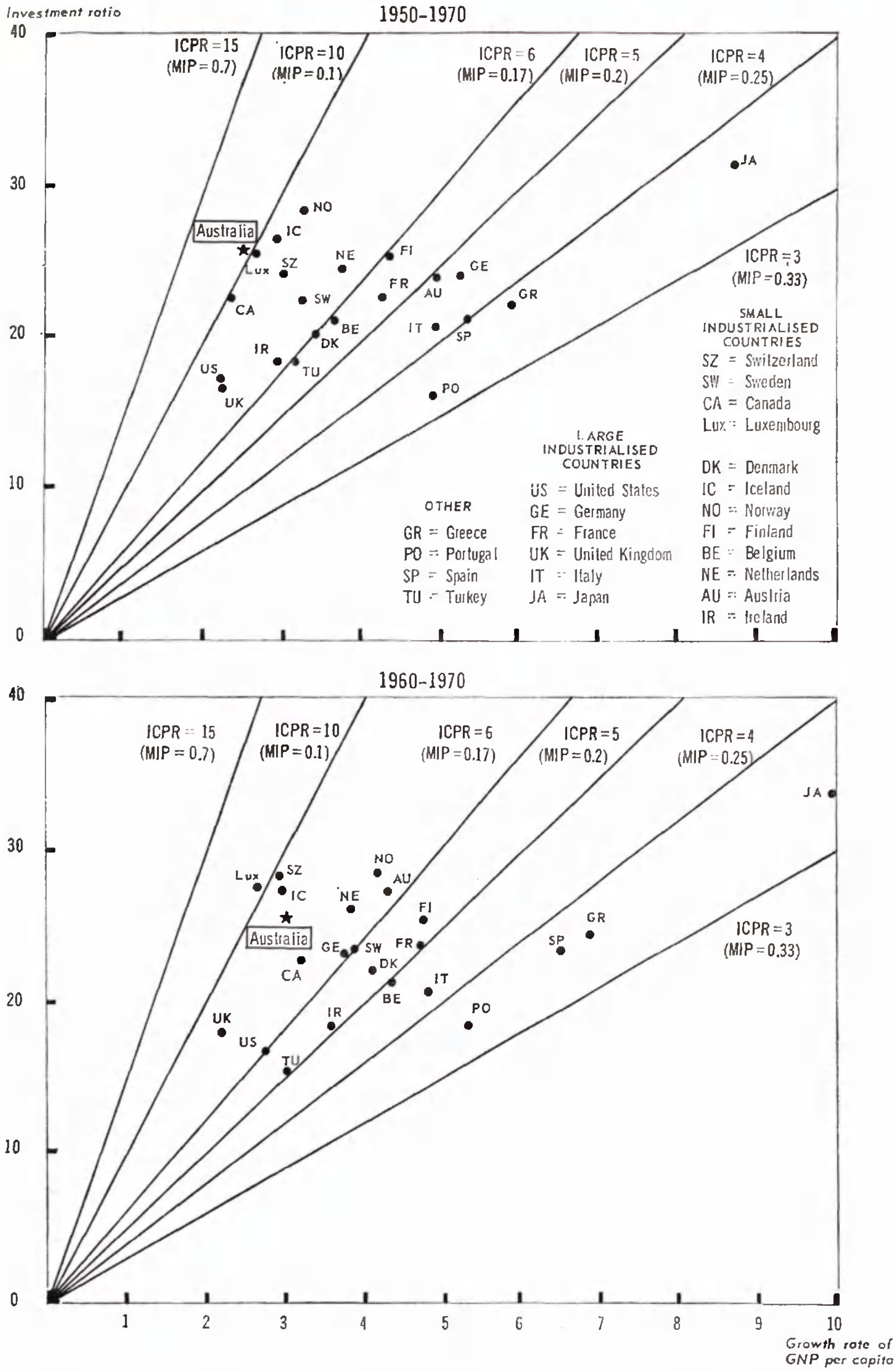
Source: OECD, Labour Force Statistics.

advantage of some of the economies of scale available to large countries may be part of the explanation. A special aspect of this in Australia's case (as in those of Canada and Norway) is the high capital cost of transport imposed by distance; investment in transport and communications, as a proportion of GDP, was higher in Australia than in any of the major OECD countries (Table 9). In the manufacturing sector, tariff policy may have tended to deprive Australia of potential economies of scale.

The second factor is suggested by Table 10 which shows rates of growth of civilian employment by sectors during the 1960s in various OECD countries. Australia stands out in two respects: there was little migration of labour out of agriculture, and the share of tertiary industries in GDP was higher than in any other country (except the United States and Canada). This lends support to the hypothesis that Australia's growth rate of average output per head benefited little from structural factors. In all the other countries productivity in agriculture was initially much below that in other sectors; the large shift of resources out of agriculture that occurred in the post-war period therefore made an important contribution to the average rate of growth. In Australia, productivity in agriculture was initially higher than in other sectors, so that the average level was reduced, not raised, by a relative decline in the share of the agricultural sector[1]. Similarly, the large share of the service sector may have tended to keep down the apparent

1 Although there was little net migration out of agriculture in Australia, the high rate of growth of the work force outside agriculture reduced the relative share of agriculture only a little less than in some other OECD countries. During the 1960s it declined by 26 per cent in Australia, as compared with 30 per cent in the United Kingdom, 36 per cent in Germany and 37 per cent in France.

Diagram 4 **Growth and Investment**



NOTE ICPR = Incremental capital/productivity ratio (investment ratio/growth rate of GDP per capita).

MIP = Marginal investment productivity (growth rate of GDP per head/investment ratio).

Source: OECD National Accounts and Labour Force Statistics; Australian National Accounts; Report of the Committee of Economic Enquiry.

Table 9 Investment by Asset Type and Sector

Per cent

	Asset Type				Sector					
	Construction		Machinery and Equipment	Total	Primary	Mining and Quarrying	Manufacturing and Construction	Electricity, Gas	Transport and Communications	Other
	Residential	Other								
Australia[1]	4.8	10.1	11.1	26.0	2.4	0.9	4.6	1.7	5.0	11.3
Belgium	5.8	7.2	8.4	21.4	0.6	0.2	6.0	1.2	2.2	13.4
Canada[2]	4.5	10.1	7.6	22.2	1.6	1.3	3.7[3]	1.8	2.3	11.5
France	6.4	7.3	10.1	24.1	1.2	0.3	6.7	1.2	1.8	12.9
Germany	5.8	8.3	11.0	25.1	—[4]	0.6	6.4	1.1	2.0	15.0
Italy	6.3	6.6	7.9	20.8	1.7	—	6.1	—	1.9	11.1
Japan	5.8	27.2		33.0	1.9	0.4	9.3	1.4	1.8	18.2
Netherlands	5.0	9.0	11.3	25.3	1.2	—	8.9	—	2.7	12.5
UK	3.4	5.5	8.7	17.7	0.5	0.3	4.4	2.1	1.8	8.6
US	4.0	6.4	6.4	16.7	0.7	0.2	3.1[3]	1.0	1.4	10.3

1 Type: years ending June 30th 1961-1971; Sector: years ending June 30th 1960-1969.
2 Sector 1960-1969.
3 Manufacturing only. Construction is included in "Other".
4 Included in "Other".

NOTE Estimates are based on average value of gross fixed capital formation related to GDP at market prices during the period 1960-1970.

Sources: OECD, National Accounts; Australian National Accounts; Secretariat estimates.

growth rate of GDP per capita, both because there may be less scope for the more obvious ways of increasing productivity in these industries and because such productivity growth as does occur largely escapes measurement by conventional social accounting techniques[1].

Table 10 Growth and Share of Civilian Employment by Sector
Per cent

	Percentage of Civilian Employment, 1970			Average Annual Growth Rate, 1960-1970		
	Agri-culture	Industry	Other	Agri-culture	Industry	Other
Japan	17.4	35.7	46.9	–4.1	3.7	2.7
Italy	19.6	43.7	36.7	–5.6	1.1	1.3
France	14.0	38.5	47.1	–3.7	1.2	2.6
Germany	9.0	50.3	40.7	–4.0	0.6	1.2
Australia	8.2	38.6	53.2	–0.2	2.8	3.8
Canada	7.7	31.4	60.9	–2.7	2.3	4.2
Netherlands	7.2	41.0	51.8	–3.4	0.9	2.4
Belgium	4.8	44.7	50.4	–4.9	0.4	2.1
United States	4.4	32.3	63.3	–4.5	1.4	2.7
United Kingdom	2.9	46.6	50.6	–3.5	–0.3	0.9

NOTE Sectors are defined in terms of the ISIC as follows:
Agriculture - division 1
Industry - divisions 2 - 5 incl.
Other - divisions 0,6 - 9 incl.
Estimates are based on mid-year data.
Source: OECD, Labour Force Statistics.

Other explanations have at times been put forward, within the broad area of the "residual factor" in economic growth. Relatively low expenditure on research and development and a relatively high incidence of restrictive practices are said to have inhibited technical progress. Social and economic policy has tended to emphasize security and equality, perhaps at the expense of allowance efficiency[2]. To quantify these factors is notoriously difficult. No one can doubt that there are differences in social attitudes among countries —in the relative value placed on work and leisure, on money-making, on duty and discipline— which cannot help but affect the rate of economic growth. Australians, though no more consistent in their demands on life than other people, have for long leaned towards the view which has recently found increasing favour also in other countries that economic growth is not everything.

1 In the Australian national accounts, growth of real product not only in the government sector but also in the financial enterprises sector is measured in such a way that, by definition, productivity appears constant. Productivity growth may also be understated in trade and other service industries.

2 See Part I, fifth paragraph, Part III, pages 29-35, and Annex D.

III MEDIUM-TERM POLICY ISSUES

Problems arising from the protection of manufactured products, assistance to the rural sector and from the inflow of foreign capital and labour have been amongst the major issues in recent discussions of medium-term policy problems in Australia. Different forces have been behind the questioning of protection and factor inflow. The former has been criticised chiefly by liberal economists concerned about possible misallocation of resources. Changes in the structure of Australian foreign trade and payments[1] have encouraged this debate. The discussion of the inflow of capital and labour has represented a much more widely-based questioning of post-war development policy. The immigration debate has been especially influenced by concern about environmental problems and about the adequacy of the current government provisions for social welfare.

The problems of protection and factor inflow are clearly inter-related. Barriers to the import of goods would normally be expected to promote an increased inflow of factors. This inter-relationship has long been an important argument behind tariff protection in Australia. The need to find employment for immigrants was taken to imply the development of a strong domestic manufacturing sector. This in turn required an inflow of foreign capital both to help finance this sector and to provide the social and other capital for immigrants. The desire to decentralise population led to a land development policy that may have exacerbated subsequent structural problems in the rural sector. Protection for manufacturing industries gave rise to demands for countervailing protection for the rural sector. The importance of these inter-relationships, however, must not be exaggerated. The resource potential of Australia was bound to attract a large capital inflow irrespective of any protection. It should also be remembered that the structural problems of some of Australia's rural industries are to some extent shared by most developed countries.

Tariff Protection

In 1970/71 approximately 68 per cent of imports entered Australia free or at "non-protective" rates (generally 12½ per cent or less). But in the manufacturing sector nominal duties appear to be considerably higher than in most OECD countries[2]. These nominal rates provide a measure of the distortion in consumption patterns introduced by tariffs. However, as there

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1 See pp. 10, 12-14.

2 International comparison of tariffs is complicated by the difficulty of developing a weighting scheme to obtain an average tariff level for each country. (Some indication of the level of Post-Kennedy Round Tariffs in other OECD countries is given in *Inflation, The Present Problem*, OECD 1970 p. 91). It has also been suggested that the tariff structure is relatively complex in Australia. This reflects the degree of variation in rates applying to different commodities and the general division of tariffs into two categories—General and Preferential.

Ad valorem, specific, composite, alternative and sliding scale duties are utilised, with is considerable variation in nominal tariff rates on different commodities and in the degree to which the latter depend on protected inputs, the nominal tariff may be an inadequate measure of the potential distortion of resource allocation between industries. For this purpose the Tariff Board[1] has utilised data on input/output relationships to obtain a measure of effective tariff protection by industry[2]. These suggested an average rate of effective protection available in the manufacturing sector of 46 per cent, over 40 per cent of value added being subject to effective protection of more than 50 per cent[3]. There was also considération variation in the degree of protection between industries, with metal manufactures, machinery and equipment, appearing among the most heavily protected. Private estimates have suggested that a considerable part of this protection may be unutilised[4].

It has been official policy that tariff protection should be confined to "economic and efficient" industries. As criteria for tariff policy these two terms obviously leave much scope for interpretation. Government policy has tended to interpret "efficiency" from the managerial rather than the resource allocation point of view, while the major criterion for considering an industry "economic" has tended to be its capacity to generate employment at not too great excess cost[5]. At its crudest, the employment argument often seemed to imply that it would be impossible to maintain full employment in Australia without tariff protection for manufacturing industries. This argument is clearly fallacious. There is no reason to suppose that full employment could not be maintained without tariffs by ensuring an adequate level of aggregate demand (using exchange rate policy, if necessary, to adjust relative prices). Most of the increase in Australia's work force in the past twenty years has in fact been absorbed into service industries. Once a manufacturing sector has been built up behind high tariffs, any restructuring is of course liable to cause difficulties. In particular, it would be necessary to minimise structural and localised unemployment.

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the first-mentioned representing about three-quarters of rates in the tariff. Provision is made for duty-free 'by-law' entry when " suitably equivalent " goods are not available from domestic production. By-law entry can, however, be ended by application and lead to restoration of tariff rates which may not have been reviewed for many years, if at all.

1 This is a statutory authority which, on the basis of referals from the Department of Trade and Industry, advises the Government on the desirability and rates of nominal protection. Increasingly in recent years the Board has acted as a strong advocate of tariff reform.

2 The effective tariff, expressed as a percentage of value added, is a positive function of the nominal tariff on a product and a decreasing function of the share of value added and of the nominal tariff on inputs.

3 An alternative study found little disagreement as to the industries ranked in the lowest-protected group and general agreement on those in the highest. Considerable differences were found with those in the medium range of protection.

M.D. Evans, " The Empirical Specification of a General Equilibrium Model of Protection in Australia " in H. Grubel (ed.). *Effective Tariff Protection* (North Holland 1972).

4 Estimates of the average unutilised part of the effective protection (i.e. excess of import prices including tariffs over domestic prices) range from two-fifths to three-fifths.

5 At various times this argument has been associated with the need to provide work for immigrants by developing the manufacturing sector and redistribute income from rural producers to industrial labour. The decline in the relative incomes of rural producers has made this argument a good deal less convincing than it was when first put forward.

Table 11 **Effective Protection by Industry**
Per cent

Industry	Average effective rate	Distribution of industry value added by degree of effective protection: 25 per cent or less	Over 25 per cent to 50 per cent	Over 50 per cent
Glass, bricks and cement	32	46	37	17
Chemicals, fuels and paints	32	44	28	28
Metal manufactures, machinery and vehicles	65	13	26	61
Textiles and textile goods	63	17	24	59
Skins and leather	43	43	27	30
Footwear	68	0	3	97
Food, drink and tobacco	20	70	22	8
Timber products	26	61	30	9
Furniture	54	0	38	62
Paper, stationery and printing	37	43	14	43
Tyres and other rubber products	33	59	23	18
Plastic products	55	5	39	56
Miscellaneous	43	40	36	24
Total	46	34	26	40

NOTE Estimates of rates of protection are related to landed duty-free value added (ldf). The table is based on 1967/68 data.

Source: Tariff Board, *Annual Report for Year* 1969/70.

A second group of arguments, advanced more often in academic circles, has been based on the infant industry (or economy) thesis[1]. These have relied either on the potential competitive ability of a particular industry when it has been given a chance to become fully established or on the supposed external economies of a generally expanding industrial sector. The general infant economy argument seems of dubious relevance to a manufacturing sector as old and large as that of Australia, more especially as a justification for using tariffs to promote breadth of industrial development. Indeed, the small market offered by the Australian economy might rather be considered an argument for specialisation. There is also the practical problem of deciding which industries are potentially efficient and when an industry has ceased to be an "infant". Criticism has indeed centred on the lack of convincing criteria in selecting potential infants and past reluctance to declassify any of them subsequently. A recent study has cast doubt on whether there has been a sufficient improvement in the competitive position of most industries classified as infants to warrant the protection they receive[2].

1 A third set of arguments, particularly for selective protection, has emphasized possible favourable effects on terms of trade and international bargaining power.

2 D.M. Evans, *op. cit.*

The present "made to measure" tariff could be justified on the grounds that external economies are generated in different degree by different protected industries. If, however, as suggested above, the present tariff structure bears little relationship to the importance of external economies, misallocation of resources is liable to be promoted even within the protected sector. In this context it is also relevant to note that the earlier advanced argument to redistribute real income from the previously highly profitable rural export sector to the sheltered and import competing sectors is no longer valid as the relative income position of agriculture has sharply deteriorated over time. The case for a "made to measure", as contrasted with a uniform ad valorem, tariff, rests on the assumption that it is possible to identify in advance genuine infant industries or industries which yield important other external economies (e.g. for defence purposes). From the point of view of optimum allocation of domestic resources, and therefore the level of real income that can be attained, even a uniform ad valorem tariff is inferior to complete elimination of tariffs compensated by an appropriate change in the exchange rate which would also reduce misallocation of resources between the protected sector and the rest of the economy. But the notion of a complete elimination of tariffs is hardly likely to be regarded as realistic in Australia— or anywhere else for that matter— particularly since Australia relies less than many other countries on non-tariff barriers. The important practical implication of the argument of this paragraph is that the allocation of resources can be improved, not only by lowering the general level of tariffs, but also by narrowing the wide range of difference of effective rates of protection in the present tariff structure. Such an approach to reform is now planned.

The Tariff Board has in recent years adopted a "benchmark" approach for considering new tariff protection and for reviewing existing tariffs. Rates of effective protection above 50 per cent will not normally be recommended except on a short-term basis, whilst tariff protection in the lowest bracket (25 per cent or less) will be viewed more favourably. The Board has also begun a general review of existing tariffs, with the examination of all highly protected areas of the Tariff to be carried out over six years. The proposed principles and procedures of review have been criticised on several grounds. The chosen reference points leave too large a measure of protection. High tariffs for genuine infant industries are more justified than low tariffs on those that will continue to be high-cost. Piecemeal reform may of itself create problems, at least in the short run. In particular, a reduction in tariffs applying to a particular industry may introduce new distortions where the levels of protection accorded to competing industries remain unchanged, and the degree of effective protection in an industry may change in either direction with a fall in nominal rates in another industry (which implies that at least in theory a new set of effective rates should be calculated after each tariff change)[1]. More generally, it has been suggested that the marked strengthening of the balance of payments would

1 See P.J. Lloyd, 'Problems and Criteria in Setting Tariffs' in H.W. Arndt and A.H. Boxer (ed.), *The Australian Economy*, Cheshire, Melbourne, 1972.

seem to make this an ideal time for a more substantial attack on the level of protection. Such a major reduction in tariffs would also have a restraining effect on the rate of inflation. However, even, the critics who favour a more forthright attack on the tariff support the Tariff Board's approach as a welcome initiative.

Rural Protection and Reconstruction

Although their relative importance has been decreasing, agricultural products still account for about 50 per cent of Australian exports, and the percentage of output exported is very high for many agricultural products. Australia has shared the problems of other rural producers that are engendered by the inter-relationship between increasing production and low demand elasticities for food products in developed nations. Nor has the effective demand of less developed nations been sufficient to provide adequately compensating markets. These problems have been exacerbated by agricultural protectionism in actual and potential export markets and by the increasing competition suffered by wool from synthetic products. This has resulted in export prices fluctuating about a falling or, at best, stationary trend. When coupled with an increase in costs comparable with that in other sectors of the economy, it has given rise to a phenomenon referred to as the "cost/price squeeze" on farm incomes. Per capita income of primary producers has generally declined compared with other income recipients during most of the past decade and there exists a substantial and probably growing number of rural producers earning low incomes[1]. There has also been a marked deterioration in the rural wealth position. Rural debt, both in absolute terms and in relation to debt-servicing capacity has greatly increased. Over the past decade rural debt to institutional lenders has doubled. In 1960/61, the magnitude of institutional debt was about the same as, but by 1970/71 was 2.4 times as great as, farm income.

While manufacturing industries receive tariff protection, rural industries receive government assistance through a variety of schemes. A number of reasons are advanced for such assistance, but the economic case has generally been based on two arguments. It has been argued, first, that rural industries should be compensated for the effect of industrial protection in reducing relative farm income and potentially diverting resources out of agriculture[2]; and secondly, that temporary assistance is required at times to cushion farm incomes against natural disasters, or slumps in world prices, or to promote or give time for structural adjustment[3]. The first argument

1 A recent study suggested that for the first time in 20 years incomes of farm taxpayers in 1970/71 were below the average for male wage and salary earners. Further it was estimated that about one-third of farmers probably had incomes of less than $ 2 000 a year. It may, however, be noted that official statistics may tend to underestimate real farm income. "The Australian Farm Situation" *Quarterly Review of Agricultural Economics*, January 1972.

2 F.H. Gruen, "Welfare Economics, Theory of Second Best and Australian Agricultural Policy", Monash University.

3 A further argument popularly used is that Australian farmers need or deserve compensation for the adverse effects of agricultural protection in the main industrial countries. However, excepting possible effects on trade liberalisation through bargaining, from a national point of view the adverse effects of agricultural protection abroad are compounded, not alleviated, by subsidies to Australian rural industries.

Table 12 **Production and Export of Agricultural Commodities**
Average per cent, 3 years ending 1970-71

Commodity	Share of gross value of rural production	Volume of exports as percentage of volume of production	Share of exports by volume absorbed by: UK	Share of exports by volume absorbed by: Japan	Australian exports by volume as as percentage of total world exports[1]
Wool	19	94	8	35	54
Wheat	15	78	16	13	12
Sugar	4	69	26	32	8
Dried vine fruits	1	79	35	1	16[2]
Canned fruit[3]	n.a.	54	60	..	n.a.
Beef and veal	16	46[4]	8	7	15
Mutton and lamb	5	32[4]	18	24	20
Butter	5	44	68	1	11
Cheese	1	45	29	29	4

.. Negligible.
1 Average of three calendar years 1968-1970.
2 Excludes currants which constitute less than 10 % of Australian exports.
3 Average of three calendar years 1969-1971.
Canned fruit includes canned apricots, peaches, pears, mixed fruits, pineapples and tropical fruit salad.
4 In carcass weight, excluding exports of canned meat.
Source: Australian submission to OECD.

seems weak whilst even the second hardly justifies the present level and structure of rural subsidies. As regards the first, it should be recalled that a major reason for introducing tariff protection for manufacturing industry was precisely to achieve a reallocation of resources; if this is no longer a valid policy goal, reduction in tariffs is preferable to compensatory assistance to agriculture. The case for temporary assistance, while it undoubtedly has some validity, is vulnerable to the same objection as was advanced above against the infant industry argument for tariffs; some Australian rural assistance schemes have been in existence for several years and may have deferred acceptance of the need for adjustment and reconstruction[1].

Government assistance to the primary sector has represented a large and growing proportion of farm income during the past few years. Apart from direct subsidies, considerable indirect benefits accrue in the form of subsidised transport and interest rates, tax concessions and in other ways. One method of support has been the operation of price stabilization and equalisation schemes by statutory marketing boards. Such schemes may involve the establishment of fixed home consumption prices which tend to be above average world market prices. In some cases, with the aim of stabilizing farmers' returns, minimum prices for part of output are guaranteed by the Commonwealth Government. Guaranteed prices for some commod-

1 As many forms of agricultural assistance are granted for a specific time period they are automatically subject to periodic review.

ities have, in recent years, exceeded average sale prices, resulting in subsidies to the rural sector. In addition to the direct cost of these guaranteed price schemes to the taxpayer there are costs to consumers in higher domestic prices of food products. Dairy products have tended to be the most heavily subsidised[1], whilst wheat has in recent years received substantial support. In a different context the wool industry received assistance during 1970 and 1971 as a consequence of the severe slump in wool prices during 1969-71[2].

Table 13 **Commonwealth Budget Provisions for Financial Assistance to the Rural Sector**
$ million

	Year ending June 30th			
	1969	1970	1971	1972
Raw cotton bounty	4.6	3.5	3.0	0.8
Wheat industry stabilisation	42.9	0	29.0	58.4
Apple and pear stabilisation	0	0	0	2.7
Canned fruits industry assistance	0	0	6.2	0.2
Dried vine fruits stabilization	0	0	0	0.3
Devaluation compensation	35.0	29.0	21.0	7.2
Fertilizer subsidies and bounties	42.7	55.7	50.5	55.6
Butter and cheese bounty	27.0	27.0	41.5	39.9
Processed milk products bounty	0.6	0.5	2.7	2.1
Petroleum subsidy[1]	19.3	22.4	23.8	25.2
Marginal dairy farm reconstruction scheme	0	0	3.1	7.6
Rural reconstruction	0	0	4.0	40.0
Wool	0	0	25.6	57.1
Total direct payments	172.1	138.1	210.4	296.9
Contribution to promotion and research	19.7	17.8	31.6	2.6
Tax concessions[2]	46.3	70.3	57.0	51.3
Assistance to the States	48.3	46.1	57.7	50.5
Total	286.4	272.3	356.7	401.3
Total as per cent of gross farm output value	12.3	12.5	17.8	18.4

1 Benefits both rural and non-rural industry.
2 Estimated revenue foregone.
Sources: Bureau of Agricultural Economics, ***Rural Industry in Australia***, Canberra 1971; Budget Speech (1972/73), Statement 9.

1 Although the level and coverage of Government assistance to the primary sector increased in recent years, the subsidy to the dairy industry tended to remain constant in money terms and therefore fall in real terms.

2 Direct Commonwealth assistance to the wool industry was accorded for the first time in 1970-71. This assistance took the form of emergency assistance to producers seriously affected by drought. Subsequently the Australian Wool Commission was set up to intervene in the market to purchase wool which failed to reach a minimum reserve price at auction. As auction prices continued to remain low in spite of this market intervention, further assistance was later given in the form of deficiency payments to bring growers' receipts for wool up to agreed minimum prices. During 1972, wool prices recovered so as to exceed these agreed prices thus rendering the deficiency payments machinery inoperative and enabling the Australian Wool Commission to resell all its wool stocks at a profit of around $ 25 million.

Government policy has also shown concern with rural reconstruction, particularly for marginal dairy farmers but more recently for other industries. These schemes seek to encourage farm amalgamation and mobility as well as providing finance for debt reconstruction. They also seek to encourage diversification into potentially profitable agricultural sectors[1]. The uncertain prospects for the wool industry in view of the development of synthetic substitutes and the further difficulties that UK membership of the EEC will involve for dairy products, fruit and sugar may increase the need for structural change. The problems are aggravated by the fact that further run-down of these sectors will involve regional problems, particularly for fruit in irrigation areas and for sugar in Queensland[2]. Despite increased Government concern with reconstruction, agricultural policy still seems too much concentrated on piecemeal schemes of rural subsidy to maintain income. Such schemes, by restricting resource mobility, actually hinder rural reconstruction.

Immigration

Immigration was responsible for 0.8 percentage points of a total population growth of 2 per cent per annum during the 1960s[3]. Details (Table 14) show that the immigrants had a relatively high participation rate and that, among occupations, the unskilled categories (labourers, non-specified services and the residual category) and, among regions, South Australia and Western Australia, attracted a high proportion relative to the total population. But more than half the immigrants went to the heavily-populated States of New South Wales and Victoria and within these regions into the urban centres. Since agriculture has not needed labour, the main contribution that immigration has made to decentralisation of the population has been in consequence of the mining boom, chiefly in the West. On the other hand, immigration filled the gap in the work force during the 1950s caused by the low birthrates of the depressed 1930s and provided a ready supply of less skilled labour for the manufacturing and construction industries and for such services as public transport that might not otherwise have been available.

The immediate post-war immigration programme was strongly influenced by considerations of defence and overall labour shortage. With the passage of time, both these arguments became less convincing but the immigration programme was maintained as a contribution to general economic development of a large continent with large natural resources, for the opportunities of a better life it was thought to give to the immigrants— nearly half of whom now came from continental Europe— and for

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1 Particularly if there is a reduction in protection, the US and Japanese markets would seem to offer considerable opportunity for an expansion of meat exports. Prospects for exports of grain for animal feed would also appear good. See F.H. Guren, 'Stabilization and All-Round Protection' in D. Douglas (ed.) *National Rural Policy*, University of Sydney, 1971.

2 It is, however, possible that Japan might provide an expanding market for exports of these products.

3 See Table 10.

Table 14 **Distribution of Migrants and Total Population by Occupation and Region**
Per cent

	Population 1966 Census	Net Settler Inflow[1]		
		1962-71	1962-66	1967-71
Occupation:				
Professional, technical and related	9.3	9.9	8.5	11.0
Administrative	6.3	3.5	2.9	4.0
Clerical	14.7	9.7	8.9	10.3
Sales	7.7	3.7	3.6	3.8
Farmers	9.7	4.5	6.4	3.0
Miners, quarrymen, etc.	0.7	0.5	0.6	0.4
Transport and communication	6.1	5.1	4.9	5.4
Craftsmen	30.8	31.3	29.3	32.9
Labourers	4.7	13.3	13.0	13.5
Services	7.4	12.3	15.6	9.5
Armed services	1.2	—	—	—
Occupation inadequately described	1.6	6.2	6.2	6.3
Total	100.0	100.0	100.0	100.0
Participation rate[2]	43.6	47.9	48.5	45.7
		1963-71[3]	1963-66[3]	1967-71
Region:				
New South Wales	36.7	35.7	32.3	38.1
Victoria	27.9	29.3	31.4	27.8
Queensland	14.4	6.3	6.3	6.2
South Australia	9.5	11.9	14.6	10.0
Western Australia	7.2	11.7	9.3	13.3
Tasmania	3.2	1.1	1.2	1.1
Northern Territory	0.3	0.2	0.2	0.2
Australian Capital Territory	0.8	0.7	0.7	0.7
Not specified	–	3.9	4.0	3.8
Total	100.0	100.0	100.0	100.0

1 Settler arrivals minus former settler departures. This excludes long-term movements of Australian residents.
2 Labour force/population.
3 Data not available prior to 1963.
Sources: Australian Immigration Statistics; Commonwealth Year Book.

the leavening effect of this influx on Australian society and culture. From time to time, the programme has been criticised on account of possible adverse effects on inflation and the balance of payments, on growth and on urban and social problems. It is, however, only in the past few years that this criticism has led to more widespread questioning.

Since immigration affects both aggregate supply and aggregate demand, prolonged debate on the likelihood of net adverse effects on internal or external balance has yielded no definite conclusions[1]. Nor have the few

1 For some discussion of the literature see P. Augmeri, 'Immigration: Areas of Debate', in Arndt and Boxer, *op. cit.*

econometric studies that have been made thrown much light on the matter[1]. In any event, especially with the reduced importance of balance-of-payments problems since the early 1960s, the possible effects of immigration on stability have ceased to be regarded as a major issue.

Immigration has also been considered as a factor behind Australia's only moderately good growth performance[2]. It has been argued that, while immigration may have raised the rate of growth of total national product, it has kept down the rate of growth of labour productivity and income per head. The need to equip the immigrants with productive and social capital has absorbed resources that would otherwise have been available for capital deepening, and the availability of immigrant labour has reduced the relative factor price incentive to raise the capital-labour ratio. Immigration, however, may also be credited with possible favourable effects on productivity. The high rate of growth of total product may have yielded significant economies of scale. In addition, the widening of investment, by lowering the average age structure of capital stock, has provided more opportunities for embodied technical progress. Immigration has also filled gaps in domestic supplies of specific labour resources and increased the mobility of labour. One attempt at econometric study has suggested that immigration increased the rate of growth of total product but reduced the growth rate per head, but the results, as might be expected, proved very sensitive to alternative assumptions about economies of scale[3].

Recent widespread criticism of the immigration programme has largely been a side-effect of growing concern with the "quality of life" and in particular with problems of urban congestion, social welfare and the environment. The federal structure of government, it has been argued, has led to a failure to weigh economic benefits and social costs because the Commonwealth Government which determines the immigration programme stands to gain most from the economic benefits, while the social costs, in housing, education, health and welfare services, fall in the first instance on the State Governments. The Commonwealth Department of Immigration has recently commissioned three studies of the effects of the immigration programme; an economic cost-benefit analysis, a consideration of its demographic impact and an attempt to analyse the experiences of selected groups of immigrants. While these studies should be useful, policy will ultimately need to take into account intangibles and non-economic factors which probably elude all attempts at quantitative measurement.

Foreign Investment

During the 1960s capital inflow (as measured by the current account deficit) financed on average about 10 per cent of domestic capital formation, supplementing to this extent a high rate of domestic saving. Direct investment represented the most important component of this inflow, with portfolio

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1 See footnote on previous page.
2 See Part II, p. 23.
3 A. Jolley, "Immigration and Economic Growth", *Economic Record*, March 1971.

investment and institutional loans tending to increase in relative importance during the second half of the decade. The UK and USA were the major sources of capital with some contributions from other OECD countries. During the 1950s the manufacturing sector was the main recipient of direct investment. Recently, however, the inflow of direct capital has gone increasingly into mining (including oil exploration and development) and the tertiary sector. The last two years have seen a sharp upturn in inflow of funds from abroad, the most important factor in the larger inflow being an increase in borrowing abroad by Australian as well as foreign-owned companies. As this inflow has not been accompanied by an increased current account deficit it has been reflected in additions to reserves rather than in a larger inflow of real resources.

Although the relationship is by no means automatic, a net inflow of foreign capital, accompanied by a corresponding current account deficit, will tend to raise the level of investment. The domestic economy will share in the direct yield of such investment, either in a return greater than the interest due abroad or from taxation of equity profits. In addition there

Table 15 **Foreign Private Investment in Australia**

Year ending June 30	Annual Average 1961-1966	$ million				
		1967	1968	1969	1970	1971
Source of identified flows						
United Kingdom:						
Undistributed income	67	60	116	143	156	146
Other direct investment[1]	134	33	8	80	87	169
Portfolio investment and institutional loans[1]	27	27	268	265	124	257
Total	212	120	392	488	367	572
United States:[2]						
Undistributed income	37	47	88	118	108	130
Other direct investment[1]	156	157	249	188	296	234
Portfolio investment and institutional loans[1]	40	78	51	37	–1	132
Total	218	282	387	343	402	496
Other Countries:	69	114	183	215	311	505
Total	499	516	962	1,046	1,080	1,573
Uses of direct investment						
Primary production	58	114	176	262	259	319
Manufacturing	206	183	224	201	232	239
Other industries	151	66	161	170	299	378
Total	416	363	561	633	790	937
Investment income payable overseas as percentage of merchandise export earnings	11.1	11.5	15.7	17.7	16.2	15.7
of which: undistributed income	4.6	3.9	7.8	8.7	7.1	7.1

1 Annual average 1963-1966.
2 1961-1965 incl. Canada.
Source: CBCS, Annual Bulletin of Overseas Investment.

will normally be favourable dynamic effects on the rate of growth of output and employment and, at least in the case of direct investment, also advantages through the diffusion of superior management and technology and the provision of access to overseas markets. In a country with ample natural resources or other investment opportunities but a limited supply of domestic saving and scope for improvement in business and technical know-how, these benefits can be very considerable, though they may be reduced by market distortions and in other ways. One example of market distortions would be diversion of additional resources to relatively inefficient sectors protected by tariffs. Another would be the case where foreign-owned firms are able to take advantage of, or create, monopoly positions.

It is difficult to assess how far market distortions may have influenced the size and distribution of foreign investment in Australia[1]. Some of the large foreign investments in manufacturing may have been induced by tariff protection, especially in the highly-protected vehicle and non-ferrous metal manufactures industries where foreign control accounts for over 80 per cent of production and employment. An investigation of the motives behind UK and US investment has suggested that the former has been significantly influenced by a desire to get behind actual or potential tariff barriers. Investment by US firms has tended to a greater degree to reflect comparative technological and managerial advantage[2]. The recent growth in the relative importance of investment in mining and tertiary industries implies a lessening of the influence of tariffs on the distribution of foreign investment. Such figures on comparative rates of return of foreign and domestic companies as are available— and they leave much to be desired— do not indicate that the former have been able to take particular advantage of monopoly positions[3]. The higher return on US than UK investment probably reflects greater efficiency and more recent opportunities for sector choice rather than greater monopoly profits.

More important in public discussion than fears of resource distortion have been objections raised to foreign ownership and control as such[4]. The rationale of this concern is that foreign companies might act contrary to Australia's national interests. Areas of possible conflict of economic interest that have attracted attention are restrictions on production, employment and manufactured exports, limitations on domestic research, foreign take-overs and unfavourable purchasing and financial policies of foreign-controlled

1 It has been pointed out that tariff protection does not necessarily increase capital inflow. An increase in the nominal tariff on a commodity may reduce the effective protection of an industry and more importantly may reduce profits in export and other non-protected industries. The latter factors are not, however, likely to have a quantitatively very important effect on capital inflow. Corden, W.M., 'Protection and Foreign Investment', *Economic Record*, June 1967.

2 D.T. Brash, *American Investment in Australian Industry*, Australian National University Press, Canberra 1966.

3 For qualifications to the data presented in Table 16, see *Treasury Economic Paper* no. 1, p. 34.

4 In the 1950s, concern had also been expressed about the problem of debt service. Although this has risen in recent years (Table 15) the current balance-of-payments position and prospects would not seem to make this an important problem.

Table 16 Comparative Earnings Rates of Domestic and Foreign-owned Companies
Per cent

	Average for years ending June 30	
	1961-1965	1966-1970
Earnings rates of:		
Overseas-owned companies[1]	6.7	6.6
Australian-owned companies[2]	6.4	6.6
Earnings rates from investment in Australia by:[3]		
UK companies	6.2	6.7
US companies	8.6	8.1
All overseas companies	6.8	6.8

1 Ratio of direct investment income payable overseas (excluding interest) to total direct overseas investment.
2 Ratio of net profit to shareholders' funds, debentures, mortgages, deposits and unsecured borrowings.
3 Including portfolio investment.
Source: " Overseas Investment in Australia ", *Treasury Economic Paper No.* 1, Canberra, 1972.

subsidiaries. The current evidence, though limited and not unambiguous, suggests that these problems have probably not as yet proved serious[1]. Such evidence, of course, does not impress those who oppose foreign ownership and control on essentially non-economic grounds. Indeed, public discussion has centred chiefly on such non-economic arguments— the desire for "an Australian Australia"; fears about the impact of multinational corporations on the country's "way of life"; and so on. Those who hold such views regard the economic aspect as merely one among various relevant policy considerations.

While Australians may wonder whether continued reliance on capital inflow on the scale of the past decade is in their national interest, the question is sometimes raised elsewhere whether Australia is justified in attracting to itself savings of other rich countries for which poorer countries may have greater need. The Australian reply to such questioning runs along three lines. First, a deficit on current account does not necessarily constitute a constraint on a country's development aid effort, as witness the fact that Australia's aid performance compares favourably with that of most other OECD countries. Secondly, foreign capital is attracted to Australia not by any positive Australian policies but by the opportunities for productive investment that Australia can offer. Flows of long-term capital, internationally as much as inter-regionally, can contribute to the efficient use of the world's economic resources. Thirdly, and more specifically, neither the present rate of immigration which benefits the immigrants as well as Australia nor the present rate of development of Australia's mineral and

1 'Overseas Investment in Australia' Ch. 4, *op. cit.*

Table 17 **Foreign Ownership and Control of Australian Industry**
Per cent

	Value of Production Attributable to Overseas:		Average Employment Attributable to Overseas:	
	Ownership	Control	Ownership	Control
Manufacturing	22.2	26.3	17.5	20.4
Mining	40.9	52.9	26.0	36.6

NOTE Data based on fiscal year 1966/67. All factories in which there is direct overseas investment are taken to be subject to overseas control, while degree of overseas ownership is based on actual proportion of overseas shareholdings. No account is taken of portfolio investment.

Source: " Overseas Investment in Australia ", *op. cit.*

other natural resources which helps to meet the needs of the rest of the world for raw materials, could be sustained if Australia had to rely on her already high rate of domestic saving. It is a plausible, if still debatable, case.

IV RECENT DEVELOPMENTS AND SHORT-TERM PROSPECTS

In the past two years, after almost a decade of brisk and relatively smooth sailing, the Australian economy has run into troubled waters: domestically, as in most other OECD countries, wage-price inflation has sharply accelerated while economic activity has slowed down markedly and unemployment has risen. Externally, there has been a steady improvement in the balance of payments on current account, on which has been superimposed an inflow of capital so large as to become a serious embarrassment. As this survey is being written, the domestic situation appears to be improving. Expansionary fiscal-monetary measures have set the stage for a return to full employment and there are signs of some abatement in the rate of inflation. The external imbalance continues, although its magnitude should be somewhat reduced by measures recently announced to restrain net capital inflow.

Loss of Price Stability

The recent troubles on the domestic front may be said to have begun with a marked acceleration in the rate of price and wage inflation during the fiscal year 1969/70. The annual rate of increase in the consumer price index which had averaged 2½ per cent in the preceding decade reached 5 per cent in the June quarter of 1970/71 and 7 per cent in the December quarter of 1971/72 (Table 18). During 1971/72, prices of non-food items rose by 7.6 per cent, and the rise in the overall index was kept down to 6.1 per cent only by relative stability of food prices (which rose by only 2.8 per cent). The annual rate of increase of average weekly earnings which had averaged 5 per cent in the previous decade rose to 8½ per cent in 1969/70 and almost 11½ per cent in 1970/71. Initially, much of this rapid increase in earnings consisted of "wagedrift"— rising over-award rates and overtime. But during 1971, the rate of growth of award rates caught up with and overtook that of average earnings, mainly in consequence of large increases granted in the national wage case of December 1970 and in the metal industries award of July 1971 (and subsequent "flow-on" to other sectors).

The reasons for this relatively sudden and unexpected loss of price stability in Australia are by no means clear. Some have stressed the contribution made by accelerating inflation overseas— inflation "imported" from abroad, not only directly through rising import prices and reduced competitive pressure (as well as export prices sustained at higher levels than would have obtained without inflation overseas) but also in various indirect

Table 18 **Consumer Prices, Wage Rates and Earnings**
Annual rate of change
Per cent

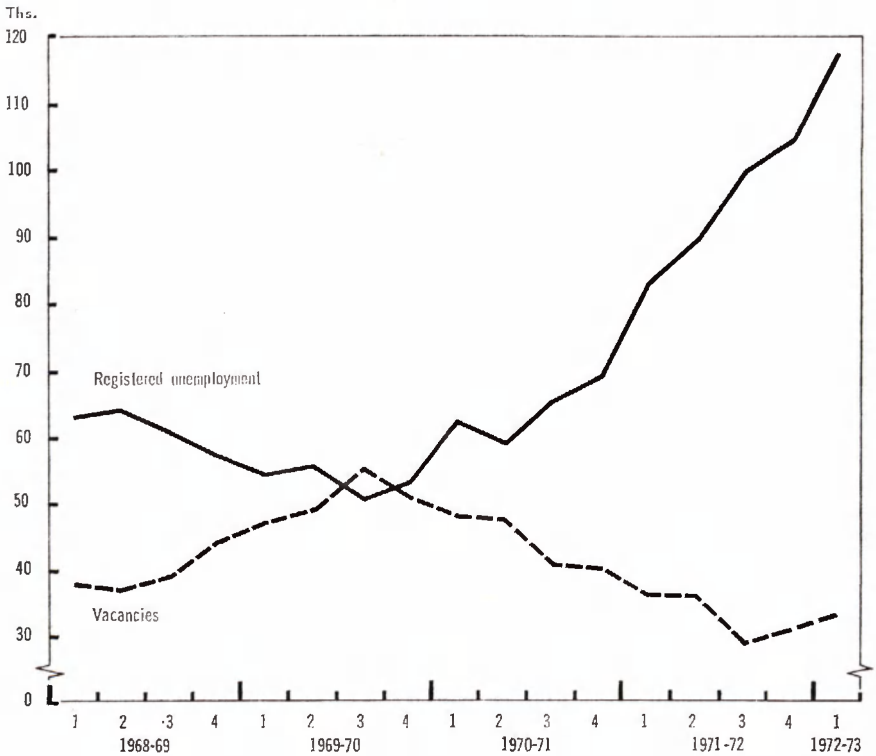
		Consumer Prices	Weekly Wage Rates	Average Weekly Earnings
1968/69	September	1.9	4.6	5.3
	December	2.6	7.9	8.1
	March	2.9	7.7	8.4
	June	2.9	7.0	8.2
1969/70	September	3.1	6.6	9.3
	December	2.8	3.8	8.9
	March	3.2	5.6	6.1
	June	3.7	5.5	9.0
1970/71	September	3.8	7.1	9.2
	December	4.9	6.6	9.4
	March	4.9	10.2	13.2
	June	5.4	11.5	13.5
1971/72	September	6.5	12.3	11.5
	December	7.0	13.2	11.5
	March	7.0	7.5	9.0
	June	6.1	8.1	8.1
1972/73	September	5.8	n.a.	n.a.

NOTE Rate of change is estimated on corresponding quarter of previous year. Weekly wage rates refer to the minimum award rates payable to adult males, while average weekly earnings are calculated on a equivalent " male unit " basis.

Source: Commonwealth Statistician.

ways, such as a "demonstration effect of industrial unrest and wage gains overseas upon wage negotiations in Australia"[1]. Indirect channels of transmission may be important, though this would be hard to prove, but insofar as this explanation relies on direct transmission through rising import prices, it is not convincing; for, while the rate of increase of Australia's merchandise import prices rose from 2 per cent in 1969/70 to 3 per cent in 1970/71 and 4 per cent in 1971/72, the import content of total national expenditure is too small for this factor to provide a major explanation of rising domestic prices[2]. Nevertheless, this was a factor of some significance, especially if more indirect relationships are considered. The proximate cause of accelerating price inflation was undoubtedly accelerating wage inflation, first mainly through wagedrift and from late 1970 increasingly through wage awards

Diagram 5 **Unemployment and Vacancies**
Seasonally adjusted



Source: Commonwealth Statistician.

1 Commonwealth Treasury, *The Australian Economy* 1972, p. 20.
2 The Treasury has estimated that a 4.0 per cent rise in prices of imported goods and services contributed in 1970/71 only 0.8 percentage points to a total increase of 6.6 per cent in the implicit price deflator of gross national expenditure (ibid., p. 21).

by the arbitration authorities. In 1970/71, it seemed not unreasonable to attribute this, at least in part, to demand pressures in the labour market. In the preceding three years private investment, especially associated with mining developments but also in other non-residential and residential construction, had been booming. In the second quarter of 1970, for the first time for five years, the unemployment percentage had been below 1.0 per cent and registered job vacancies had exceeded the number of registered unemployed (Diagram 5)[1].

This appears certainly to have been the official view. To restrain the boom, monetary policy was tightened during 1970/71. The August 1970 budget raised company and sales tax rates. Following the 6 per cent increase in the National Wage awarded in late December 1970, supplementary fiscal measures in February 1971 were taken to cut back public sector spending and withdraw the current 20 per cent investment allowance for private investment in machinery and equipment. In the face of accelerating wage and price inflation, the 1971/72 budget presented in August 1971 went further (Table 19). Aiming at a domestic surplus of $630 million— up $160 million on the previous year's realised surplus and nearly 2 per cent of GDP— it provided for a reduced growth rate of government expenditure, raised personal and company income tax and increased certain public charges. In presenting the budget, the Treasurer emphasized the danger of demand pull reinforcing the already strong cost-push pressures in the economy. Events during the year, however, compelled a major reassessment of diagnosis and policy.

The rate of growth of non-farm real GDP which had been running at 6-7 per cent a year during the previous three fiscal years slowed down to 4½ per cent in 1970/71 and, despite strongly rising exports, to about 3 per cent in 1971/72. The (seasonally adjusted) unemployment rate rose steadily from under 1 per cent in mid 1970 to over 2 per cent in August 1972, the highest rate in Australia for a decade[2]. In retrospect, it is clear that the boom had already begun to level out and pressures in the labour market to ease towards the end of 1970. Dwelling construction, under the impact of monetary restraint, began to decline in the September quarter of 1970, followed by private investment in plant and equipment in the June quarter of 1971 and by non-residential construction in the December quarter (Diagram 6). What through 1970/71 might have been regarded as wholesome restraint of a boom had by the end of 1971 developed into a marked slowdown in economic activity.

Soon after the disinflationary budget of August 1971, the policy gears were put into reverse. Central bank restraints on bank credit were relaxed

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1 A considerable part of this unemployment was in rural areas, due to the effects of drought and depressed farm prices.

2 The rise in registered unemployment understated the loss of output since there was also a marked fall in overtime worked and in participation rates. Between February 1971 and February 1972, while the annual growth rate of the number of women of working age remained stable, the rate of growth of the female work force declined from 5.6 to 1.1 per cent (ibid., p. 13).

in October and entirely removed in December. Bank lending was encouraged by a reduction in the SRD (minimum liquidity) ratio, and interest rates declined in conditions of high liquidity and strong demand for bonds because of limited demand for funds in the private sector. Speculative

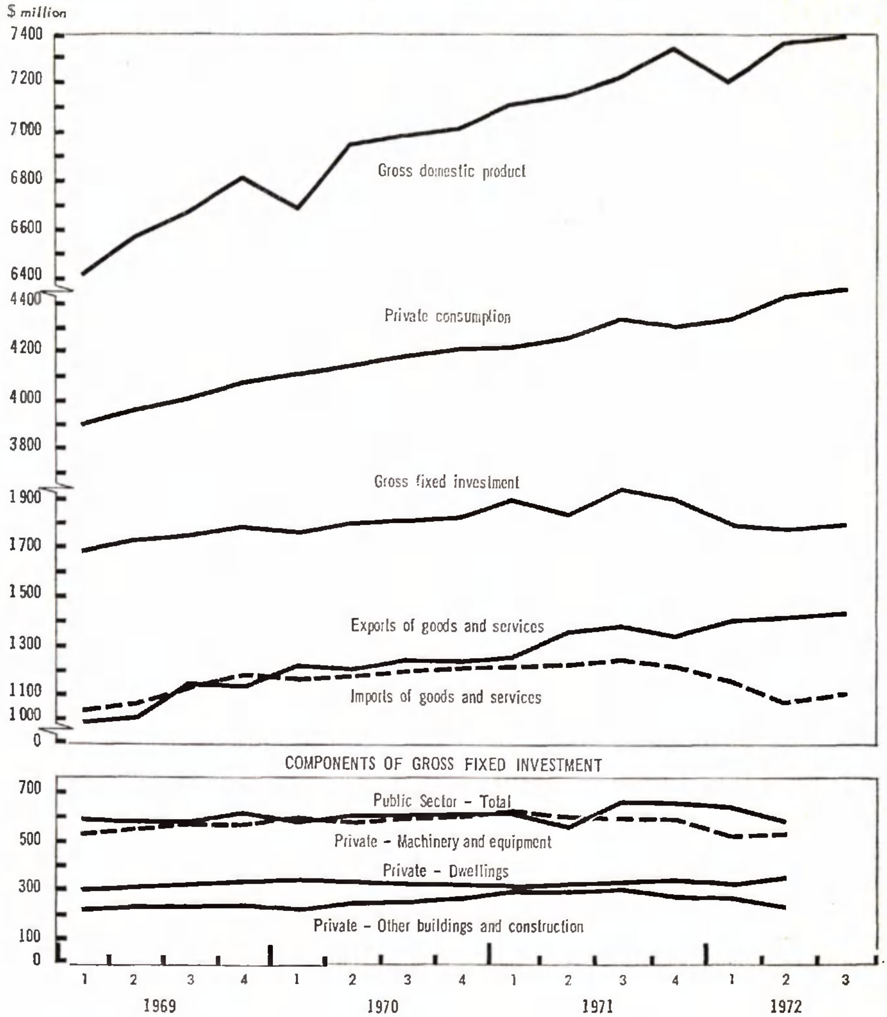
Table 19. Commonwealth Budget Transactions
$ million

	Year ending June 30			
	1970	1971	1972	1973 estimate
Income				
Taxation	6 422	7 245	7 959	8 526
Other	766	870	954	1 005
Total income	7 188	8 115	8 914	9 531
Expenditure				
Purchase of goods and services	1 998	2 200	2 401	2 656
of which: from abroad	(293)	(253)	(225)	(276)
Transfers	4 224	5 084	5 674	6 410
of which to abroad	(180)	(185)	(205)	(234)
Total expenditure	6 221	7 284	8 075	9 066
Surplus (+) or deficit (—)	966	831	839	465
FINANCIAL TRANSACTIONS				
Sources of funds				
Income Surplus	967	831	839	
Net borrowing[1] – domestic	296	222	710	
– abroad	–131	–46	–47	
Use of cash balances	—	—	—	
Other[2]	45	27	37	
Total	1 176	1 035	1 539	
Uses of funds				
Net lending[1] – domestic[3]	1 157	841	972	
– abroad[4]	–	37	–	
Addition to cash balances	19	157	567	
Total	1 176	1 035	1 539	
Total budget domestic surplus[5]	522	458	387	–60

1 Net of redemptions.
2 Includes funds obtained from coinage and bullion transactions, amounts borrowed by Commonwealth trust accounts, net amounts available from Commonwealth trust account transactions in Commonwealth Government securities, amounts available from moneys held in trust, etc.
3 Includes net advance to Australian Wheat Board.
4 Funds provided for IMF.
5 Equals domestic component of income surplus + domestic lending excluding advances to the Australian Wheat Board.

Sources: Budget Speech (1972/73), Statement 7, Tables 2 and 3; Treasury Information Bulletin; Supplement to Treasury Information Bulletin, August 1972.

Diagram 6 **GDP by Major Component**
Seasonally adjusted, 1966/67 prices



Source: Quarterly Estimates of National Income and Expenditure.

buying of bonds, coupled with limited supply, led to a sharp reduction in short- and long-term bond yields. The trend of monetary indicators during 1971/72 reflects the consequent increase in the liquidity of banks and the public (Table 20). In the early months of 1972, easing of monetary restraints was followed by a range of expansionary fiscal measures, including

Table 20 **Monetary Indicators**

	June 1969	June 1970	June 1971	1971-72 Sept.	1971-72 Dec.	1971-72 March	1971-72 June	1972-73 October
Money Supply								
Currency and trading bank deposits[1] (*$ billion*)	6.7	7.7	8.2	8.4	9.1	9.3	9.1	10.3
Savings bank deposits (*$ billion*)	7.3	7.1	7.7	8.0	8.0	8.1	8.4	9.0
Total (*$ billion*)	14.0	14.8	15.9	16.4	17.1	17.4	17.5	19.3
Major Trading Banks								
LGS ratio[2] (*per cent*)	22.9	20.5	21.3	22.8	26.3	29.7	23.7	31.3
Advances outstanding (*$ billion*)	3.9	4.4	4.8	4.7	4.9	4.9	5.3	5.5
New lending commitments[3] (*$ million*)	38.1	34.6	42.9	38.1	50.2	73.5	82.0	80.6
Interest Rates								
Government securities: 20 years[4] (*per cent*)	5.87	6.99	6.99	6.98	6.50	6.02	5.99	6.02
Government securities: 2 years[4] (*per cent*)	5.25	6.48	6.00	6.13	5.18	5.15	5.05	4.67
Short-term money market[5] (*per cent*)	4.59	6.12	5.91	5.71	5.71	5.04	5.18	3.90

1 In hands of public.
2 Liquid assets + government securities, expressed as a percentage of deposits.
3 Weekly average.
4 Non-rebatable.
5 Weighted average rates on loans outstanding.

Sources: Reserve Bank of Australia.

additional payments to the States[1], increased rates of unemployment and related social service benefits, restoration of the 20 per cent investment allowance and abolition of the 2½ per cent surcharge on personal income tax. Between them, these measures were in large part responsible for reducing the domestic surplus for 1971/72 from the originally budgeted $630 million to a realised surplus of only $387 million. In August 1972, this was followed, appropriately in the circumstances, by a notably expansionary federal budget. Substantial increases in expenditure on social service benefits, education, subsidies to industry and payments to the States for works and housing, together with a reduction in income tax rates averaging 10 per cent and other concessions (both concentrated on the lower income earners) were estimated to result in a domestic deficit of $60 million for the fiscal year 1972/73.

A number of factors appear to have contributed to the excessive slowing down of economic activity during 1971/72. Farm incomes, affected by several years of cost-price squeeze, were severely depressed by a calamitous fall in wool prices in 1970/71 and the first half of 1971/72, as well as by drought in some areas. Mineral development could hardly have been expected to sustain indefinitely the very large contribution which it had made to private investment in the preceding years. It suffered a setback with the collapse of the speculative boom in mining shares towards the end of 1970 and was further dampened by the consequences of the international monetary crisis in the second half of 1971 which caused losses on long-term iron ore contracts (denominated in US dollars) and by a downward revision of market prospects in Japan. Non-residential construction was further slowed down by developing excess capacity after a prolonged boom in metropolitan office building. The steel industry was severely affected by the slump in world demand for steel which accompanied the general recession in economic activity in some of the major industrial countries in 1970 and 1971. As significant as any of these adverse influences on private investment, if not more so, was a marked retardation in the rate of growth of private consumption, reflected in a sharp rise in the personal savings ratio. The ratio of personal saving to personal disposable income doubled between 1967/68 and 1971/72, rising from 5.6 per cent to 10.2 per cent. Real consumption grew at a diminishing rate throughout 1970 and after some recovery actually fell in the last quarter of 1971. This slowing down in the growth of consumer demand affected economic activity, both directly and through its dampening effect on private investment, especially in the manufacturing sector. The reasons for the rise in the personal savings ratio which has also been noted in several other OECD Member countries are not entirely clear. The fact that, in Australia, it coincided with the acceleration of price inflation and appeared to come to a halt just as the employment situation began to deteriorate seriously would seem to suggest that, there at least, it had more to do with rising prices than with rising unemployment.

1 In December 1971, the Commonwealth had already introduced a scheme of grants to the States for relief of unemployment in non-metropolitan areas. By May 1972, the scheme was responsible for the employment of some 14 500 people.

But why rapid price inflation should induce households to save more is by no means obvious[1]. In view of its possible importance for the explanation of "stagflation", the phenomenon might repay more detailed study than has been possible for this survey.

Looking back over the past two years, it is apparent that Australian domestic policy got caught in the dilemma already familiar in several other OECD countries : a sustained effort to stem accelerating wage-price inflation through restraints on spending reached its climax in the 1971/72 budget, well after the boom had levelled off, and thus probably contributed to the ensuing slowdown. A year later, the Commonwealth Treasury in its annual review of the economy well summarised the lessons of this experience, without pointing to a clear remedy: "Is the Phillips Curve extinct ?... Probably few would argue against the proposition that the inverse relationship between wage increases and unemployment still broadly holds for low rates of unemployment... [But] a somewhat increased unemployment rate will not, of itself, significantly slacken the rate of wage and price increases unless sustained for some time— that is, the so-called "trade-off" is comparatively ineffectual in the short and medium term *once an accelerating wage-price trend has become established*"[2]. The authorities could certainly claim that the policies adopted had at least substituted "a high but relatively constant rate of inflation for such an accelerating trend"[3] and that they were not sustained too long— when the need became apparent, the thrust of monetary-fiscal policy was reversed promptly and flexibly.

The External Account: Embarrassment of Riches

The Australian trade balance moved from near zero in 1968/69 to a record surplus of almost $1,000 million in 1971/72. Merchandise exports increased in value by almost one-half, while imports during the same period rose by only 18 per cent (Table 21). This improvement in the trade balance was only partially offset by the steadily growing net deficit on invisible transactions, so that the deficit on current account declined from over $1,000 million in 1968/69 to under $400 million in 1971/72. In both the June and the September 1972 quarters, surpluses on current account were recorded, the first since 1964. During 1969/70 and 1970/71, the main contribution to rising exports was made by minerals and manufactures, while rural exports were held back by drought and a sharp fall in wool prices. In 1971/72 exports of manufactures continued to rise strongly despite the disturbed conditions of international trade, and a broadly based expansion of rural exports— including wool which benefited from some

1 Among factors that have been mentioned as possible explanations in Australia are the effect on (paper) wealth of the collapse of the mining share boom, lags of consumption behind rising incomes (especially wage incomes), consumer resistance to rising prices, and a Pigou effect in reverse (" people may feel a need for increased levels of money savings to preserve the purchasing power of their nest-eggs ", Commonwealth Treasury, *op. cit.*, p. 9).

2 Ibid., p. 23 (italics in original).

3 Ibid.

recovery in prices and from increased volume of sales (in part from stocks acquired in the previous year by the Australian Wool Commission)— offset a slowing down in exports of minerals (from 16 per cent in 1970/71 to 8 per cent in 1971/72) due mainly to the effects of the prolonged recession in Japan. Import substitution, especially for crude oil, made some contribution to the slower growth of imports, but their virtual stagnation during 1971/72 reflected chiefly the slowing down in domestic economic activity.

Table 21 **Balance of Payments**
$ million

	Year ending June 30			
	1969	1970	1971	1972
A CURRENT ACCOUNT				
Exports (fob)	3 217	3 967	4 216	4 758
Wool	(851)	(825)	(593)	(635)
Other rural	(1 045)	(1 297)	(1 548)	(1 812)
Ores and concentrates, coal	(442)	(656)	(812)	(839)
Metals	(257)	(371)	(374)	(428)
Other manufactures	(545)	(718)	(793)	(927)
Other[1]	(77)	(100)	(96)	(116)
Imports (fob)	3 203	3 553	3 790	3 789
Trade Balance	14	414	426	969
Invisibles (net)	–1 039	–1 174	–1 247	–1 367
Services	–388	–419	–470	–498
Other	–650	–755	–776	–870
Current Balance	–1 024	–760	–820	–398
B CAPITAL ACCOUNT				
Net Apparent Capital Inflow	1 173	797	1 418	1 841
Government transactions	69	–185	–63	–51
Marketing authorities' transactions	27	–47	–43	–36
Companies	1 046	1 080	1 573	1 800
Direct (incl. undistributed income)	(633)	(789)	(937)	(1 000)[2]
Portfolio and loans	(412)	(291)	(637)	(800)
Other (incl. balancing item)	31	–51	–49	–128
Overall balance	148	37	598	1 443
Monetary Movements				
Change in official reserves	143	118	742	1 544
SDR allocation	. .	–75	–64	–63
Other	6	–6	–81	–38

1 Including adjustement of recorded trade figures in respect of coverage and valuation for balance-of-payments purposes. This adjustment averaged - $163 million over the four years shown.
2 Estimate.
Source: Commonwealth Statistician.

While the deficit on current account thus declined, the inflow of capital accelerated sharply. Net apparent capital inflow more than doubled in two years, from $800 million in 1969/70 to over $1,800 million in 1971/72 (Table 21). In consequence, Australia's international reserves (official reserve assets, excluding SDRs and IMF gold tranche) more than tripled in two years, rising from $1,251 million at the end of October 1970 to $4,562 million at the end of October 1972 (notably in excess of total merchandise imports in 1971/72). Some of the increase in capital inflow was due to steadily rising direct investment (both new investment and undistributed income). But the outstanding feature of the rise in 1970/71 and 1971/72 was a greatly accelerated inflow of portfolio capital and institutional loans[1]. Three main factors appear to have been responsible for this. One was the influx into Australia of merchant banks and other financial intermediaries with international affiliations which increased awareness, of, and access to, overseas sources of capital among companies operating in Australia. A second was the tightening of credit (and rise in relative interest rates) in Australia during 1969/70 and 1970/71 (Diagram 7) and the ready availability of finance in overseas capital markets[2]. Thirdly, after August 1971 speculation on a revaluation of the Australian dollar is believed to have played a part, and this appears to have continued after the December 1971 currency realignment. By this time, domestic monetary policy had changed from restraint to expansion, so that the effect of capital inflow on domestic liquidity was, for the present, no embarrassment. But, as has been mentioned, it could seriously weaken control over domestic liquidity in the event of a renewed boom.

In August 1971, following suspension of convertibility of the US dollar, the Australian Government initially decided to retain the link to sterling, so that the Australian dollar floated with sterling against the US dollar. In the following months of uncertainty in international monetary affairs, there was intense public discussion of foreign exchange policy in Australia. Export- and import-competing industries (rural, mining and manufacturing) urged devaluation *with* the US dollar. A group of academic economists urged substantial appreciation relative to the US dollar, primarily to exert downward pressure on domestic prices and thus give more scope for domestic measures to stimulate economic activity without exacerbating inflation. In December, following the Smithsonian agreement among the Group of Ten, the Australian Government decided to retain the gold parity of the Austral-

1 Direct investment is defined, broadly speaking, as investment in an Australian company by one overseas company, or group of related companies, which holds 25 per cent or more of the voting stock. It is important to note that the arbitrary distinction between direct investment, on the one hand, and portfolio investment and institutional loans, on the other, does not provide a basis for distinguishing short-term and long-term capital inflow. Each category includes both short- and long-term flows. Much of the inflow of portfolio capital and institutional loans may have been intended for, and may have found its way into, long-term investment.

2 The " guidelines " policy by which the Australian government sought, first, to limit local borrowing by foreign-owned companies in conditions of monetary restraint and, later, to encourage local equity participation had by this time ceased to be relevant.

Diagram 7 **Selected Interest Rates**

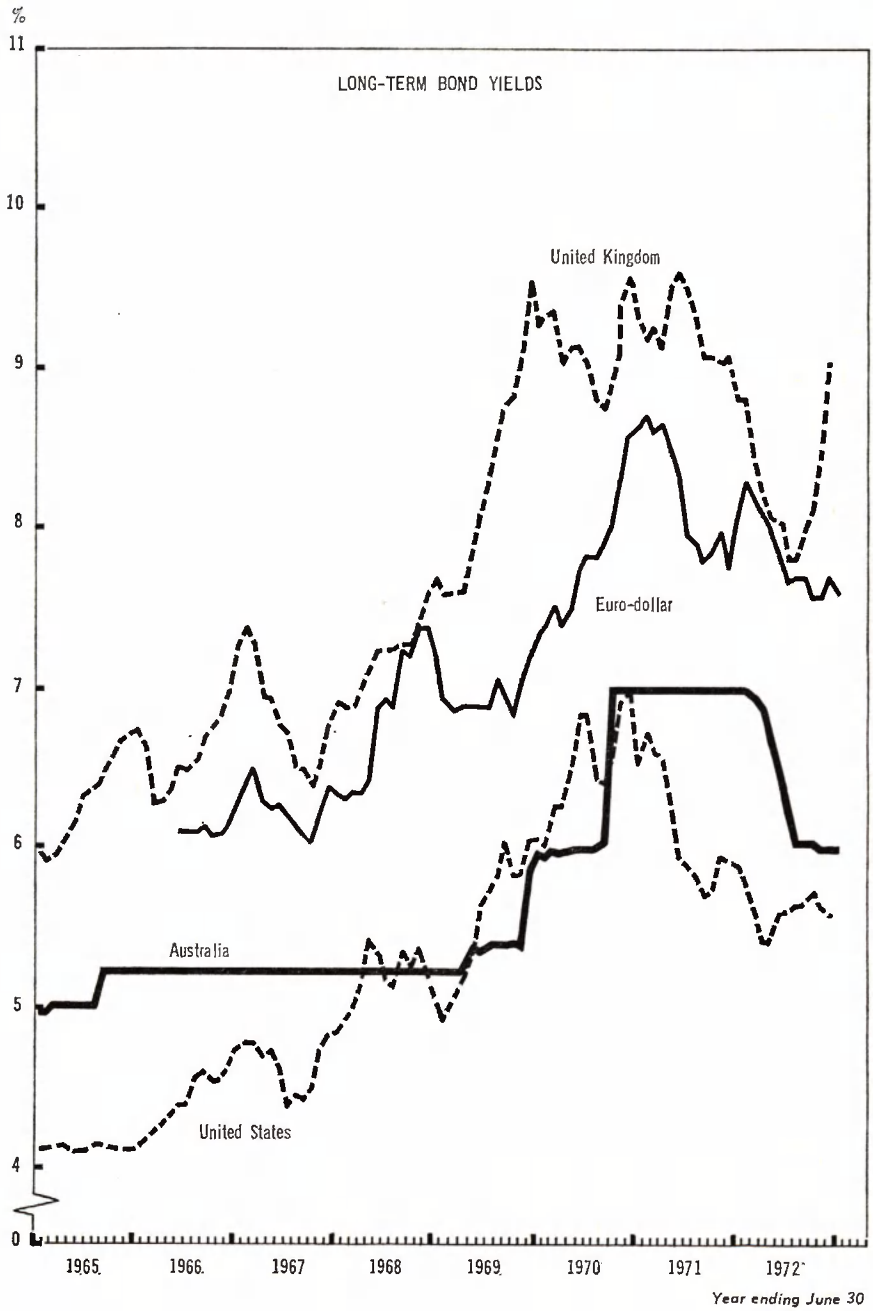
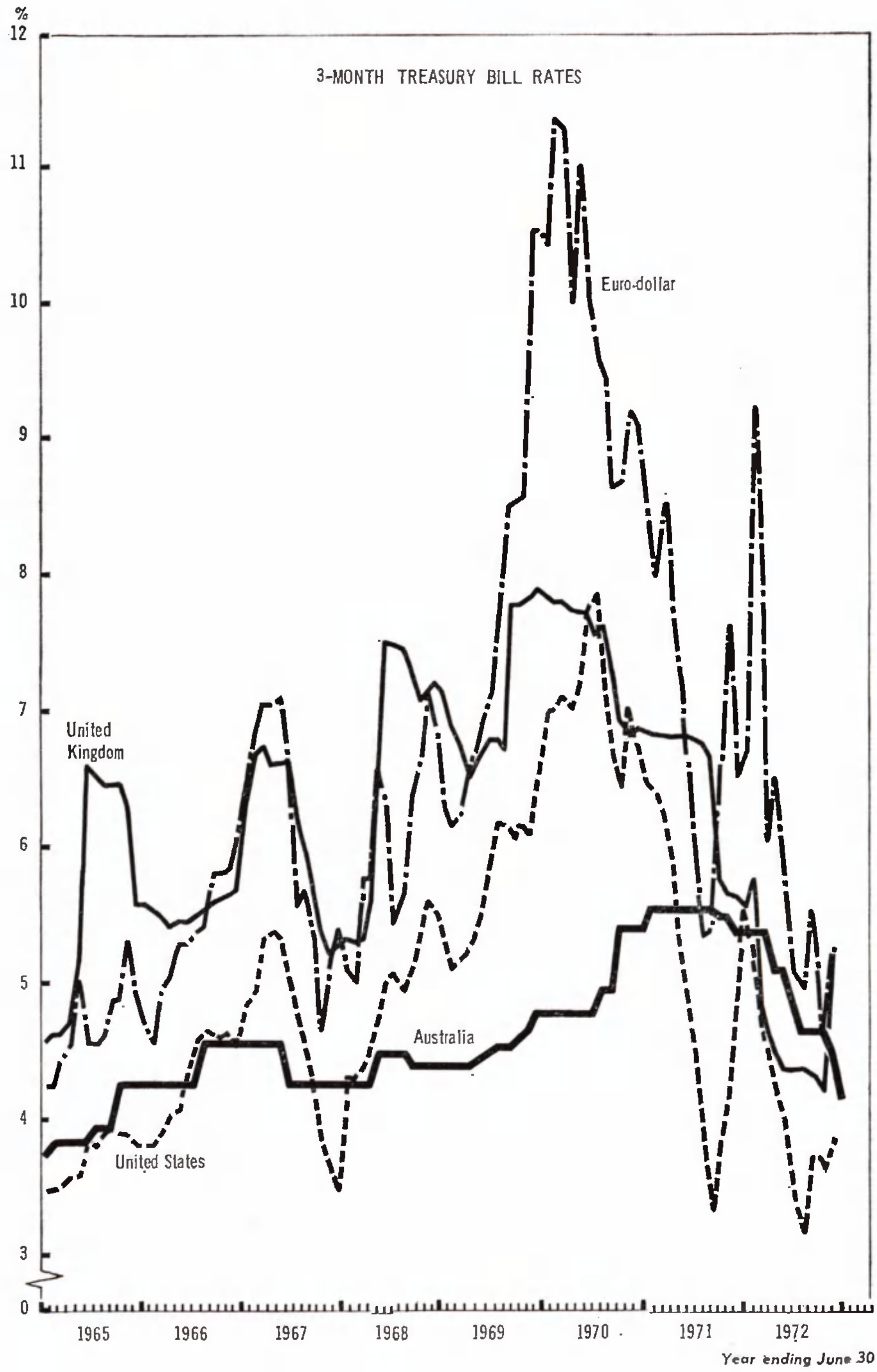


Diagram 7 (continued) **Selected Interest Rates**



Source: Australian Submission to OECD.

ian dollar (which implied an appreciation by about 8.6 per cent against the US dollar) but to take advantage of the wider margins now permitted by the IMF and fix the market rate at the lower end of the band (which implied an appreciation against the US dollar of only 6.3 per cent, a devaluation against the yen by about 12 per cent and an overall devaluation of about 2 per cent against the weighted average of currencies of Australia's main trade partners). At the same time, the traditional link with sterling was broken and the Australian dollar was aligned to the US dollar. The fixed US dollar rate was retained when the United Kingdom decided to float sterling in June 1972[1].

The developments which have been summarised in the last three paragraphs have presented Australian policy-makers with three inter-connected problems of great moment and difficulty, relating to the exchange rate, overseas investment in Australia and insulation of domestic monetary policy against volatile international capital movements. The combination of large-scale capital inflow with approximate balance on current account has generally been interpreted as prima facie evidence of under-valuation of the Australian dollar, and the mere fact that this view is widely held leads to speculative capital inflow which exerts pressure towards appreciation. In September, the Commonwealth Government announced measures to restrain capital inflow, including abandonment of the earlier "guidelines" policy, an embargo on overseas borrowing repayable within two years, and greater freedom for portfolio investment abroad by local residents[2] and a new procedure for vetting by an independent authority of foreign take-overs of major Australian enterprises. The Government also indicated that it was still considering action in the field of overseas ownership and control generally. The adequacy and appropriateness of this approach to the problem of external imbalance will be further discussed below.

Domestic Prospects: Recovery

By the middle of 1972 there were signs that the worst might be over, in terms of both the rate of price-wage inflation and the slowdown in economic activity and employment. The increase granted in the national wage case of $2, or about 2½ per cent, marked a significant slowdown from the previous award of 6 per cent in December 1970. Figures for the June and September quarters also suggest a slowing down in the rate of increase of

1 On Australia's foreign exchange market arrangements and recent changes, see Annex C, last paragraph.

2 Specifically, the Reserve Bank, as from 27 September 1972, has been refusing exchange control approval for all overseas borrowing of $ 100 000 or more which would be repayable, or carry options to repay, in two years or less; the requirement on foreign companies to bring funds from overseas which they have not been permitted to borrow locally has been abolished; and the existing ban on portfolio investment abroad by Australian residents has been relaxed, so that in any period of 12 months individuals will normally be allowed to make investments of up to $ A 10 000, and institutional investors of up to $ A 1 million, in stocks and shares and purchases of real estate but not in loans or other fixed interest securities.

consumer prices. The expansionary stance of monetary and fiscal policy, too, had begun to show results. Stimulated by easier finance, housing expenditure rose again strongly although most other private investment remained subdued. The personal savings ratio had begun to fall and rises of 11-12 per cent in (seasonally adjusted) retail sales in the June and September quarters suggested that consumer spending was accelerating.

The faster growth of demand revealed by recent data should be reinforced by the strongly expansionary 1972/1973 budget, though the main impact is unlikely to come before 1973. The Australian authorities tentatively forecast a return of the real growth rate of GDP to about 5 per cent for 1972/1973— approximately the average rate during the past decade. A considerable acceleration is expected through the fiscal year.

An uncertain factor in this prognosis of a faster growth of GDP is the expectation of a considerable increase in real consumption. The exceptional behaviour of this major spending component during the past two years makes a forecast particularly difficult. But the recent acceleration in consumption already noted makes the assumption plausible. The fall in real fixed business investment which occurred last year is likely to be halted, but no significant increase can be expected for 1972/73 as a whole. A further deterioration in mining investment is likely to offset the improvement in other sectors. The second half of the year should, however, bring a stronger recovery of business investment as expectations and capacity utilisation improve. There may also by then be some positive effect from the reintroduction of investment allowances. Housing, judging by recent data, should continue on the strongly rising trend noted during last year. The increase in public sector spending should be rather stronger than last year, whilst the expected faster growth of aggregate demand should reverse the falls in stockbuilding that occurred in 1971/72.

The seasonally adjusted unemployment rate, after reaching 2.1 per cent— an exceptionally high figure by Australian standards— earlier in the year, showed a significant fall in September and October. But past experience suggests that there might be a considerable lag— possibly until mid 1973— before the unemployment rate falls back to a more normal level. Participation rates tend to vary positively with the cycle and the initial stages of the recovery are usually reflected more strongly in increased productivity than employment. In addition, there remains uncertainty as to how far rural unemployment will respond to the recent recovery of farm income and to Government measures[1].

Although recent data suggest some abatement in the rate of price increase it would be premature to say that inflation has been brought under control. Despite a lower rate of increase in award wages, the Australian authorities expect average earnings to increase by about 9 per cent in 1972/73 as compared with 10 per cent in 1971-72. This reflects the likelihood of "flow-on" to other sectors from this year's increase in the metal industries award and the possibility of "wage-drift" compensating for

1 See pages 45 and 49 above.

any fall-off in awards. Upward pressure on prices should be cushioned by the favourable effect on unit labour costs of relatively fast rising productivity, but against this must be weighed the probable efforts of business to restore profit margins in conditions of rising demand. On balance, it would be optimistic to expect an early substantial decline in the rate of inflation.

External Prospects: Overall Surplus Continuing

In the absence of further significant policy changes directly affecting the external sector, international reserves seem certain to rise further in 1972/73. Exports may well sustain the high rate of growth achieved last year. The recent sharp rise in wool prices should more than offset the fall in volume available and, while some commodities may begin to be adversely affected by British entry into the European Economic Community, market prospects are very favourable for the other main rural exports— wheat, meat and sugar. Mineral exports will benefit from the current acceleration of growth in the major industrial countries and especially in the Japanese economy whose recovery from an unusually prolonged recession is proceeding faster than seemed likely some months ago. (Iron ore exports will, however, continue for some time to be held back by the downward revision of expansion plans in the Japanese steel industry.) Exports of manufactures, though mainly dependent on conditions in south-east Asian and other nearby markets, can also be expected to rise further with the general recovery of world trade from the disturbed conditions of the past year.

The expected recovery of domestic demand should be reflected in an increase in the volume of imports following the fall in 1971/72. Given the normal lag in imports during a cyclical upswing, their increase seems unlikely to match that of exports. The consequent further improvement in the trade balance is unlikely to be wholly offset by the continuing deterioration in the invisibles balance. The current fiscal year, therefore, is likely to show balance or even a small surplus on current account. This carries the implication that any substantial capital inflow will, as in 1971/72, add to reserves rather than transfer real resources to Australia.

It is impossible to make any accurate forecast of the future capital inflow. The recent government measures to restrain overseas borrowing may have some effect. To the extent that the exceptionally high inflow in 1971/72 reflected speculation resulting from the international monetary crisis, future flows will reflect opinions as to the stability of the existing structure of exchange rates. In addition, capital flows will be affected by (and also affect) the relative tightness of monetary policy at home and abroad. Continuing opportunities for profitable long-term investment in Australia will also be relevant. Even allowing for recent policy changes, capital inflow seems likely to remain high, and reserves continue to rise.

V CONCLUSIONS

Australia entered the 1970s with an economy stronger and more dynamic in many respects than a decade earlier. To the notable strengthening of the manufacturing sector which had characterised the 1950s was added the spectacular mining development of the 1960s. While some rural industries suffered from adverse world market trends, others with better market prospects were expanding. Direct foreign investment contributed capital and new technology, especially in manufacturing and mining, and the financial structure underwent rapid change and adaptation through the establishment of specialised financial intermediaries and a more sophisticated capital market. The high rate of capital inflow and, in the late 1960s, a marked improvement on current account brought relief from the recurrent balance-of-payments difficulties which had previously hampered policies for steady growth. Through most of the 1960s full employment and price stability were well maintained, and the rate of economic growth accelerated.

The past two years have seen some faltering of economic performance and some questioning of national purpose. The pace of wage and price inflation increased alarmingly. Greater efforts by the arbitration authorities to slow it down would have run the risk of turning the trade unions away from arbitration towards collective bargaining and of contributing to growing industrial unrest. Government efforts to take the steam out of the inflationary process by fiscal and monetary restraint reached a climax about the time when the investment boom of the preceding years had levelled out and probably contributed to the ensuing slowdown. The rate of growth of real GDP slowed down markedly and unemployment, though still moderate by international standards, rose to its highest level for a decade. Externally, the economy showed continuing strength, but even this became an embarrassment as an unprecedented inflow of capital, accompanied by a marked decline in the current deficit, merely swelled the country's international reserves. These events coincided with a tendency among sections of Australian public opinion to question some of the objectives that had guided Australian economic policy since World War II. There was increasing emphasis on the costs of economic growth and widespread demand for more attention and resources to be devoted by government to relief of social problems— urban congestion, social security, education and health, poverty among the aged, the condition of the Aborigines and control of pollution. The immigration programme which some believed to be a contributing cause of some of these problems came under attack. Concern arose that the increase in foreign ownership and control of Australian industries might in some respects run counter to the national interest. Some change of course in national policies seemed likely whatever the outcome of the 1972 general elections.

There is some danger that the temporary tribulations of the Australian economy and the healthy ferment of a lively democracy, both aggravated by the acrimony of politics in an election year, convey, abroad as well as at home, an unduly gloomy picture of Australia's economic prospects. So immense are the continent's natural resources, and so well geared to their development appear to be the skills and energies of the people, that the next two decades could well be a period of expansion more vigorous than the two that have passed. But it is hard to see how this promise can be realised without more people, capital and technology from abroad. More economic growth, not less, will also help to provide the productive resources needed to tackle the country's domestic social problems. And the task will demand judgment and skill in national economic management. The following paragraphs offer comments on some of the more urgent policy issues already apparent or likely to present themselves in the near future.

Assisted by prompt adjustment in demand management through fiscal and monetary policy measures, the economy is picking up quite rapidly from the slowdown, although it may take some months before unemployment comes down to an acceptable level. The build-up of domestic liquidity which has occurred in the past year and the increased sensitivity of international capital movements to changes in domestic monetary conditions may present difficulties in containing the later phase of the upswing. But the authorities are aware of the problem and should not find it unmanageable by the fiscal and monetary techniques they have developed. What caused demand management to go wrong in 1971 was the new dimension assumed by the pace of wage and price inflation. Demand restraint certainly succeeded in arresting, and indeed slightly reversing, its acceleration, but the problem of cost and price inflation remains.

It is a problem to which none of the countries with developed market economies has yet found a solution[1]. Australia's experience demonstrates that merely to set up a conciliation and arbitration authority with legal powers to enforce minimum awards, is not enough. The experience of other countries which have sought to deal with the problem by voluntary or compulsory wage and price restraint is not generally encouraging, although there is some exidence at least under conditions of firm demand management, that a temporary wage-price stop can be useful in dampening the pressures of rising price expectations[2]. In Australia, where price control faces constitutional obstacles in addition to its inherent economic disadvantages, an alternative means of achieving a similar effect by a once-for-all downward influence on domestic prices would be an all-round cut in tariffs or an appreciation of the currency. But it has far-reaching repercussions on the balance of payments, sectoral income distribution and growth which are further discussed below.

One of the key issues of long-term economic policy which will need to be clarified soon if sound short-term policy decisions are to be made is the desired rate of capital inflow into Australia. Australia's natural resources will undoubtedly for many years to come present opportunities for private foreign investment, and their development will demand more

1 See the OECD study on Inflation quoted on page 29, footnote 2, where a wide range of counter measures against inflation is discussed.

2 Cf. OECD Economic Outlook, No. 11, July 1972, pp. 72-82.

risk capital and more advanced technology than Australia herself is likely to be able to supply. Nor is there any reason to doubt that adequate safeguards of Australian national interests against some of the risk of excessive foreign ownership and control can be introduced without unduly frightening off foreign investors. If a significant rate of foreign investment in Australia continues to be regarded as desirable, it will be necessary to ensure that Australia's balance of payments on current account, taking one year with the other, shows a deficit commensurate with the net balance on capital account. Present trends suggest, on the contrary, that the current balance will further strengthen in the next few years, leaving a small deficit, if any. Some adjustment may be needed.

The problem has been complicated and confused in the past two years by inflows of volatile portfolio and loan capital attracted mainly by easier credit terms abroad and by speculation on an appreciation of the Australian dollar. The Australian Government has recently announced measures to reduce net capital inflow. How much difference these measures will make will depend on how drastically and effectively the controls are applied. No doubt, the Australian authorities, before opting for the measures chosen, examined the experience of other countries, such as Germany, Switzerland, the Netherlands and Japan, which have tried various tax and other devices to discourage such inflows of funds[1]. As a means of enlisting market forces to limit volatile capital movements, the experience of France and Belgium in operating a two-tier system may also be relevant to Australia[2]. Whatever means are used to alleviate the problem of capital flows facilitated by institutional developments in the capital market and induced by interest differentials, this problem is liable to be still less manageable in circumstances of fundamental balance-of-payments disequilibrium which almost inevitably add to them flows induced by exchange speculation. There has almost certainly been an important element of this in Australia's circumstances in the past year.

It is easy to jump to the conclusion that, because the rate of long-term capital inflow exceeds the current account deficit likely over the next few years, the Australian dollar is undervalued and a revaluation the only remedy. There are, at least in principle, alternatives which may be preferable, most obviously any measures which contribute to the removal of obstacles to international trade and payments. Thus, a country in as strong a balance-of-payments position as Australia, even while remaining a net importer of capital, might well consider being more liberal in its treatment of overseas lending and investment by its own residents. It needs to be appreciated, however, that the philosophy of freedom of capital movements is not easy to reconcile with concern, increasingly widespread in Australia, about foreign ownership and control and about the need to safeguard domestic economic management from unwelcome external forces. More important, after a century of industrial development, Australian manufactur-

1 See OECD Economic Surveys 1972 for Germany (pp. 10-12), Netherlands (pp. 20-22), Japan (p. 33), and Switzerland (pp. 23-27).
2 See OECD Economic Surveys 1972 for France (p. 34), and BLEU (pp. 24-26).

ing industry in general can hardly claim to be in continuing need of the relatively high level of protection provided by a complex and in some respects obsolete structure of tariffs. This has been recognised by the Australian Government which has authorised the Tariff Board to undertake a thorough review over the next six years. From the point of view of promoting a more efficient allocation of Australian economic resources, an adjustment in the balance of payments on the import side might, ideally, be preferable to one which, like revaluation, would hamper the further expansion of exports of manufactures and discourage investment in rural and mineral development. An attempt to telescope the thorough Tariff Board review into a few months may not be practicable. The same practical objections may be raised in Australia to either of two alternatives: a uniform percentage point cut in all import duties (which would be equivalent to a revaluation coupled with countervailing subsidies to all export industries) or a proportionate reduction in all tariff rates which would minimise changes in the relative protection enjoyed by different industries. If action on the tariff front in any of these ways must be ruled out as impracticable, as the Australian authorities believe, the mechanism of adjustment must be found elsewhere. If an indefinite, costly and internationally damaging accumulation of international reserves is to be avoided, the choice among measures relating directly to the external account lies between more drastic deterrents to capital inflow of every kind and a revaluation of the Australian dollar. This is not to say that external adjustment cannot also be promoted by domestic action directed at an appropriate reallocation of resources.

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ANNEXES

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A

THE SYSTEM OF GOVERNMENT

Many aspects of the institutional framework which has evolved in Australia can be traced to the influences of the federal system of government. In this Annex a brief review is given of Australia's constitutional structure, the organs of government and the division of powers between the Commonwealth and the States.

(i) *The Commonwealth Constitution*

The Commonwealth of Australia came into being on 1st January 1901, with the federation of the then six self-governing Colonies by virtue of an Act of the British Parliament, the Commonwealth of Australia Constitution Act. This Act forms the Australian Constitution, the provisions of which had been hammered out by representatives of the several Colonies at a series of Conventions held in the 1890s. New Zealand had been represented at the early negotiations but subsequently withdrew, while Western Australia opted to join only after the Act had come into force. Australia now consists of six States—New South Wales, Victoria, Queensland, South Australia, Western Australia and Tasmania—as well as two Territories administered by the Commonwealth, the Northern Territory, until 1911 part of South Australia, and the Australian Capital Territory, ceded by New South Wales under constitutional provisions for the new national capital, Canberra, which became the seat of the federal government in 1927. The Commonwealth also administers the external territories of Papua New Guinea, now being prepared for independence, and of several small islands adjacent to the continent.

(ii) *Organs of Government*

The Commonwealth Constitution followed the British model in providing for Cabinet government, modified by a federal system mainly on the American model. By virtue of the Constitution, there are two main levels of government—Commonwealth and State—with a third level, local government, constituted under State laws.

The main organs of government of the Commonwealth are Governor-General, Cabinet, Parliament and the High Court. The Governor-General represents and performs in Australia the constitutional functions of the Queen. Cabinet is led by a Prime Minister, appointed by the Governor-General but in practice the leader of the majority party. Cabinet is responsible to Parliament, as in the United Kingdom. The Commonwealth Parliament consists of an upper house, the Senate, with 60 members (10 from each State) and a lower house, the House of Representatives, with 125 members (each representing an electorate with an approximately equal number of voters)[1]. The maximum life of a Parliament is three years, although it may be dissolved at any time within this period. Parliament meets in autumn and spring sittings, the latter being opened by presentation of the Budget in August (that is, a few weeks after the beginning of the financial year on 1st July). Senators are elected for a term of six years, half their number retiring every three years. Voting is compulsory and is based on the preferential voting system[2] for the House of Representatives and on proportional representation for the Senate. From 1949 until 1972, power in the Commonwealth was held by coalition Governments formed by the Liberal and Country parties. General elections in December 1972 brought into office a Labor Government[3]. The High Court of Australia is the highest court of appeal of the judicial system (subject to vestigial rights of appeal in certain cases to the Privy Council in London) and as such performs the important function of judicial review of the constitutionality of legislation.

Each of the six States has a similar governmental structure, with a Governor representing the Queen, a Cabinet led by a Premier, a bicameral legislature (except Queensland which abolished its upper house in 1922) and a Supreme Court. Three of the six States have at present Liberal or Liberal-Country Party coalition governments, three have Labor Party governments. The powers of local government authorities, which derive from State legislation, are generally less extensive than in the United Kingdom, since some functions delegated in the United Kingdom to local authorities are in Australia retained by State governments.

(iii) *The Division of Powers*

The Australian Constitution follows the United States model in enumerating the powers of the central government, the residuum resting with the States. Certain of these enumerated powers are vested exclusively in

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1 The Senate, originally intended to safeguard the interests of the smaller States, has become primarily a house of review. It is the weaker of the two Houses because its power over financial bills is limited and its power to hold up legislation can, in the last resort, be overridden by a double dissolution of both Houses. It has recently assumed potentially important investigatory powers through standing and select committees, such as those on securities and exchange and on foreign investment.

2 Under this system the voter indicates his order of preference for all candidates in a single-member constituency. Where no candidate receives an absolute majority, the preferences of the one receiving the least number of votes are distributed to the others.

3 Australia has for long had a qualified two-party system. The two main parties are the Liberal Party which, broadly, corresponds to the Conservative Party in the United Kingdom, and the Australian Labor Party. But there are also other parties which, though small, carry considerable political weight. The Country Party, though primarily representative of rural interests, has in recent times stood more generally for protection of rural and manufacturing interests and has been the Liberal Party's coalition partner. The Democratic Labor Party was formed in the mid-1950s by the former right-wing (and largely Roman Catholic) section of the Australian Labor Party after a split primarily over policy towards Communism at home and abroad. It has no members in the House of Representatives but five seats in the Senate where it commands the balance of power and it has played an important part, under the preferential voting system, in keeping the Australian Labor Party out of office. There is a very small Communist Party, now split into three factions, which has never succeeded in securing representation in the Federal or State Parliaments but has at times been very influential in major trade unions.

the Commonwealth, while others are exercised concurrently with the States. In cases of conflict between Commonwealth and State legislation, the former prevails.

The areas of Commonwealth jurisdiction of most relevance to the management of the economy relate to: trade and commerce, taxation and public borrowing, currency and banking, insurance, social security, companies, immigration, and conciliation and arbitration of industrial disputes extending beyond the boundaries of one State. The areas of activity in which primary responsibility rests with the States are education, resource development, housing, health and welfare, law and order, and the provision of transport and other public utility services. In addition, local government authorities have been constituted under State legislation to provide a range of municipal services including the construction and maintenance of streets and some roads. There are also numerous statutory semi-governmental bodies and business enterprises established for specific purposes by both Commonwealth and State legislation.

Constitutional amendment by the procedure laid down in the Constitution itself is so difficult that only three substantive amendments have been carried in the seventy years since federation. But significant changes have come about through the process of judicial reinterpretation and through the gradual financial ascendancy of the Commonwealth over the States. The result has been a widening gap between financial resources and functional responsibilities among Commonwealth and States and a high degree of State dependence on Commonwealth financial assistance.

The Commonwealth has the power virtually to determine the borrowing programmes for capital works in the State sector, it has the exclusive power to levy sales taxes and it is the sole income-taxing authority. The Commonwealth's power to determine the State sector borrowing programmes rests on the fact that in all but two years since 1951/52 the Commonwealth has made up the shortfall between State Government borrowing programmes and what could be raised on the market. The Commonwealth has made its support of State government borrowing programmes conditional on the State governments agreeing to limit State, semi-government and local authority borrowing programmes to levels acceptable to the Commonwealth. The Commonwealth's exclusive power to levy sales taxes rests on the wide judicial interpretation of the meaning of the words 'customs and excise duties'. (Under the Constitution the Commonwealth has exclusive power to levy customs and excise duties.) The Commonwealth used its defence powers to become the sole income-taxing authority during the 1939-1945 war. It has been able to retain this position since the war because the High Court has ruled that the condition attaching to certain general revenue grants to the States that the States should not levy income tax was valid.

Over three-quarters of consolidated public sector current receipts accrue to the Commonwealth, but current expenditure on goods and services and social security is divided about equally, and State and Local governments are responsible for three-quarters of fixed capital expenditure. Two-fifths of combined State/local governments' current receipts and 35 per cent of their funds for capital expenditure derive from Commonwealth grants and loans (see Table A.1). The Commonwealth's surplus on current account

Table A.1 **Structure of Central and Other Government Finances**[1]
Per cent

	Common-wealth	State and Local
A Current account		
Receipts		
Taxation	95.1	40.4
Interest	0.7	3.0
Public enterprise income	4.2	15.7
Grants from Commonwealth	—	40.8
Total	100.0	100.0
Outlay		
Expenditure on goods and services (net)	28.6	57.2
Subsidies	3.4	0.5
Interest	0.4	22.1
Overseas grants and contributions	2.8	—
Cash benefits to persons	24.5	1.2
Grants for private capital purposes	0.7	0.6
Grants to States	20.4	—
Surplus on current account	19.1	18.5
Total	100.0	100.0
B Capital account		
Source of Funds		
Surplus on current account	90.4	27.0
Depreciation allowances	12.1	10.1
Grants from Commonwealth	—	15.5
Advances from Commonwealth	—	7.4
Net sale of Commonwealth securities	-3.9	21.5
Net sales of other securities	—	14.7
Other	1.5	4.0
Total	100.0	100.0
Use of Funds		
Gross fixed investment	48.0	94.8
Advances to public financial entepirses	7.9	4.9
Grants to States	24.6	—
Advances to States	11.8	—
Advances to overseas	6.9	—
Other	0.8	0.3
Total	100.0	100.0

1 Based on average values for fiscal years ending June 1967 to 1971 inclusive. Includes public enterprises.
NOTE Figures may not add due to rounding.
Source: Australian National Accounts, 1970/71.

invariably more than covers its own public works expenditure, permitting it to assist the States' public works programme by grants and loans.

The principal bodies concerned with regulating the financial relations between the Commonwealth and the States are (*a*) the *Premiers' Conference* which consists of the Prime Minister as Chairman and the six state Premiers and meets at least once a year to discuss matters of mutual interest and, in particular, to determine and allocate among the States the Commonwealth general purpose financial assistance; (*b*) the *Australian Loan Council* which has the same membership as the Premiers' Conference[1], and meets annually to determine the Commonwealth and State borrowing programmes (excluding defence and short-term loans) and by "gentlemen's agreement" the aggregate borrowing programme of larger semi-government and local government authorities[2]; and (*c*) the *Commonwealth Grants Commission*, an independent body appointed by the Commonwealth to investigate and recommend upon claims lodged by the poorer States for 'special grants', on the principle that a claimant State shall be able 'to function at a standard not appreciably below that of other States'[3]. On the first two bodies, the Commonwealth, though it can be outvoted by the States acting in concert, has in practice the decisive say through its financial power.

While the Commonwealth's financial power is not seriously impaired by the constitutional division of functions between it and the States, its powers of economic management are subject to significant constitutional limitations, either because certain powers are exclusive to the States or because of constitutional constraints, such as those arising from Section 92, which bind both the Commonwealth and the States[4]. These limitations have proved important in several areas of economic policy, but there are signs that judicial reinterpretation is tending to widen Commonwealth powers.

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1 In the Loan Council, however, the Prime Minister is usually represented by the Commonwealth Treasurer who acts as Chairman.

2 From 1962/63 no overall limit has been set by the Loan Council on borrowings for smaller authorities; for 1972/73 smaller authorities are defined as authorities which individually borrow $ 400 000 or less in a year.

3 The Commission's recommendations have always been accepted by the Commonwealth. In all there have been four recipient States (Queensland, South Australia, Western Australia and Tasmania), although Western Australia is not at the present time an applicant.

4 Section 92 lays down that " ... trade, commerce, and intercourse among the States... shall be absolutely free ". Originally designed merely to prevent re-imposition of customs duties on inter-State trade, the section has at various times been interpreted by the Courts as precluding, inter alia, some marketing schemes for primary products, some taxes on road transport, a Commonwealth airlines monopoly and nationalisation of banking.

B

INSTRUMENTS OF ECONOMIC POLICY

The Commonwealth Government, subject only to some constitutional limitations and the division of spending functions between Commonwealth and States, possesses and exercises a wide range of policy instruments for the pursuit of the economic objectives of internal and external balance, economic development and an equitable distribution of income. The liberal market economy principles avowed by Governments in the past twenty years have not diminished the relative size of the public sector or the extent of Commonwealth regulatory activity in the economy. Such influence as these principles have exerted on the choice of policy instruments may be seen in a preference for indirect over direct controls and in reluctance to embark on any formal kind of long-term or indicative planning. A recommendation for a permanent "Committee of Economic Advice" made by the Commonwealth Government's Committee of Economic Enquiry of 1965 was rejected[1].

To a greater extent than in many other OECD countries, macroeconomic policy-making is concentrated, under the Cabinet, in the hands of the Commonwealth Treasury. This extends to monetary policy which, though conducted from day to day by the Reserve Bank, is under the ultimate control of the Treasurer. The most important qualification to the Treasury's control over economic policy are the roles played by the Department of Trade and Industry (for many years past under the leader of the Country Party as Minister) in the fields of commercial policy and protection for manufacturing and rural industries.

The following paragraphs describe briefly the main economic policy instruments employed by the Commonwealth Government under three headings, (*i*) fiscal policy, (*ii*) monetary policy and (*iii*) other.

(i) *Fiscal Policy*

The Commonwealth government has been committed to the objective of internal balance—a high level of employment and reasonable price stability—since its White Paper on *Full Employment* of 1945. In its annual budgets, and occasionally in supplementary budgets, it has used fiscal policy

1 A good deal of medium-term planning, short of an integrated national Plan, does of course go on. The Commonwealth Treasury has in recent years been moving towards programme budgeting; the allocation of resources between major sectors and industries is continuously, consciously and considerably influenced by tariff protection for manufacturing and by subsidies and marketing schemes for rural industries, as well as by taxation, credit and foreign exchange policies; and there is, in practice, some long-range planning in most areas of public investment, such as water resource development, transport, power, housing, education and health.

as a major instrument for the control of aggregate demand. Given the relative inflexibility (at least downward) of most categories of expenditure, the emphasis in fiscal policy has inevitably been on the income side of the budget accounts. On the expenditure side, fiscal policy has largely been effected through changes from year to year in the degree of liberality shown by the Commonwealth government in additional funds made available to the States for current and capital purposes, and in the allocation of finance for social security and other purposes within its own jurisdiction in the light of the Government's judgment of the requirements of overall economic balance.

There has been more scope for flexibility on the income side, where the Commonwealth enjoys a monopoly in the receipt of the highest yielding taxes—those levied on personal and corporate incomes as well as sales taxes and excise duties—and secures some 80 per cent of all public sector tax receipts[1]. Changes in rates of taxation are made frequently in the light of demand management considerations in the annual budget. The principal measures which have been used are variations in:

(*a*) rates of rebate or surcharge applied to personal income tax liabilities as calculated according to the normal tax schedule; the surcharge, for instance, was raised from 2½ to 5 per cent in the 1971 budget and brought back to 2½ per cent in April 1972;
(*b*) the level and structure of sales tax which is levied on the wholesale value of certain goods;
(*c*) rates of company taxation;
(*d*) rates of depreciation allowance; a 20 per cent investment allowance was introduced following the recession of 1961, abolished in the investment boom of 1971 and reintroduced, as part of a series of measures to stimulate economic activity, last February;
(*e*) excise duties on petroleum products, beer and tobacco products.

A recommendation of the Committee of Economic Enquiry of 1965 that greater flexibility be introduced into the present system by giving the Executive power to make limited adjustments in taxation rates without the need for special legislation has not been adopted. But budgetary measures, including tax adjustments, have been taken between budgets, when conditions seemed to warrant such action. Such measures were used in 1956 and 1960 to restrain aggregate demand, and early in 1972 to stimulate it.

(ii) *Monetary Policy*

The conduct of monetary policy rests with the Reserve Bank, in day-to-day liaison with the Treasury and subject to ultimate control by the Treasurer. The Reserve Bank was established by Parliament as the central bank of Australia and with powers appropriate to that function. Monetary policy is used, in principle, to complement fiscal policy in demand management, with the emphasis on "fine tuning" in between annual budgets. While in practice political obstacles to fiscal restraint over the post-war years have sometimes

1 See Annex A, paragraph 8. In 1971/72, of total Commonwealth tax revenue of $ 7 844 million, personal income tax provided 48 per cent, company taxes 20 per cent, customs and excise duties and sales tax together 30 per cent and other taxes 2 per cent. There is no capital gains tax, but some profits of an income nature on sales of property are treated as taxable income for personal income tax.

left much of the task to monetary policy, there appears to have been closer co-ordination between fiscal and monetary policies in recent years, and by comparison with the practice in most comparable countries, fiscal policies have been used relatively freely. Some use has also been made of monetary policy to influence the allocation of investment funds between sectors. As in other Western countries, there have been considerable changes in the techniques of monetary policy in the past twenty years, with a marked gradual shift from direct controls over the trading banks towards a more market-oriented policy designed to exert influence over the liquidity of the whole economy. In Australia this shift has been motivated not only by experience gained in the problems of demand management in conditions of inflation, but also by earlier political controversy over banking, by the development of non-bank financial intermediaries and the capital market generally, and by constitutional constraints[1].

In the early post-war years, monetary policy relied heavily on direct control over trading bank liquidity through "special account" (subsequently renamed "statutory reserve deposit") requirements, supplemented by quantitative and qualitative control over advances and by maximum advance and deposit interest rates. During the 1950s it became increasingly apparent that direct controls over trading bank credit were difficult to administer and that the concentration of restraint on the trading banks stimulated the growth of non-bank financial intermediaries at the expense of the trading banks, leaving the central bank to operate in a steadily diminishing field. The central bank reacted, first, by enlisting the co-operation of the trading banks in a voluntary liquidity convention and largely abandoning qualitative control of advances and, subsequently, by moving towards indirect control through open market operations and a more flexible interest policy. To facilitate this process, the central bank also encouraged the development of an official short-term money market in which it could operate, by broadening the range of potential investors and improving the marketability of securities. The range of short-term Government paper was expanded by the issue of thirteen-week Treasury Notes from July 1962 and twenty-six week Treasury Notes from July 1967.

The Reserve Bank still possesses and exercises extensive powers of direct control over the banking system, including power to impose variable legal minimum reserve requirements (Statutory Reserve Deposits, determined from time to time as a uniform percentage of the trading banks' Australian deposit liabilities), to issue directives on the volume and distribution of bank advances, and to fix maximum lending rates and the terms on which the banks may accept deposits. But the Bank now uses these powers to reinforce the monetary policy it seeks to implement through open market operations and through frequent informal consultation with the banks (and other financial intermediaries). The conventional LGS ratio (under which the banks agree to hold liquid assets and Government Securities in a specified ratio to their deposits) while remaining unchanged at 18 per cent for the past ten years, reinforces SRD action. The SRD ratio has been varied 34 times since 1960 (though some of these changes were "technical" adjustments not motivated by monetary policy considerations) and has gradually been reduced from 17.5 per cent in

1 See Annex A, final paragraph.

1961 to 7.1 per cent at present. Directives on the volume and distribution of advances are still issued from time to time, the latter mainly to favour the rural, export and housing sectors.

The Reserve Bank conducts open market operations in Commonwealth government securities, mostly through stockbrokers and authorised dealers in the short-term money market. Their object is to influence the level of aggregate demand, both by changing the liquidity of the banks, as well as of non-bank financial intermediaries and the public at large, and by exerting upward or downward pressure on market rates of interest. Maximum bank lending and deposit rates tend to be adjusted by the central bank to changes in the level of market rates[1], though since February 1972 the banks have been given increased flexibility in determining rates on larger deposits and advances.

In recent years the Reserve Bank has sought to create more favourable conditions for a market-oriented monetary policy, and to improve the efficiency of the financial sector, by encouraging the trading banks to compete more effectively with non-bank financial intermediaries and among themselves. To this end it has extended the permissible maturities of trading bank liabilities, broadened the range of permissible lending forms to include personal instalment loans, lease and bridging finance, etc., and more recently has given the banks considerable discretion in respect of interest rates paid and charged.

(iii) *Other*

Like most governments in mixed economies, the Commonwealth government employs a wide range of other instruments, besides fiscal and monetary policy, to promote its economic policy objectives. The following paragraphs briefly draw attention to some features which distinguish the Australian armoury of policy instruments from that of other OECD Member countries.

The Commonwealth government has had little, if any, constitutional power to implement a *prices and incomes policy* by direct controls over prices and wages. It has no constitutional power in peacetime to impose price control[2]. The State governments which have this power, and make some use of it, could constitutionally refer (surrender) it to the Commonwealth, but this is regarded as politically unlikely. Far-reaching powers to influence the level and structure of money wages are vested in the Commonwealth Conciliation and Arbitration Commission[3], but in this field the Commonwealth government has no direct powers, and the Commission in any case fixes minimum wages which leave considerable scope for collective bargaining for over-award payments.

The Commonwealth has extensive powers over foreign trade, exchange and payments for the maintenance of *external balance*. Since 1960, when quantitative restrictions on imports[4] were abolished, control over imports has been exercised (apart from domestic management) only through tariffs, though the primary role even of these is to provide selective protection to

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1 There is no discount rate in the United Kingdom sense of the term.

2 However, recent judicial interpretation of the " corporations power " could lead to a strengthening of Commonwealth powers in this area.

3 But see Annex D, paras. 2-4.

4 Other than those operating under marketing schemes for primary products.

domestic industries. The only significant restrictions in Australia's present exchange controls are those designed to limit portfolio investment abroad by domestic residents, and to prevent overseas borrowings of $ 100 000 or more which would be repayable, or carry options to repay, in two years or less. Exchange rate policy has aimed at a stable rate, the only changes since World War II having been devaluation with sterling in 1949 (but not in 1967) and a de facto appreciation by 6.3 per cent relative to the US dollar in December 1971[1].

To promote *population growth and economic development*, Commonwealth governments since World War II have encouraged immigration, by providing financial assistance to immigrants, by actively recruiting migrants through overseas offices of the Department of Immigration and in other ways; pursued an open door policy for foreign direct and portfolio investment in Australia[2]; maintained a high rate of public capital formation, directly within areas in their own jurisdiction and through special financial assistance to the States for purposes such as housing, road and rail construction, education and public public health and development of natural resources; and stimulated research and development, partly through the Commonwealth Scientific and Industrial Research Organisation.

The Commonwealth government influences the *distribution of income* through three main policy instruments: taxation, tariffs and subsidies, and social security. The tax system incorporates progressive rate structures in both the personal income tax and estate duty. The maximum marginal rate of personal income tax of 66 2/3 per cent is reached at a taxable income of $ 40 000. Comparison of progression in the rate structure with that in other OECD countries is made difficult by differences in the concessional deductions allowed by each country and by differences in the basis of the tax—Australia taxes the individual taxpayer whereas in many other countries a family unit basis applies. Capital gains are not taxed. The system of tariff protection for manufacturing industries and protection through subsidies and marketing schemes in the rural sector affects the distribution of income among occupations and industries. There is no national superannuation scheme, but the system of social security and social welfare services provides old age, widows and other pensions, and unemployment and other benefits, financed from general taxation and subject to a means test[3]. It also includes medical and pharmaceutical benefits under schemes operated by voluntary friendly societies though partially financed by the Commonwealth.

The Commonwealth Government early this year appointed a Commission to enquire into the extent of poverty in Australia, to investigate the effectiveness of existing services and to recommend any measures that may contribute to the reduction of poverty.

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1 For details see pp. 50, 55.
2 For details see pp. 38, 40.
3 In the 1972 Budget, the Government announced its intention to abolish the means test over the next three years for age pension eligibility for residentially qualified men and women aged 65 years and over.

C

THE STRUCTURE OF THE FINANCIAL SECTOR

Until World War I, Australia's financial sector consisted of little more than a small number of strong commercial banks and a few pastoral finance and insurance companies. Of the major trading banks, all with nation-wide branch networks, three had their head offices in London, and one (the Commonwealth Bank) was a government-owned bank established in 1911 to compete with the private banks for ordinary banking business. During the 19th century, and indeed until 1931, the trading banks operated a sterling exchange standard within the British imperial monetary system. During the inter-war period, the Commonwealth Bank assumed some central banking functions, including control of the note issue, of the exchange rate and of the country's international reserves (" London funds ") and that of bankers' and government banker. But it lacked any substantial powers of control over the banking system and continued to conduct ordinary commercial banking business in competition with the private banks.

At the outbreak of World War II, the Commonwealth Bank was given extensive powers of direct control over all aspects of the monetary and banking system. In 1945, the then Commonwealth Labour Government passed legislation continuing this system of direct control into peacetime. Conflict with the private banks led to an attempt in 1947 to nationalise them, but the legislation was declared unconstitutional by the High Court and Privy Council. Under the Liberal-Country Party coalition governments which were in power between 1949 and 1972, political controversy over banking has died down, as the central and commercial banking functions of the old Commonwealth Bank have been separated in distinct institutions (the Reserve Bank of Australia and the Commonwealth Banking Corporation) and as the central bank has moved from direct to indirect controls as its main instruments of monetary policy.

The past twenty years have also brought a transformation of Australia's financial sector from its rudimentary pre-war condition into a much more sophisticated capital market with a range of specialised financial intermediaries. The central bank has encouraged this development in various ways, partly to increase the efficiency of the capital market and partly to facilitate the use of market-oriented techniques of monetary policy.

Table C.1 shows the distribution of assets between the main categories of financial intermediaries for selected years between 1953 and 1969. The outstanding feature has been the decline, particularly in the early part of the period, in the share of trading banks relative to non-bank financial intermediaries. These include life offices, pension funds, short-term money market dealers and building societies as well as finance companies (engaged in instalment credit and other types of consumer and commercial financing) and a variety of other financial institutions such as merchant banking type companies, investment companies and credit unions. The increasing role of these new institutions has been closely associated with the rapid development of the markets for short-term government securities and for company shares and debentures, the latter particularly during the mining share boom of the latter 1960s (see Table C.2).

Table C.1 **Distribution of Combined Assets of Major Financial Institutions**
Per cent

End of June	1953	1956	1959	1962	1965	1968	1969	1970	1971
Trading banks	35.9	32.3	29.0	25.4	24.9	23.6	23.3	22.7	22.9 P
Savings banks	23.3	23.6	22.8	22.1	23.5	23.2	22.4	21.3	21.7 P
All banks (consolidated)	69.8	64.4	59.4	54.2	53.6	51.1	50.1	48.6	48.2 P
Life offices	12.9	13.8	14.4	14.8	15.1	15.7	15.7	15.6	15.5 E
Pension funds	5.7	6.9	7.8	8.8	9.2	9.7	9.6	9.5	9.6 E
Finance companies[1]	5.0	6.9	9.2	10.9	10.7	10.8	11.2	11.5	11.6 E
Building societies	2.8	3.2	3.4	3.6	3.7	4.3	4.7	5.2	5.2 E
Other[2]	3.8	4.8	5.8	7.7	7.7	8.4	8.7	9.6	9.9 E
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

P = Preliminary.
E = Partly estimated.
1 Instalment credit and pastoral finance companies.
2 Short-term money market, friendly societies, health societies, investment companies, unit trusts, etc.
Source: Reserve Bank of Australia, "Flow of Funds Accounts".

Table C.2 **Credit Flows by Type**

Credit Granted by	1964/65		1968/69		1969/70	
	$ Mill	%	$ Mill	%	$ Mill	%
All other sectors to banks[1]	790	17.0	1 285	17.0	1 056	12.8
Trading banks to all other sectors[2]	350	7.5	377	5.0	493	6.0
Non-bank financial intermediaries to all other sectors	1 059	22.8	1 710	22.6	1 851	22.5
Advances	(954)	(20.5)	(1 568)	(20.7)	(1 687)	(20.5)
Retail instalment credit	(105)	(2.3)	(142)	(1.9)	(164)	(2.0)
All other sectors to Government[3]	737	15.8	917	12.1	1 182	14.4
All other sectors to companies	667	14.4	1 576	20.8	1 658	20.2
Ordinary and preference shares	(335)	(7.2)	(764)	(10.1)	(656)	(8.0)
Debentures, etc.	(286)	(6.2)	(666)	(8.8)	(779)	(9.5)
Others[4]	(46)	(1.0)	(146)	(1.9)	(223)	(2.7)
All other sectors to life insurance, etc.[5]	221	4.7	367	4.8	380	4.6
Other[6]	826	17.8	1 336	17.7	1 605	19.5
Total	4 650	100.0	7 568	100.0	8 225	100.0

1 Net increase in trading and savings bank deposits, notes and coin.
2 Advances.
3 Net purchases of Commonwealth and local and semi-government securities.
4 Co-operatives, etc.
5 Net contributions.
6 Including trade credit and statistical discrepancy.
Source: Reserve Bank of Australia "Flow of Funds Accounts".

The *banking sector* now consists of the Reserve Bank of Australia, trading and savings banks, as well as specialised development and refinancing institutions. Seven major trading banks with extensive branch networks account for over 90 per cent of all demand and fixed deposits (see Table C.3). Their savings bank subsidiaries/associates account for over 75 per cent of savings bank deposits. One of the seven major banks, the Commonwealth Trading Bank (which, together with the Commonwealth Savings and Development Banks, forms the Commonwealth Banking Corporation) is owned by the Commonwealth. Of the smaller banks, three trading and three savings banks are State-owned. There are four other prescribed banks subject to the Banking Act. Of the four, one is Australian-owned but the remaining three banks which started operations prior to the commencement of the Act in 1945 are entirely foreign-owned. However, it remains long-standing policy of the Commonwealth Government not to grant authority for overseas interests to carry on banking business in Australia or to allow them to acquire interest in existing Australian banks.

Table C.3 Concentration of Commercial and Savings Banking in Australia[1]

	Trading Banks			Savings Banks		
	Number of Banks	Number of Branches	% of Total Deposits	Number of Banks	Number of Branches	% of Total Deposits
"Big Seven"	7	4 509	93.0	7	4 714	75.7
Others	7	278	7.0	5	751	24.3
Total	14	4 787	100.0	12	5 465	100.0

1 As at 30.6.71.
Sources: Reserve Bank, "Statistical Bulletin". CBCS, "Banking and Currency".

The traditional form of bank lending has been by overdraft, mainly for short-term capital requirements of business. In the past decade, the banks have been permitted and encouraged by the Reserve Bank to extend their operations to include term loans (typically three to eight years), farm development loans (up to 15 years), unsecured personal instalment loans, bridging and leasing finance. Earlier this year changes were also made in interest rate arrangements so that banks could compete more fully with other lenders. The maximum rate on overdrafts drawn under limits of $ 50 000 and over was removed; rates became a matter of negotiation between banks and their customers. Greater freedom on interest rates has also been given to banks in dealings in larger deposits ($ 50 000 and over including certificates of deposit). On the deposit side the banks have been enabled, by the offer of higher interest rates and extended maturities, to compete more effectively with finance companies for fixed deposits and have recently introduced negotiable certificates of deposit. Cheques are widely used, though not as widely as in the United States, but there is no giro system, and most people of smaller means tend to rely on (non-chequing) accounts with savings banks. The volume of total savings bank deposits exceeds that of trading banks, and the number of operative accounts is well in excess of the country's population. The savings banks are one of the main sources of housing finance, together with building societies, life offices and State government housing commissions.

Several banking-type institutions have been established to meet what been held to be special needs of finance for economic development. The oldest of these is the *Commonwealth Development Bank* which provides medium-term finance mainly to the rural sector and smaller industrial undertakings. In 1968, the major trading banks, with Reserve Bank support, established the *Australian Resources Development Bank* as a vehicle for greater Australian participation in large-scale projects involving development of natural resources. While the bank may make equity investments, most of its lending so far has taken the form of refinancing of term loans initially provided by member banks. Other developments include: the formation of the *Australian Banks' Export Re-Finance Corporation* by the major trading banks, also with Reserve Bank support, to provide assistance to individual banks in handling very large or extended export transactions; and the establishment, by the Commonwealth Government, of the *Australian Industries Development Corporation* in 1970 with the object of raising loans abroad to finance participation in large-scale development projects including equity involvement and to provide finance for a wide range of industries.

Borrowings by the Commonwealth and the State Governments and borrowings by State and Commonwealth instrumentalities are co-ordinated through the Australian Loan Council on which the Commonwealth and States are represented. With minor exceptions, the Commonwealth arranges for all borrowings for or on behalf of the State Governments. The major sources of subscriptions to new Commonwealth bond issues are the trading banks, savings banks, short-term money market dealers, life insurance companies and superannuation funds. The trading banks have an inducement to hold government securities in the form of a liquidity ("LGS") convention requiring them to hold liquid assets and government securities in specified proportion to their deposits. The savings banks are required to hold at least 60 per cent of their funds in specified liquid assets and public sector securities. The life assurance companies are subject to a scheme of fiscal incentives to hold at least 30 per cent of their assets in public authority securities including at least 20 per cent in Commonwealth government securities. Efforts have, however, been made to widen the market by offering a range of securities to meet the needs of different categories of investors and by developing a *short-term money market.* In 1959, the Reserve Bank gave official recognition by offering lender-of-last resort facilities to a number of discount houses (which had begun to attract short-term funds from companies by supplying short-term government securities on a "buy-back" basis). This official market which has grown from four to nine discount houses, and has been permitted to deal in a wider range of short-term securities as well as commercial bills, now provides an important outlet for short-term funds from the trading banks and other lenders.

The rapid growth of the *private capital market* outside the banking system began in the 1950s with the proliferation of finance companies providing instalment credit in step with the expansion of the motor car and other consumer durables industries. During the 1960s the emphasis shifted towards finance of mineral and other natural resource development. The mineral share boom of the latter half of the decade, largely fed by capital inflow from abroad, greatly expanded the volume of trading on Australian stock exchanges. It also pointed to the possible need for reforms, still under consideration by a Senate Select Committee; these include the establishment of some form of Securities Exchange Commission. Major developments in recent years have been the emergence of a fairly large inter-company market in short-term funds and, more particularly, the establishment of a number of merchant banks which have become an important new channel for inflow of portfolio capital.

From 1939 until 1971, *foreign exchange* transactions, both spot and forward, were conducted by the trading banks as agents of the central bank at sterling rates, fixed by the latter. The trading banks were required to settle monthly in sterling with the central bank for the difference between their receipts and payments of foreign currencies, retaining only working balances. The central bank thus concentrated virtually all foreign exchange reserves in its official holdings, and it carried the exchange risk on the trading banks' foreign exchange transactions. Certain alterations in this system of settlement were put into effect in the months of international exchange rate uncertainty and realignment from August 1971. The monthly settlement was replaced by an arrangement under which, while the bulk of international reserves continues to be held by the central bank, the trading banks deal as principals in all foreign currencies, both spot and forward, at their own risk. The central bank provides them with daily covering facilities. To encourage the trading banks to deal with each other in foreign exchange, the central bank introduced a spread in its buying and selling rates to banks for its intervention currency (until 22nd December 1971 this was sterling but since then the US dollar). To encourage them to compete with one another for foreign exchange business, it replaced fixed buying and selling rates in transactions with the public by outer limits (for the intervention currency) within which the banks are now free to determine their own rates. Banks may determine their own rates in all other currencies.

D

THE SYSTEM OF WAGE DETERMINATION

For almost a century, wages and working conditions in Australia have been influenced by the findings of independent "judicial" bodies appointed by governments to arbitrate in disputes arising between employers and employees. The system arose in the decade preceding Federation from a desire to make industrial relations a "province of law and order", following a period of major industrial strife. Although the system has been subject to criticism it has managed to function despite its seemingly cumbrous procedures and legal intricacies. What the effects of the system have been, and in particular how much it has contributed to industrial peace and how far the tribunals have caused the level and structure of wages in Australia to be different from what they would have been if left to market forces under conditions of collective bargaining, are matters which have been much studied and debated, without any clear consensus.

(i) *Commonwealth and State Jurisdictions*

The Commonwealth Constitution does not empower the Commonwealth Parliament to legislate directly on terms and conditions of employment of general application. To the extent that there is Commonwealth regulation of these matters it derives mainly from the provision in the Constitution which empowers the Commonwealth Parliament to make laws with respect to "conciliation and arbitration for the prevention and settlement of industrial disputes extending beyond the limits of any one State". In the practical exercise of this power the Parliament has been confined to establishing tribunals empowered to prevent and settle industrial disputes of the character described. Because of the limitations of the power, these tribunals have no jurisdiction unless a dispute has arisen or is likely to arise and extends or is likely to extend beyond one State and the dispute is an "industrial dispute" as that term has been judicially interpreted. The only means that can be used by the tribunals to prevent or settle the disputes are conciliation or arbitration. Any award prescribing terms and conditions of employment can deal only with matters within the ambit of the dispute and, with limited exceptions, is binding only on the parties to the dispute.

The principal tribunal established under this power is the Commonwealth Conciliation and Arbitration Commission[1] which consists of Presidential Members, Arbitration Commissioners and Conciliation Commis-

1 In 1956, the strictly judicial functions of the then Commonwealth Court of Conciliation and Arbitration were separated from its conciliation and arbitration functions; the former were vested in a Commonwealth Industrial Court, the latter in the Commission.

sioners. The Presidential members consist of a President who must have legal qualifications and Deputy Presidents with legal qualifications or qualifications or experience in commerce, industrial relations or similar fields. Commissioners are mainly drawn from the ranks of industrial advocates of employer and employee organisations and others with practical experience in industrial relations. Presidential Members and Arbitration Commissioners exercise arbitral functions and Conciliation Commissioners conciliation functions. Panels consisting of a Presidential Member, an Arbitration Commissioner and a Conciliation Commissioner are allocated responsibility for an industry or group of industries. Special tribunals have been set up to determine conditions of employment for some categories of employees, e.g. employees in the coal industry and in the Commonwealth Public Service.

The States could, if they so wished, legislate on conditions of employment, but have in general established independent industrial tribunals with power to make awards[1]. In two States these tribunals are analogous to the Commonwealth Commission, two States have " Wages Boards " and the other two a system incorporating features of both schemes. A State tribunal determines conditions of employment for employees in the State who are not covered by a Commonwealth award. Where a Commonwealth award is made which applies to employees covered by a State award, the effect of the Commonwealth award is to exclude those employees from the operation of the State award.

A survey conducted in 1968 revealed the following incidence of awards:

	Per cent of all employees
Commonwealth awards	40.1
State awards	47.3
Unregistered agreements	1.4
Other (not affected by awards, registered or unregistered agreements)	11.3
	100.0

Notwithstanding the number of tribunals involved, there is a high degree of integration in the determination of wages because the State tribunals are strongly influenced by the decisions of the Commonwealth Commission. This applies particularly to the decisions of the Commission in cases dealing with matters of particular significance to the economy (see p. 82, below) the results of which tend to spread rapidly to employees covered by State awards.

Side by side with conciliation and arbitration, direct negotiation plays a considerable role. Apart from that section of the work force indicated above as not being covered by an award, trade unions covered by awards may also engage in direct bargaining with employers on " over award " wage rates. In the main, awards set minimum wage rates for all categories of work covered by the award, while higher actual rates of pay in much of the private sector are determined through supplementary bargaining. Moreover, certain of the tribunals' awards (" consent awards ") merely give formal

1 In 1947 the Government of New South Wales took the initiative in introducing a 40-hour week by legislation, and there have been similar if less spectacular cases since.

recognition to agreements reached by direct employer-employee bargaining. Unfortunately, no recent reliable statistics are available to indicate the extent of direct negotiation outside the conciliation and arbitration system.

(ii) *Employees' and Employers' Organisations*

Although the parties to industrial disputes heard before arbitration tribunals are trade unions and employers' associations the arbitration system does not, in the long run, appear to have done more to foster the growth of either type of organisation than collective bargaining might have done. About 50 per cent of all wage and salary earners were members of trade unions in 1970 (57 per cent of men and 36 per cent of women). This represents a relatively high degree of unionisation but not as high as, for instance, in the Scandinavian countries where the figures range between 60 and 70 per cent. Originally organised on a craft basis on the British pattern, unions are now also organised along company, occupation, industry and general lines. Efforts by the national trade union leadership to organise the union movement along strictly industrial lines have had some success, but Australian unions are small by international standards. A total membership of about 2.3 million is shared by over 300 unions, two-thirds of which have a membership of under 2 000[1].

At the State level the unions are grouped under Trades Hall Councils which assist in the preparation of cases and their presentation before industrial tribunals and in direct negotiation involving more than one union. At the national level all the major manual unions, as well as certain white-collar unions[2], are affiliated to the Australian Council of Trade Unions (ACTU) which, in 1969, had 119 member unions with 1.5 million members. The Council's Biennial Congress is the supreme policy-making body. In between congresses, the ACTU is governed by an Executive chaired by the President who may be a powerful political figure in the country. The ACTU prepares and presents major cases concerning conditions of employment before the Commonwealth Commission and in direct negotiation.

The formation of employer organisations has followed that of trade unions, broadly along two lines: trade or industry associations, and federations across industry boundaries which group the former but may also include individual employers. Four national employers' organisations dominate the National Employers' Association, formed in 1961, whose National Employers' Policy Committee may be regarded as the equivalent on the employers' side of the employees' ACTU.

(iii) *Principles and Procedures*

Formally, the function on the Commonwealth Conciliation and Arbitration Commission, unlike State tribunals, is to settle industrial disputes, not to determine wages and other conditions of employment. A union

1 A major development towards larger unions has been the amalgamation during 1972 of three of the biggest metal workers' unions.

2 Two of the three main white-collar unions, the Australian Council of Salaried and Professional Associations and the High Council of Commonwealth Public Service Organisations, have in recent years established close association with the ACTU.

seeking an award for its members in an industry invokes the jurisdiction of the Commission by the creation of a paper " dispute ". This involves the service by the union of a " log of claims " on a multistate employer, an employer organisation or on different employers in more than one State[1] and, on the employer side, rejection of the claim or failure to reply to it. The rejection or failure to reply does not necessarily mean that the employers are unwilling to negotiate on the subject matter of the claim. The " log of claims " is a device accepted by both employers and unions to provide the jurisdictional basis for obtaining an award of the Commission prescribing terms and conditions of employment for the industry which it is in the mutual interest of employers and unions to have. Upon notification of the industrial dispute, the Presidential Member responsible for the industry must, unless he is satisfied that it would not assist the prevention or settlement of the dispute so to do, refer the dispute to the Conciliation Commissioner for the industry. If, during the Conciliation proceedings, the dispute has not been wholly settled, the Presidential Member assigns the Arbitration Commissioner for the industry to deal with the dispute, or the matters remaining in dispute, by arbitration or arbitrates himself. The Commission is not bound to act in a formal manner and is not bound by any rules of evidence but may inform itself on any matter as it thinks just. In practice the Commission conducts its arbitral proceedings as does a court of law, hearing evidence and submissions from all parties (who are represented by industrial advocates) as well as from the Commonwealth which may intervene by right in cases of importance to the public interest and by leave of the Commission in other cases. Where a matter is of importance to the public interest it may be referred to a Full Bench of the Commission and there is provision for appeals to a Full Bench from a decision of a single member of the Commission on such a matter. Cases dealing with matters of particular significance to the economy, e.g., cases concerning alteration to standard hours, wage claims of a nation-wide character, the minimum wage, the relationship between male and female rates, annual leave and long service leave, must be dealt with by a Full Bench of the Commission which includes at least three Presidential Members. An award operates for the period, not exceeding five years, specified in the award but at the end of the specified period it continues in force until superseded by a new award.

Strikes by employees to whom a Commonwealth award applies are not illegal. However, if a union engages in strike action the Commission may insert a " bans clause " in the award applying to the union. A " bans clause " prohibits the union engaging in bans, limitations or restrictions on the performance of work in accordance with the award. A union which breaches a " bans clause " becomes liable to a penalty. The insertion of " bans clauses "

1 Except in connection with employment in a Territory of the Commonwealth, the Commonwealth Commission cannot make a " common rule " i.e. an award of general application throughout an industry binding on parties other than those directly involved in the particular " industrial dispute " (a power which State tribunals possess). Consequently, a union will seek to cover as many employers as possible. For example, it is estimated that " logs of claims " are sent to about 13 000 employers by the metal trades unions. It may be noted that in 1970 the employers for the first time took the initiative in filing a claim in a national wage case.

in awards has been strongly contested by the trade union movement. The Commission also has power to order a secret ballot to be held prior to a strike but this has been seldom used.

The legislation establishing arbitration tribunals has never laid down clearly-defined principles to guide them in their awards. The extent to which the legislation can lay down principles for the regulation of the Commission's powers in making awards in the settlement of industrial disputes is subject to Constitutional limitations. Early in its existence, the then Commonwealth Court of Conciliation and Arbitration formulated the concept of a " basic wage " founded on the principle of need. From the early 1920s until 1967, the wages and salaries of all workers under Commonwealth awards consisted of this " basic wage " component and " margins for skills ". The basic wage was changed from time to time on the basis of enquiries conducted by the Court (later Commission) and, until 1953, was also subject to automatic quarterly adjustment to changes in an index of consumer prices (the C Series index). Separate hearings were conducted less frequently on variations in " margins ". In 1967, the Commission abolished this distinction. It now makes a " total wage " award in (at present annual) national wage cases in which it also lays down a " minimum wage ". In addition, it undertakes " work value studies " which review award wage differentials.

In determining the basic wage, the Court during the inter-war years gradually moved away from the " needs " criterion towards consideration of what the economy could afford to pay. But this concept of " capacity to pay ", which still figures in the Commission's judgments, has never been precisely defined, though the Commission has pointed to economic indicators which it may regard as relevant. The Commission has explicitly refused to subscribe to an interpretation of capacity to pay in terms of the increase in money wages compatible with price stability (productivity gearing) and has indeed consistently treated past increases in the cost of living as a consideration relevant to its decisions. The 1972 Conciliation and Arbitration Act explicitly requires the Commission, in considering the public interest, to " have regard, in particular, to the state of the national economy and the likely effects on that economy of any award that might be made in the proceedings ".

(iv) *Effects*

Since the primary task of the system of conciliation and arbitration is to promote industrial peace, one test of its performance is the incidence of strikes. At first sight, the system scores badly by this criterion. In terms of time lost through industrial disputes, Australia has a worse record than most European countries, though better than the United States. During 1961-1969, for instance, time lost in Australia equalled half a day per man-year, as compared with a quarter day in the United Kingdom. But this comparison is misleading in two respects. First, some of the excess is due to a difference in reporting[1]. Secondly, a relatively large proportion of strikes

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1 W.E.J. McCarthy, " The Nature of Britain's Strike Problem ", *British Journal of Industrial Relations*, July 1970.

in Australia are short, local stoppages arising from disputes at the place of work. Australia has been relatively free from costly and prolonged trials of strength. Between 1950 and 1968, only 17 per cent of disputes and 47 per cent of time lost were attributable to disputes over " wages, hours and leave " (Table D.1) and even these included local disputes, such as over a particular piece-rate. Generally speaking, there have been few strikes against arbitration awards which have generally been accepted, with more or less good grace, by both sides.

Table D.1 **Distribution of Disputes by Attributed Cause**
All Industries, 1950-1968

	1950-1959	1960-1968	1950-1968
	Proportion of total number of disputes		
Attributed cause			
Wages, hours, leave	9.6	25.1	16.7
Physical working conditions and questions of managerial policy[1]	62.1	57.4	60.0
Trade unionism[2]	10.3	9.0	9.7
Other causes	18.0	8.5	3.6
	100.0	100.0	100.0
Average number of disputes per annum	1 299	1 267	1.284
	Proportion of total man-days lost		
Attributed cause			
Wages, hours, leave	43.4	51.2	46.5
Physical working conditions and questions of managerial policy[1]	39.4	36.4	38.2
Trade unionism[2]	7.4	4.2	6.1
Other causes	9.8	8.2	9.2
	100.0	100.0	100.0
Average number of man-days lost per annum, in '000s	962	741	857

1 Comprising all matters relating to physical working conditions, discipline, promotion, employment of particular individuals, disagreements between employees and supervisory staff and other questions of general managerial policy.

2 Comprising disputes over employment of non-unionists, inter-union and intra-union disputes and "sympathy", strikes in support of workers in another industry.

Source: E.H. Phelps Brown: Industrial Relations and the Law: 'Lessons of Australian Experience', *Three Banks Review*, March 1971.

The frequency of short, spontaneous stoppages arising from disputes over " working conditions and managerial policy " (Table D.1), however, is regarded by some as reflecting a serious weakness of the arbitration system. It is claimed that, by tending to convert all issues in industrial relations into legal disputes between contending parties, the system has led both sides to concentrate on skilful advocacy, rather than on efforts to improve relations between management and workers in the factory or other place of work.

The other main test that may be applied concerns the value of the conciliation and arbitration system as an instrument of a national incomes policy in the widest sense, including both stability of wages and prices and the distribution of incomes. As regards the contribution that the system may have made to containing inflation, it may be noted that, for much of the post-war period, Australia has enjoyed a greater degree of price stability than most European OECD countries and more sustained full employment than the United States and Canada where prices have generally risen more slowly[1]. How much, if any, of the credit goes to the conciliation and arbitration system it is extremely hard to say. The abolition in 1953 of the previous system of automatic quarterly cost-of-living adjustment of the basic wage, which had almost certainly aggravated the problem, certainly helped. On the other hand, the system has not been able to prevent the rapid acceleration of wage and price inflation in the past two years. While conscious of the desirability of reasonable price stability, the Commission has felt it necessary to weigh this against other objectives. In any case, its influence on the level and rate of growth of money wages through its awards of minimum wages is limited by the degree of " wagedrift " through over-award payments and other factors subject to market forces[2].

One can assert with more confidence that the conciliation and arbitration system has exerted a significant influence on the structure of wages in Australia, and this in two respects. First, it has set a floor to wages. In its earliest days, it succeeded in substantially eliminating sweated labour and it has continued to be effective in ensuring a national minimum wage. Secondly, it has, through its concern for " relativities ", maintained a remarkably uniform structure of wage differentials among occupations and skills across industries and throughout the country. While this feature of arbitration may have imparted a degree of rigidity to wage differentials detrimental to mobility of labour, it has been a response to deep-rooted conceptions of equity and thus an important factor in continued acceptance of arbitration by the majority of workers.

The past two years have been a period of severe strain for the conciliation and arbitration system. The trade union movement has forced the pace of wage demands partly at least in response to accelerating price inflation, and there has been a marked deterioration in industrial relations. Rather than lose control of the situation, as the trade unions have turned increasingly to collective bargaining, the Arbitration Commission has tended to match the upward trend of negotiated wage increases by higher awards.[3] Working

1 Cf. Part II, para. 4.

2 Since the war, the ratio of average earnings to average rates has been rising at about 1.2 per cent a year. But average earnings are raised by other factors besides over-award rates—for example, by the movement of labour into higher-paid occupations—and over-award payments themselves have been judged to account for less than half the whole divergence (E.H. Phelps Brown, quoting W.K. Hancock, in " Industrial Relations and the Law: Lessons of Australian Experience ", *Three Banks Review*, March 1971).

3 While average weekly earnings (including over-award payments) rose substantially faster than minimum weekly award rates during 1969/70 (8.4 per cent as compared with 5.3 per cent) and in 1970/71 (11.1 per cent as compared with 8.4 per cent), the position was reversed in the first half of 1971/72 (11.5 per cent as compared with 12.4 per cent). In the 1972 National Wage Case, however, the Commission awarded a much more moderate increase in the total wage.

days lost through industrial disputes increased sharply in 1971 (when they totalled about 3 million). However, the number of working days lost for the first half of 1972 (the latest period for which statistics are available), was 35 per cent lower than the number for the corresponding period last year[1]. The Liberal-Country Party Government in 1972 passed through Parliament an Act to strengthen and reform the arbitration system in various respects.

1 It should be noted that the official statistics of man-days lost through industrial disputes include only losses in establishments where strike action takes place. An industrial dispute in the Victorian electricity industry in 1972 directly involved only 11 000 workers in the State Electricity Commission, but some 200 000 workers in Victoria alone were stood down for various periods of time in consequence.

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STATISTICAL ANNEX

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Table A Gross Domestic Product

$ million, current prices

Year ended 30 June	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Expenditure										
1 Private consumption	10 358	11 173	12 068	12 789	13 733	14 972	16 107	17 643	19 327	21 205
Durables	1 409	1 553	1 683	1 615	1 686	1 903	2 042	2 268	2 453	2 633
Other	8 949	9 620	10 385	11 174	12 047	13 069	14 065	15 375	16 874	18 572
2 Government current expenditure	1 656	1 806	2 072	2 415	2 732	3 082	3 365	3 676	4 258	4 808
3 Gross fixed capital formation	4 020	4 509	5 252	5 698	5 969	6 526	7 221	7 948	8 724	9 297
Residential	700	817	960	972	1 052	1 179	1 363	1 566	1 615	1 795
Other construction	942	1 043	1 176	1 336	1 345	1 537	1 719	1 841	2 142	2 290
Machinery and equipment	1 703	1 895	2 266	2 466	2 607	2 777	2 999	3 317	3 607	3 703
General government	675	754	850	924	965	1 033	1 140	1 224	1 360	1 509
4 Change in stocks	260	125	569	117	360	131	674	504	439	–77
5 Exports of goods and services	2 493	3 163	3 048	3 137	3 478	3 567	3 901	4 759	5 068	5 704
6 Imports of goods and services	2 621	2 873	3 486	3 630	3 703	4 155	4 276	4 764	5 112	5 232
7 Statistical discrepancy	–107	–104	32	–59	–62	–109	–83	–24	–27	298
8 Gross domestic product at purchasers' values	16 059	17 799	19 555	20 467	22 507	24 014	26 909	29 742	32 677	36 003
Origin										
1 Agriculture, hunting, forestry and fishing	1 795	2 175	2 156	1 873	2 323	1 809	2 309	2 141	n.a.	n.a.
2 Manufacturing	4 148	4 514	5 044	5 250	5 645	6 135	6 768	7 450		
3 Other industry	1 849	2 058	2 319	2 557	2 764	3 005	3 382	3 866		
4 Services	6 613	7 267	8 067	8 638	9 494	10 567	11 695	13 240		
5 Indirect taxes	1 742	1 875	2 082	2 287	2 450	2 685	2 971	3 288	3 595	4 087
6 *less :* Subsidies	88	90	113	138	169	193	223	262	278	372
7 Gross domestic product at purchasers' values	16 059	17 799	19 555	20 467	22 507	24 014	26 909	29 742	32 677	36 003

Sources : Australian submission to the OECD and Australian National Accounts.

Table B Gross Domestic Product

$ million, average 1966-67 prices

Year ended 30 June	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
EXPENDITURE										
1 Private consumption	11 586	12 288	12 843	13 179	13 733	14 509	15 182	16 060	16 572	17 105
Durables[1]	1 862	2 083	2 269	2 251	2 337	2 580	2 732	2 954	3 103	3 247
Other	9 724	10 205	10 574	10 928	11 396	11 929	12 450	13 106	13 469	13 858
2 Government current expenditure	1 983	2 059	2 252	2 548	2 732	2 941	3 053	3 140	3 298	3 335
3 Gross fixed capital formation	4 478	4 936	5 566	5 885	5 969	6 343	6 774	7 142	7 385	7 381
4 Change in stocks	300	148	593	115	360	142	712	490	439	–85
5 Exports of goods and services	2 669	3 106	3 091	3 141	3 478	3 697	3 967	4 726	5 123	5 593
6 Imports of goods and services	2 697	2 987	3 574	3 666	3 703	4 150	4 271	4 707	4 853	4 752
7 Statistical discrepancy	–120	–115	34	–61	–62	–103	–72	–11	–11	241
8 GROSS DOMESTIC PRODUCT AT PURCHASERS' VALUES	18 199	19 435	20 805	21 141	22 507	23 379	25 345	26 840	27 953	28 818

1 Including operation of motor vehicles.

Sources : Australian submission to the OECD and Australian National Accounts.

Table C Income and Expenditure of Households and Private Non-Profit Institutions

$ million, current prices

Year ended 30 June	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Compensation of employees	8 170	8 886	9 932	10 699	11 674	12 696	14 046	15 763	18 069	20 160
Wages and salaries	7 905	8 592	9 614	10 359	11 300	12 280	13 588	15 249	17 479	19 501
Employers' contribution to Social Security	265	294	318	340	374	416	458	514	590	659
Income from property and entrepreneurship	3 471	3 948	4 124	4 021	4 645	4 393	5 118	5 312	5 540	6 171
Income from independent traders	2 680	3 118	3 234	3 063	3 564	3 192	3 818	3 868	3 947	4 419
Interest, rents and dividends[1]	791	830	890	958	1 081	1 201	1 300	1 444	1 593	1 752
Current transfers from Government	952	1 046	1 098	1 179	1 271	1 323	1 442	1 638	1 818	2 113
Current transfers from the rest of the world	70	104	115	122	136	159	168	186	181	216
INCOME	12 663	13 984	15 269	16 021	17 726	18 571	20 774	22 899	25 608	28 660
less: Direct taxes	1 083	1 271	1 569	1 729	1 920	2 175	2 378	2 855	3 175	3 765
DISPOSABLE INCOME	11 580	12 713	13 700	14 292	15 806	16 396	18 396	20 044	22 433	24 895
less: Current transfers to Government	83	93	109	118	129	140	162	174	177	210
Current transfers to the rest of the world	55	62	66	74	79	86	92	114	134	166
Consumption expenditure	10 358	11 173	12 068	12 789	13 733	14 972	16 107	17 643	19 327	21 205
Food	2 390	2 510	2 695	2 870	3 060	3 235	3 380	3 610	3 850	4 150
Clothing	1 103	1 199	1 271	1 316	1 389	1 479	1 551	1 658	1 790	1 935
Rent	1 136	1 248	1 359	1 483	1 630	1 793	1 981	2 226	2 544	2 870
Other	5 729	6 216	6 743	7 120	7 654	8 465	9 195	10 149	11 143	12 250
SAVING	1 084	1 385	1 457	1 311	1 865	1 198	2 035	2 113	2 795	3 314
(Per cent of disposable income)	9.4	10.9	10.6	9.2	11.8	7.3	11.1	10.5	12.5	13.3

1 Less interest on consumer debt.

Sources : Australian submission to the OECD and Australian National Accounts.

Table D Labour Market

Calendar year averages	1964	1965	1966	1967	1968	1969	1970	1971
	Thousand persons							
Civilian employment, total	4 495.6	4 628.0	4 760.6	4 880.3	5 001.4	5 150.9	5 329.2	5 424.5
, in manufacturing	1 357.9	1 401.4	1 415.9	1 457.7	1 468.1	1 493.0	1 531.1	1 559.8
Unemployment	63.3	60.7	71.5	79.1	77.8	80.0	74.7	87.6
Unfilled vacancies	45.9	53.5	43.7	37.5	37.1	44.3	50.9	40.8
	Per cent							
Unemployment	1.4	1.3	1.5	1.6	1.6	1.6	1.4	1.6
Participation rate, male	84.2	84.0	84.0	83.7	83.3	83.3	83.2	82.7
, female	33.4	34.4	35.3	36.3	36.8	37.6	38.8	39.2
	Hours							
Average hours worked per week[1]								
all industries	42.8	[2]	43.0	43.1	43.3	43.6	43.5	43.2
manufacturing	43.4	[2]	43.5	43.7	43.7	44.1	44.0	43.5

1 Refers to full-time, male wage earner in private employment (excluding rural industry and domestic service).
2 Data from October 1965 survey not comparable with that for other years.

Sources : Survey of Weekly Earnings and Hours; Australian submission to the OECD.

Table E Prices and Wages

Year ended 30 June	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
						1966-67 = 100					
Implied GDP deflator, total	87.2	88.2	91.6	94.0	96.8	100.0	102.7	106.2	110.8	116.9	124.9
Private consumption	88.5	89.4	90.9	94.0	97.0	100.0	103.2	106.1	109.9	116.6	124.0
Gross fixed asset formation	89.1	89.8	91.4	94.4	96.8	100.0	102.9	106.6	111.3	118.1	126.0
Consumer prices : Total	89.6	89.8	90.6	94.0	97.4	100.0	103.3	106.0	109.4	114.6	122.2
Food	88.6	87.8	89.0	93.9	98.4	100.0	104.7	105.8	108.1	112.4	116.8
Non-food	90.0	90.7	91.4	94.0	96.9	100.0	102.7	106.1	109.9	115.6	124.7
Foreign trade prices : Exports	91	96	109	100	102	100	95	97[6]	98	96	99
Imports	95	96	96	97	99	100	99	100	104	108	115
Terms of trade	96	100	113	103	103	100	96	97	94	89	86
						Dollars					
Hourly wage rates[1]											
All activities[2]	0.92	0.92	0.94	0.99	1.02	1.09	1.14	1.22	1.28	1.39	1.54[p]
of which: Manufacturing	0.90	0.91	0.93	0.98	1.00	1.06	1.12	1.19	1.25	1.34	1.49[p]
Hourly earnings[3]											
All industries[4]		1.21	1.29	[5]	1.42	1.50	1.59	1.70	1.84	2.08	n.a.
Mining and quarrying		1.46	1.53	[5]	1.77	1.86	1.97	2.13	2.32	2.68	n.a.
Manufacturing		1.19	1.27	[5]	1.40	1.48	1.57	1.66	1.79	2.04	n.a.
Building and construction		1.29	1.37	[5]	1.52	1.59	1.72	1.80	2.02	2.26	n.a.

1 Weighted average minimum rates payable to adult males as prescribed in awards, determinations, etc. Average of twelve monthly figures.
2 Excluding the rural, shipping and stevedoring industries.
3 Refers to full-time adult males in private employment (other than managerial, etc. staff) and to conditions in October of respective year.
4 Excluding rural industry and domestic service.
5 Data from October 1965 survey not comparable with that for other years.
6 Interim Series, including additional items linked as at June 1969.

Sources: Quarterly Summary of Australian Statistics; Survey of Weekly Earnings and Hours; Wage Rates and Earnings; Australian submission to the OECD.

Table F Liquidity Formation

Changes in $ million

Year ended 30 June	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Government debt (net)	311	412	238	324	546	506	189	315	97	162
Reserve Bank transactions										
Gold and foreign exchange	104	456	–308	–18	–170	–91	210	47	784	1 535
Rural Credits advances	98	–96	128	–69	184	–142	260	–140	–39	–44
Statutory Reserve Deposits (—)	–(+57)	–(+232)	–(–22)	–(–184)	–(+2)	–(–17)	–(+110)	–(+111)	–(–59)	–(–62)
Term loan funds (—)	–(–46)	–(–25)	–(+2)	–(+3)	–(–8)	–(+11)	–(–22)	–(–10)	–(+5)	–(+27)
Farm development loan funds (—)	—	—	—	–(+50)	–(–17)	–(+13)	–(–21)	–(–15)	–(+22)	–(+6)
Miscellaneous	–17	72	51	40	–16	122	–17	69	–204	–228
Total (= LGS[1] assets of private sector)	485	637	129	408	567	388	575	205	670	1 454
less: LGS[1] assets of private non-bank sector	232	230	62	181	381	288	285	257	442	850
LGS assets of banks (excl. Reserve Bank)	253	407	67	227	186	100	290	–52	228	604
Statutory Reserve Deposits	57	232	–22	–184	2	–17	110	111	–59	–62
Loans and advances										
Trading banks	178	145	345	228	365	474	361	519	415	558
Savings banks	120	216	221	213	235	243	246	227	277	294
Other assets and liabilities of banks[2]	55	42	170	148	–1	99	61	–65	3	132
Notes and coin in the hands of the public	8	–3	–1	–30	99	82	101	122	150	131
Total (= Volume of money)	672	1 038	781	602	886	982	1 169	863	1 014	1 657

1 LGS = Liquid Assets and Government Securities.
2 Including public deposits with Reserve Bank (+) and government and interbank deposits with trading banks (—).

Source : Australian submission to the OECD.

Table G Government Receipts and Expenditure

$ million

Year ended 30 June	General Government 1968	1969	1970	1971	1972	Central Government 1968	1969	1970	1971	1972
Current receipts	6 622	7 410	8 483	9 411	10 691	5 137	5 763	6 640	7 490	8 308
Direct taxes	3 031	3 411	4 046	4 606	5 291	3 031	3 411	4 046	4 606	5 291
Households	2 175	2 377	2 855	3 175	3 765	2 175	2 377	2 855	3 175	3 765
Corporations	856	1 034	1 191	1 431	1 526	856	1 034	1 191	1 431	1 526
Indirect taxes	2 685	2 971	3 288	3 595	4 087	1 822	2 005	2 211	2 455	2 519
Income from property and entrepreneurship	766	866	975	1 033	1 103	247	304	338	383	439
Other	140	162	174	177	210	37	43	45	46	59
Current disbursements	5 396	5 879	6 506	7 337	8 359	4 328	4 676	5 139	5 869	6 515
Goods and services	3 082	3 365	3 676	4 258	4 808	1 607	1 720	1 785	1 981	2 133
Subsidies	193	223	262	278	372	178	207	241	262	356
Interest on public debt	644	690	750	798	861	38	29	26	17	19
Current transfers to domestic sectors	1 323	1 442	1 638	1 818	2 113	2 351	2 561	2 907	3 424	3 802
Current transfers to the rest of the world	154	159	180	185	205	154	159	180	185	205
Saving	1 226	1 531	1 977	2 074	2 332	809	1 087	1 501	1 621	1 793
Capital transfers	106	158	165	174	163	–250	–226	–265	–513	–593
Finance of gross accumulation	1 332	1 689	2 142	2 248	2 495	559	861	1 236	1 108	1 200
Investment expenditure (gross)	1 030	1 137	1 223	1 369	n.a.	126	146	153	238	156
Financial surplus (+) or deficit (—)	302	552	919	879	n.a.	433	715	1 083	870	1 044

Sources : Australian submission to the OECD; CBCS, "Commonwealth Authorities".

Table H **Balance of Payments**

$ million

Year ended 30 June	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Exports, fob	2 122	2 731	2 574	2 626	2 926	2 942	3 217	3 967	4 216	4 758
Imports, fob	2 065	2 237	2 739	2 822	2 837	3 159	3 203	3 553	3 790	3 789
Trade balance	56	493	–165	–196	89	–218	14	414	426	969
Services, net	–467	–509	–564	–614	–656	–844	–956	–1 070	–1 132	–1 218
Balance on goods and services	–411	–16	–729	–810	–567	–1 062	–941	–652	–682	–249
Private transfers, net	15	42	49	48	57	73	76	72	47	50
Official transfers, net	–73	–87	–107	–127	–151	–154	–159	–180	–185	–200
CURRENT BALANCE	–470	–60	–787	–891	–660	–1 143	–1 025	–763	–844	–398
Long-term cap. (excl. spec. trans.)										
(*a*) Private[1]	470	475	509	695	403	953	1 013	927	1 532	n.a.[2]
(*b*) Official	76	11	–29	–32	13	134	126	–132	–55	–55
BASIC BALANCE	76	426	–307	–228	–244	–56	114	32	633	n.a.
Non-monetary sh. term priv. capital	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Non-monetary sh. term off. capital	–6	–56	–20	46	–42	–49	–57	–53	–8	4
Errors and omissions	74	77	16	234	156	143	97	58	36	1 887
BALANCE ON NON-MONETARY TRANS. CAPITALS	144	447	–311	52	–130	38	154	37	661	1 438
Priv. monet. instit. sh. term capital										
(*a*) Assets	–23	2	4	–16	17	–9	–27	–7	69	28
(*b*) Liabilities	6	1	13	5	6	43	–5	2	–62	7
BALANCE ON OFFICIAL SETTLEMENTS CAPITALS	–127	450	–294	41	–107	72	122	32	668	1 473
Use of IMF credit	—	—	—	—	—	—	—	—	—	—
Special transactions[3]	—	—	—	—	–30	—	14	8	3	3
Miscellaneous official accounts[4]	1	2	2	2	4	3	6	5	7	4
Allocation of SDR's	—	—	—	—	—	—	—	75	64	63
Change in reserves (+ = increase)	128	453	–292	44	–132	73	143	118	742	1 544
(*a*) Gold	20	16	10	–7	6	25	1	10	–14	6
(*b*) Currency assets	84	437	–325	10	–165	–23	187	16	718	1 511
(*c*) Reserve positions in IMF	23	—	22	40	26	71	–45	13	–30	–36
(*d*) Special Drawings Rights	—	—	—	—	—	—	—	79	68	63

1 Includes non-monetary short-term private capital which is not separately available.

2 Included in errors and omissions.

3 Drawings and repayments made by Reserve Bank of New Zealand under a special arrangement with the Reserve Bank of Australia for the purpose of financing Australian exports to New Zealand. Also included are small amounts for the purchase of shares in the Bank for International Settlements.

4 Changes in the balances of foreign central monetary institutions with the Reserve Bank of Australia and changes in Australia's currency liabilities (notes and coin in circulation) in Papua New Guinea.

Source : Australian submission to the OECD.

Table 1 **Foreign Trade — Commodity and Geographic Structure**
Per cent

Year ended 30 June	Imports 1970	Imports 1971	Imports 1972	Exports 1970	Exports 1971	Exports 1972
SITC sections:						
Food and live animals	3.6	3.8	4.0	29.9	33.8	35.3
Beverages and tobacco	1.2	1.2	1.3	0.2	0.3	0.3
Crude materials, inedible, except fuels	6.4	5.7	5.5	33.8	29.5	27.4
Mineral fuels, lubricants and related materials	6.6	4.6	4.8	4.8	5.7	6.3
Animal and vegetable oils and fats	0.4	0.4	0.4	0.6	0.7	0.7
Chemicals	9.4	9.9	10.2	3.9	4.4	5.0
Manufactured goods, classified chiefly by material	19.4	20.9	21.3	13.1	11.8	11.5
Machinery and transport equipment	39.3	39.6	37.0	6.8	7.4	7.7
Miscellaneous manufactured articles	9.0	9.7	10.8	1.4	1.7	2.0
Commodities and transactions not classified according to kind	4.7	4.2	4.7	5.5	4.7	3.8
Total	100.0	100.0	100.0	100.0	100.0	100.0
OECD countries	81.4	83.2	81.2	67.0	65.5	63.9
North America	28.8	29.1	25.2	16.5	14.6	15.4
Japan	12.4	13.8	15.7	24.7	27.2	27.8
EEC	13.4	13.3	13.6	12.0	10.6	9.5
EFTA	26.1	26.2	26.0	12.6	12.2	10.2
Other	0.7	0.7	0.8	1.1	0.9	1.0
Non-OECD countries	18.6	16.8	18.8	33.0	34.5	36.1
Sino-Soviet area[1]	1.4	1.4	1.6	5.3	3.8	3.5
Other developed countries	2.8	2.8	3.3	6.4	7.3	7.3
Developing countries	14.4	12.6	13.9	21.3	23.4	25.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

1 Including Mainland China, North Korea and North Vietnam.
Source : Australian submission to the OECD.

Item	Period	Unit	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland
POPULATION	End of 1970	Thousands	12 713	7 398	9 691	21 561	4 951	4 603 [1]	51 027	61 846	8 793 [3]	205.1	2 955
Net average annual increase	1960 to 1970	%	2.04	0.47	0.54	1.77	0.75	0.35	1.06	1.04	0.55 [6]	1.46	0.44
EMPLOYMENT Total civilian	1970	Thousands	5 314	3 142	3 747	7 879	2 325	2 142	20 410	26 705	(3 695)	79	1 058
Agriculture		% of total	8.6	18.3	4.8	7.7	11.4	22.7	14.0	9.0	47.2	19.0	27.5
Industry [7]		% of total	38.9	41.0	44.7	31.4	37.4	35.5	38.8	50.3	22.4	36.7	30.0
Other		% of total	52.5	40.7	50.4	60.9	51.2	41.8	47.1	40.7	30.5	44.3	42.5
PRODUCTION GNP per head	1970	$ [8]	2 830	1 940	2 670	3 550	3 160	2 220	2 920	3 040	1 060	2 340	1 320
GDP by sector: Agriculture	1970	% of total	7.2 [2 4 15]	6.9	4.5	4.6 [2 11]	7.9	14.1	6.0 [2 11]	3.1 [11]	20.3 [2]	..	17.8 [2]
Industry		% of total	38.1 [2 4 15]	48.5	42.6	32.1 [2 11]	40.1	42.4	48.1 [2 11]	54.2 [11]	28.2 [2]	..	35.2 [2]
Other		% of total	54.7 [2 4 15]	44.6	53.0	63.4 [2 11]	52.0	43.5	45.9 [2 11]	42.6 [11]	51.5 [2]	..	47.0 [2]
GNP [23] annual volume growth	1970	%	4.3 [4 15]	7.1	6.1	3.2 [4]	3.1	7.9	6.0	5.4	8.0	6.7	1.5
	1965 to 1970	%	5.8 [4 15]	5.1	4.6	4.6 [4]	4.4	5.0	5.8	4.6	7.0	1.8	4.0
INDICATORS OF LIVING STANDARDS													
Private consumption per head	1970	$	1 710	1 090	1 600	2 160	1 960	1 180	1 720	1 650	640 [2]	1 520	830 [2]
Expenditure on education	1969	% of GNP	4.0 [9]	4.57	4.97 [18]	8.35 [18]	6.34 [18]	6.50	4.75	3.08	2.40 [18]	4.80 [9]	4.15 [9]
Dwellings completed, per 1 000 inhabitants	1970	Number	11.2	6.1	4.7 [22]	8.2	10.2	10.6	9.1	8.1	12.9	6.5	4.4
Passenger cars, per 1 000 inhabitants		Number	306	162	211	312	219	137	245	237	22	200	122
Television sets, per 1 000 inhabitants	1969	Number	215	173	207	294	250	210	201	262	10	153	153
Telephones, per 1 000 inhabitants		Number	311	181	200	441	328	232	161	212	100	334	98
Doctors, per 1 000 inhabitants		Number	1.18 [19]	1.85	1.54	1.39	1.41 [9]	1.04	1.23	1.54	1.49	1.34 [18]	1.09
GROSS FIXED INVESTMENT [23] Total	1966-70 average	% of GNP	17.4 [4 15]	27.8	21.2	23.5 [24]	23.2	24.6	25.8	25.4	27.2	29.0	21.6
Machinery and equipment		% of GNP	8.9	12.0	9.1	9.5	11.8	8.8	11.4	11.4	11.0	8.0	10.5
Residential construction		% of GNP	4.8	15.8 [28]	5.1	3.6	4.4	5.6	6.6	5.5	6.7	6.0	3.9
Other construction		% of GNP	3.7	— [28]	7.0	10.4	7.0	10.2	7.9	8.5 [29]	9.9	15.0	7.3
GROSS SAVING	1966-70 average	% of GNP	26.3	28.3	23.5	24.7	18.9	28.5	26.5	26.9	21.0 [49]	..	19.8 [49]
PUBLIC SECTOR [30] Total current revenue	1970	% of GNP	29.2	35.9	34.7	35.5	37.5 [2]	36.4	38.1 [2]	37.6	26.9 [2]	33.8 [18]	31.4 [2]
WAGES/PRICES Hourly earnings [32]	Annual increase 1965 to 70	%	5.3	8.2 [33]	8.2	7.3 [34]	10.9 [35]	8.4	9.2 [36]	7.4	9.5 [34]	13.5 [37]	10.8 [34]
Consumer prices		%	3.1	3.2	3.5	3.9	6.4	4.7	4.3	2.7	2.5	12.9	5.3
GNP deflator		%	3.6	3.3	3.4	4.1	6.3	5.6	4.8	3.4	2.6	12.4	5.8
FOREIGN TRADE Imports [46]	1970	$ million [8]	5 678 [15]	4 350	11 680	15 800 [18]	5 000	3 130	24 580	40 270	1 930 [2]	230	1 730
		% of GNP	15.8	30.3	45.1	25.3	32.1	30.6	16.6	21.5	23.0	48.3	44.5
Exports [46]		$ million [8]	5 631 [15]	4 390	12 470	15 490 [18]	4 540	2 900	25 140	43 270	1 090 [2]	240	1 530
		% of GNP	15.6	30.5	48.2	24.8	29.1	28.3	17.0	23.1	12.9	50.0	39.3
BALANCE OF PAYMENTS Current balance	1966-70 average	% of GNP	-3.3 [15]	-0.5	1.7 [21]	-0.3	-2.6	-1.2	-0.4	1.0	-3.6	-5.7	-2.9
Official reserves [47], end-1970: per cent of imports of goods in 1970		%	37.8	49.5	25.1 [21]	35.2	11.1	18.2	26.0	45.6	19.9 [2]	34.6	44.3
Change	Nov. 1971 - Nov. 1972	$ million	2 699	575	599 [21]	772	186	167	2 525	6 200	502	19	89
NET FLOW OF RESOURCES TO DEVELOPING COUNTRIES [50]	1971	% of GNP	1.00	0.56	1.03	0.82	0.80	— [51]	1.02	0.88	— [52]	— [51]	— [51]
EXPORT PERFORMANCE [53] Growth of markets [54]	1970 to 1971	%	7.8	10.7	12.2	16.5	10.9	10.1	10.6	11.4	11.1	..	14.6
	1960-61 to 1970-71 (average)	%		11.5	11.5	13.5	10.3	10.6	9.6	10.8	11.5	..	8.5
Gains or losses of market shares [55]	1970 to 1971	%	2.0	-0.8	-6.1 [21]	-5.7	-1.0	-7.9	3.8	2.8	-8.0	..	11.9
	1960-61 to 1970-71 (average)	%		-1.5	0.5 [21]	-2.0	-1.6	-2.0	1.0	1.0	0.3	..	1.2

Item	Period	Unit	Italy	Japan	Luxembourg	Netherlands	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia
POPULATION	End of 1970	Thousands	54 683	103 990	339.8	13 119	3 892	9 701 [3]	33 824	8 083	6 205	35 688	(55 930)	206 017	(20 460)
Net average annual increase	1960 to 1970	%	0.82	1.06	0.76	1.28	0.80	0.91 [6]	1.06	0.75	1.34	2.50	(0.59)	1.23	(1.01)
EMPLOYMENT Total civilian	1970	Thousands	18 774	50 940	144	4 567	1 497	3 030	12 372	3 854	2 900	(13 639)	24 709	78 627	7 651 [5]
Agriculture		% of total	19.6	17.4	11.1	7.2	13.9	33.0	29.6	8.1	6.7	71.5	2.9	4.4	50.4
Industry [7]		% of total	43.7	35.7	46.5	41.0	37.3	35.7	37.4	38.4	49.4	11.8	46.6	32.3	49.6
Other		% of total	36.7	46.9	42.4	51.8	48.8	31.2	33.0	53.5	43.9	16.8	50.6	63.3	
PRODUCTION GNP per head	1970	$ [8]	1 700	1 910	2 940	2 400	2 940	640	960	3 840	3 240	360	2 170	4 870	561 [2]
GDP by sector: Agriculture	1970	% of total	10.3	8.7 [2 12]	4.1	7.0 [2]	6.3	17.3	13.3	3.7 [11]	6.4 [10]	31.0 [12]	3.1 [14]	3.0 [11]	19.3
Industry		% of total	40.5	39.1 [2 12 13]	56.9	41.6 [2]	39.9	44.0	35.5	36.8 [11]	49.6 [10]	27.0 [12]	44.4 [14]	34.9 [11]	41.1
Other		% of total	49.2	52.2 [2 12 13]	39.1	51.4 [2]	53.7	38.7	51.2	59.4 [11]	44.0 [10]	42.0 [12]	52.5 [14]	62.1 [11]	39.6
GNP [23] annual volume growth	1970	%	5.1	10.5	3.5	5.6	3.7	7.5	6.8	4.6 [4]	4.4	5.5	2.0 [4]	-0.6	..
	1965 to 1970	%	6.0	12.1	3.6	5.2	4.6	6.0	6.5	3.9 [4]	3.8	7.0	2.4 [4]	3.2	..
INDICATORS OF LIVING STANDARDS															
Private consumption per head	1970	$	1 090	840 [2]	1 660	1 360	1 560	480	650	2 220	1 750 [2]	240	1 340	3 010	275 [18]
Expenditure on education	1969	% of GNP	5.80 [18]	3.93 [18]	5.00	6.86 [9]	6.08 [18]	1.44 [17]	2.09 [18]	7.91 [18]	6.30 [9]	3.70 [9]	4.97	5.41	4.59 [9]
Dwellings completed, per 1 000 inhabitants	1970	Number	6.6	14.4	5.3	9.1	9.4	4.7	9.3	13.7	10.5	4.8	6.5	7.0	6.2
Passenger cars, per 1 000 inhabitants		Number	187	85	267	194	193	47	71	279	221	4	213	432	35
Television sets, per 1 000 inhabitants	1969	Number	170	214	183	223	207	37	167	401	184	1.3	284	399	76
Telephones, per 1 000 inhabitants		Number	160	194	311	242	283	73	124	515	457	14	253	567	31
Doctors, per 1 000 inhabitants		Number	1.79	1.12	1.06	1.25	1.39	0.84	1.33	1.24	1.42 [19]	0.36 [9]	1.18 [9]	1.65	1.10
GROSS FIXED INVESTMENT [23] Total	1966-70 average	% of GNP	19.8	36.6	24.1	27.4	28.9	18.6	24.8	24.0	27.2	25.6	18.6	16.6 [26]	..
Machinery and equipment		% of GNP	7.9	30.1 [27]	7.0	12.9	14.7	7.6	13.0	8.2	9.5	..	9.2	7.1 [26]	..
Residential construction		% of GNP	6.2	6.5	4.9	5.3	4.8	3.4	4.2	6.1	6.9	5.3	3.5	3.3	..
Other construction		% of GNP	5.6	— [27]	12.2	9.2	9.4	7.6	7.7	9.7	10.8	..	5.9	6.1	..
GROSS SAVING	1966-70 average	% of GNP	23.4	38.7	28.1 [25]	26.8	28.5	..	22.7	23.1	28.4 [49]	18.6 [49]	18.5	17.9	..
PUBLIC SECTOR [30] Total current revenue	1970	% of GNP	32.3	21.2 [2]	34.8 [18]	43.5	44.3	..	22.5	55.3 [31]	28.0 [2]	19.5 [2]	39.0 [2]	29.6	32.6 [18]
WAGES/PRICES Hourly earnings [32]	Annual increase 1965 to 70	%	8.2 [38]	14.7 [39]	..	8.9 [40]	8.8 [41]	9.7 [33]	12.8 [42]	8.9 [43]	5.2 [44]	..	6.7 [45]	5.3 [34]	..
Consumer prices		%	2.9	5.5	3.0	4.9	4.9	6.4	5.1	4.4	3.5	8.1	4.6	4.2	10.6
GNP deflator		%	3.4	4.7	4.9	4.8	5.0	4.8	5.1	4.3	4.0	5.5	4.6	4.0	..
FOREIGN TRADE Imports [46]	1970	$ million [8]	18 170	20 920	810	16 700	5 000	1 910	5 500	6 080 [18]	6 280 [2]	1 120	28 250	59 310	1 991 [9]
		% of GNP	19.6	10.6	81.1	53.4	43.9	30.6	17.1	23.8	33.4	8.9	23.3	6.0	21.0 [9]
Exports [46]		$ million [8]	18 790	23 110	880	16 310	4 830	1 540	4 940	5 920 [18]	7 120 [2]	940	30 520	62 900	1 875 [9]
		% of GNP	20.2	11.7	88.0	52.2	42.4	24.6	15.3	23.1	37.8	7.5	25.2	6.4	19.7 [9]
BALANCE OF PAYMENTS Current balance	1966-70 average	% of GNP	2.5	0.9	—	-0.6	-0.5	2.5	-1.2	-0.6	1.6	-1.5	0.2	0.1	..
Official reserves [47], end-1970: per cent of imports of goods in 1970		%	35.5	25.6	—	24.2	21.8	96.2	38.2	10.9	72.7	48.5	13.0	36.3	6.4
Change	Nov. 1971 - Nov. 1972	$ million	-344	3 576	—	1 257	217	514 [48]	1 747 [48]	502	-114	689	324	1 176	546
NET FLOW OF RESOURCES TO DEVELOPING COUNTRIES [50]	1971	% of GNP	0.85	0.96	— [51]	1.63	0.51	1.56	— [52]	0.69	[0.93]	— [52]	1.14	0.67	— [52]
EXPORT PERFORMANCE [53] Growth of markets [54]	1970 to 1971	%	12.4	13.8	—	11.9	10.8	7.2	11.9	10.6	10.9	11.6	11.5	11.5	..
	1960-61 to 1970-71 (average)	%	10.9	10.1	—	11.1	10.2	10.6	10.6	10.5	11.1	10.8	9.8	9.8	..
Gains or losses of market shares [55]	1970 to 1971	%	2.3	10.5	—	7.2	-6.3	2.0	11.2	-0.9	1.3	3.3	3.0	-8.7	..
	1960-61 to 1970-71 (average)	%	2.8	7.9	—	0.8	0.5	1.1	3.4	-0.1	-0.3	-4.2	-2.9	-2.1	..

1 Does not include total net migration between Finland and the other Nordic countries.
2 1969.
3 30-6-1970.
4 GDP in purchasers' values.
5 *Source:* BIT, 31-3-71 census, private and socialised sector.
6 30-6-60 - 30-6-70.
7 According to the definition used in OECD Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
8 At current prices and exchange rates.
9 1967.
10 The estimates for GDP by sector for Switzerland have been published in "La Vie économique", November 1969.
11 GDP at market prices.
12 Net domestic product.
13 Electricity, gas and water works included in "other activities".
14 Including stock appreciation.
15 Fiscal year-Beginning July 1st.
16 1962-1967.
17 1965.
18 1968.
19 1966.
20 1964.
21 Including Luxembourg.
22 Dwellings started.
23 At constant (1963) prices.
24 Excluding transfer costs of land and existing assets.
25 1964-1968.
26 Government and government enterprise expenditure on machinery and equipment is included in government current expenditure.
27 "Other construction" included under "machinery and equipment". Work in progress on heavy equipment and ships for the domestic market are included in fixed asset formation.
28 "Other construction" included in "residential construction".
29 Including transfer costs of land.
30 General government.
31 Including depreciation.
32 Industry.
33 Monthly.
34 Manufacturing.
35 Including bonuses.
36 Hourly rates in manufacturing.
37 Hourly wages rates, unskilled workers.
38 Hourly rates in manufacturing, excluding family allowances.
39 Monthly earnings in manufacturing. Cash payments including bonuses, regular workers.
40 Hourly rates in industry, males.
41 Males.
42 Excluding family allowances.
43 Mining and manufacturing, males.
44 Hourly rates.
45 Hourly rates in manufacturing, males.
46 Goods and services, including factor income.
47 Including reserve position in the IMF and special drawing rights.
48 October 1971 - October 1972.
49 1965-1969.
50 According to the DAC definition. Including flows to multilateral agencies and grants by voluntary agencies.
51 Not Development Assistance Committee member.
52 Considered as a developing country for purposes of DAC reporting.
53 Values, percentage change. Figures are subject to many limiting factors. For an explanation see OECD Economic Outlook, simple definition, December 1970, pp. 65 and 69.
54 The growth which would have occurred in a country's exports if it had exactly maintained its share in total OECD exports to each of 19 broad geographical zones.
55 The difference between the growth rates of markets and exports.

NOTE Figures within brackets are estimates by the OECD Secretariat.

Sources: Common to all subjects and countries, except Yugoslavia (for special national sources see above): OECD: Labour Force Statistics, Main Economic Indicators, National Accounts, Balance of Payments, Observer, DAC and Statistics of Foreign Trade (Series A); Office Statistique des Communautés Européennes, Statistiques de base de la Communauté; IMF, International Financial Statistics.

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