OECD
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

AUSTRALIA

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

APRIL 1978

BASIC STATISTICS OF AUSTRALIA

THE LAND

Area (1 000 sq. km)	7 686.8
Agricultural area, 1974, % of total	65.0
Tillage and temporary grassland, 1974, % of total	5.9

Urban population, 30.6.1971 census, % of total (cities over 100 000)	64
Population of major cities, 30.6.1975 (1 000):	
Sydney	2 923
Melbourne	2 661
Brisbane	959
Adelaide	899
Perth	787

THE PEOPLE

Population, 30.6.1977 (1 000)	14 074
No. of inhabitants per sq. km	1.8
Natural increase rate, per 1 000 inhabitants, 1976	8.3
Net migration, 1976 (1 000)	26

Civilian employment, 1977 (1 000)	5 872
of which: Agriculture	382
Industry	1 915
Other activities	3 575

PARLIAMENT AND GOVERNMENT

Composition of Parliament following latest election:

Party	Senate	House of Representatives
Australian Labor Party	26	38
Liberal Party of Australia	29	67
National Country Party	6	19
Other	3	—
Total	64	124

Present Government: Liberal-National Country Party
Next general elections for House of Representatives: at the latest December 1981

PRODUCTION[1]

Gross Domestic Product, 1977 ($ A million)	81 560
GDP per head (US $)	6 660

Gross fixed capital formation, 1977:	
Percentage of GDP	23.7
Per head (US $)	1 575

THE PUBLIC SECTOR % OF GDP IN 1977[1]

Expenditure on goods and services[2]	25.1
Current transfers	9.5

Current revenue	31.8
of which: Direct taxes	18.0

FOREIGN TRADE

Exports	
Main exports in 1976, % of total:	
Food and live animals	31.9
Crude materials, inedible, except fuels	29.2
Manufactured goods	11.1
Machinery and transport equipment	4.5

Imports	
Main imports in 1976, % of total:	
Machinery and transport equipment	38.0
Manufactured goods	18.6
Miscellaneous manufactured goods	13.3
Chemicals	9.1

THE CURRENCY

Monetary unit: Australian dollar

Currency unit per US dollar, average of daily figures:	
Year 1977	0.9003
February 1978	0.8777

1 Fiscal year ended 30th June.
2 Current and capital expenditure. Including public enterprises.

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, New Zealand, 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.

The annual review of Australia
by the OECD Economic and Development Review Committee
took place on 2nd March 1978.

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INTRODUCTION

The Australian economy, like many others, is engaged in a protracted process of adjustment and recovery. It has experienced serious difficulties over the last few years and a number of basic disequilibria, though in course of correction, still exist. The most visible signs are the unacceptably high rates of unemployment and inflation, the former since 1974 and the latter for a longer period. Inflation began to accelerate around 1973 and reached a peak in the second half of 1974 at an annual rate of about 20 per cent.The peak would have been considerably higher but for a marked downward shift in profit margins, which also made possible an extremely large rise in real wages.This rise in real wages (over 12 per cent in 1974) occurred at a time when the growth of output had fallen, the rate of unemployment was rising rapidly, and the current external account—reflecting earlier buoyant activity and the changed comparative cost situation—had moved into a large deficit.

In terms of output[1], the ensuing recession was less deep than in most of the bigger OECD countries, but the subsequent improvement in most indicators of economic performance has been uneven, both over time and between sectors. Inflation, the variable showing the biggest improvement, has been brought down over the last three years to a rate of between 8 and 9 per cent. However, unemployment has continued to rise, although much more slowly than in the 1974/75 period. For most of the post-1974 period real output has risen less rapidly than the earlier trend but even in periods when it grew more rapidly, for example most of 1976, unemployment was not reduced.In late 1975 and for most of 1976, strong export growth, coincident with the turnaround in the stock cycle overseas, prevented the current deficit from widening unduly, despite the strong growth of imports. However, with net capital outflows occurring during this period, difficulties arose and the currency was devalued in November 1976. This improved the balance of payments somewhat, but for a number of reasons, mostly transitory, it is still not as strong as hoped, particularly on the capital account side. Other manifestations of imbalance, such as the gap between increases in real wages and productivity, and the falls in the profit share and the ratio of fixed investment to GDP have been only partially reversed.

Since the onset of the recession economic policy has been characterised, broadly speaking, by two phases. In the first phase, from mid-1974, to mid-1975, demand management policies were expansionary, with priority given to supporting activity.This was also the period when full wage-indexation was introduced.The second phase began tentatively in August 1975 and was considerably reinforced at the end of that year.In this phase priority was given to reducing inflation and restoring factor shares. Fiscal policy was tightened and the resulting reduction in the budget deficit from early 1976 onwards, along with increased sales of government securities,

1 The review of Australia by the OECD Economic and Development Review Committee took place on the 2nd March 1978. In accordance with normal practice this Survey is based on data available at that date. Hence it does not take account of foreshadowed changes to national accounts data, consequent on the adoption of quantum estimates based on prices ruling in 1974-75 rather than in 1966-67.

allowed the growth of the monetary aggregates to be curbed without pressure on interest rates. Government policy towards wage determination changed early in 1976, from advocating the maintenance of real wages to advocating a fall in order to facilitate a shift of factor shares.

The first part of the present Survey examines progress over recent years, particularly last year, towards the establishment of a sustainable recovery. A comparison of several post-war recessions is undertaken in Part II in order to isolate any distinguishing features of the present cycle which may be of importance in framing the appropriate policy response. It is concluded that a number of features of the recent recession cannot be explained purely in terms of weakness of demand. Part III discusses recent economic policy, which in the fields of fiscal, monetary and wages policy largely represents a consolidation of the existing stance but in external policy includes some important changes. The judgement in the prospects section is that output may grow more strongly in 1978 than in 1977, particularly in the second half of the year, and that the rate of inflation should continue to decelerate. There may, on the other hand, be some further rise in unemployment, at least during the first half of the year.The final section contains policy conclusions.

I THE PROGRESS OF ECONOMIC RECOVERY

Demand and output

Australia's recovery from recession has so far been hesitant. In the three years since the third quarter of 1974, the lowest point in the recession, although not necessarily the trough[2], real GDP grew at an average annual rate of about 3 per cent, reaching a level of 7½ per cent above the previous peak. Over the whole period since the pre-recession peak the growth of output has been much the same as in the biggest OECD countries as a group (Diagram 1). On several occasions the growth of output has accelerated, notably in the first half of 1975 and the first three quarters of 1976 (Table 1). On neither occasion, however, did the improvement lead on to sustained recovery. In the former case the short-lived upturn was largely policy induced through sharp increases in public spending and reductions in personal and sales taxes. In the latter case, the upturn was due entirely to private demand with public spending actually declining; the components showing the strongest increases being stockbuilding, residential construction, investment in machinery and equipment and exports.

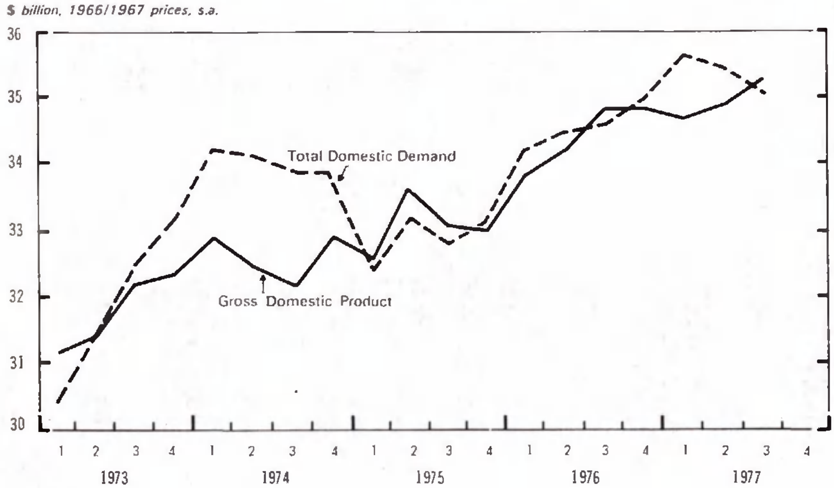
After the third quarter of 1976 the incipient recovery stalled, so much so that in the following two quarters, real GDP fell slightly before recovering in the middle of 1977[3]. There were several contributory factors to this fall. Tight demand management policies, aimed principally at reducing the rate of inflation, were bound to have some effect on real output growth. The other explanation for the weakening of activity was that a number of temporary factors which had operated in the first half of 1976 ceased in the second half. By then the turnaround in stockbuilding had been passed and certain tax incentives to investment were no longer operating in the same manner[4]. Ex-

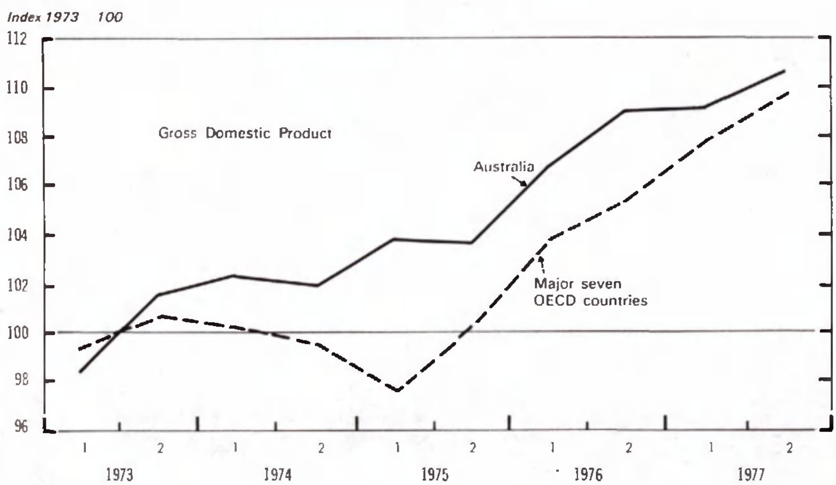
2 See last year's Survey, p. 8.

3 This was the third time in the past four years that GDP has fallen in two successive quarters, but by far the smallest of the three.

4 During the first half of 1976 two different schemes to encourage investment were in operation. The accelerated depreciation allowances introduced in December 1974 stayed in operation until 30th June 1976, and the 40 per cent investment allowance announced in December 1975, was scheduled to run from 1st January 1976 to 30th June 1978. The investment allowance is to be reduced to 20 per cent as of 1st July 1978.

Diagram 1 **Gross domestic product and total domestic demand**
Seasonally adjusted





Source: Quarterly Estimates of National Income and Expenditure, ABS.
OECD Economic Outlook, No. 22, December 1977.

ports, which had been buoyed up by the rapid growth of demand associated with the stock turnaround abroad, weakened considerably after the third quarter of 1976. In addition earnings rose more strongly in the first half of 1976, partly as a result of the upward adjustment of wage rates by 6.4 per cent in the February National Wage case, than they did thereafter. In the final quarter of 1976 and particularly in the first quarter of 1977 a major switch of expenditure to imports came through reflecting anticipation of the earlier devaluation. The renewed growth of real output in the second and third quarters of 1977 was attributable largely to the turnaround in the foreign balance. Exports recovered surprisingly strongly from their depressed level at the beginning of 1977 and imports declined sharply. National accounts statistics

Table 1 **Demand and output 1973 to 1977**

Percentage change, volume[1]

	From previous year			From previous half year Seasonally adjusted, annual rate						
	1974	1975	1976	1974 I	1974 II	1975 I	1975 II	1976 I	1976 II	1977 I
Consumption										
Private	4.1	4.3	2.7	4.2	2.0	5.1	3.9	0.2	6.3	−0.8
Public	3.0	7.8	5.4	−2.7	9.7	8.6	5.2	4.9	5.9	3.6
Gross fixed investment										
Private	−1.6	−7.2	7.0	−2.2	−15.5	−7.3	1.1	11.3	3.8	−3.2
of which: Residential construction	−13.1	−13.6	26.0	−12.4	−29.5	−20.9	24.1	34.8	11.7	−12.8
Other construction	−0.1	−2.7	−18.6	0.8	−5.8	3.7	−11.3	−25.4	−10.5	−1.6
Machinery and equipment	5.2	−5.4	7.4	3.3	−10.7	−3.9	−3.7	14.9	4.2	1.8
Public	9.4	15.1	−7.1	13.4	13.2	21.7	2.2	−14.8	0.2	4.7
Final domestic demand	3.4	3.8	2.7	3.0	0.7	5.0	3.5	0.8	5.5	−0.2
Change in stockbuilding[2]	(4.4)	(−6.1)	(1.8)	(6.4)	(−0.3)	(−12.4)	(−0.3)	(4.7)	(0.8)	(3.0)
of which: Private non-farm[2]	(3.7)	(−5.2)	(2.7)	(6.7)	(0.4)	(−11.3)	(1.2)	(3.6)	(2.2)	(0.2)
Farm and miscellaneous[2 3]	(0.6)	(−0.9)	(−0.9)	(−0.3)	(−0.7)	(−1.0)	(−1.4)	(0.8)	(−1.2)	(2.8)
Statistical discrepancy[2]	(—)	(−0.8)	(−0.2)	(−0.7)	(−1.7)	(0.6)	(−2.2)	(2.0)	(−3.2)	(1.4)
Total domestic demand	7.7	−3.1	4.3	8.6	−1.3	−6.2	0.9	7.5	3.0	4.4
Exports of goods and services	−2.0	5.2	9.7	−9.5	14.7	5.9	−3.4	13.4	16.2	−9.7
Imports of goods and services	25.6	−18.8	13.9	33.5	8.2	−36.9	4.0	22.5	7.3	12.8
Change in foreign balance[2]	(−4.9)	(5.0)	(−0.7)	(7.5)	(0.6)	(10.3)	(−1.3)	(−1.6)	(1.4)	(−4.4)
Gross domestic product	2.8	1.8	3.6	1.1	−0.7	3.4	−0.3	6.1	4.4	0.2
of which: Farm	6.3	16.0	−2.6	−21.1	29.2	14.1	3.9	6.9	−1.0	4.7
Non-farm	2.5	0.5	4.2	3.3	−2.9	2.6	−0.8	5.9	5.1	−0.4

1 Volume data are measured at average 1966-1967 prices.
2 As a percentage of GDP in the previous period.
3 Includes public authority stocks.

Source: Quaterly estimates of National Income and Expenditure, ABS.

suggest that demand has remained subdued at least up to the third quarter, as total domestic demand fell in the middle two quarters of the year[5].

As could be expected in periods of low activity, consumption held up better than the other private demand components over the last three years. In 1974 and early 1975 this was due to the lagged effects of rapid growth of real disposable income which continued to push up consumption despite the concurrent rise in the saving ratio (Table 2). More recently the growth of real disposable income slowed, or in some periods declined, but consumption was held up by a steady fall in the saving ratio. For example, between the end of 1975 and the second quarter of 1977 real disposable income declined by about ¼ per cent while real consumption rose by 3 ¼ per cent. Together with the weakness of real disposable income, the deceleration in the rate of inflation[6] probably explains most of the fall in the saving ratio. By the second quarter of 1977, its most recent low point, the saving ratio had returned to 12.4 per cent—compared with a longer-run average of 9 ¾ per cent.

Table 2 **Consumption and disposable income**
Per cent change

Financial years	Real consumption	Real disposable income	Saving ratio
1973-1974	6.0	9.1	15.8
1974-1975	3.3	6.1	18.0
1975-1976	3.3	−0.1	15.2
1976-1977	2.9	1.6	14.0

Source: Quarterly Estimates of National Income and Expenditure, ABS, various issues.

In the first half of 1977 real disposable income declined at an annual rate of about 5 per cent leading to a fall in real consumption of about ¾ per cent, a fall which would have been much larger but for the decline in the saving ratio from 15.0 per cent to 13.1 per cent between the two half years[7]. The third quarter national accounts show a rise in private consumption at an annual rate of 7 ½ per cent reflecting, inter alia, the boost to disposable income provided by the application of the new tax indexation factor from 1st July. The saving ratio also rose significantly in the third quarter, as would be expected[8].

As in virtually all OECD countries private fixed capital formation has fared much worse than consumption during the recession. By the first half of 1977 it stood

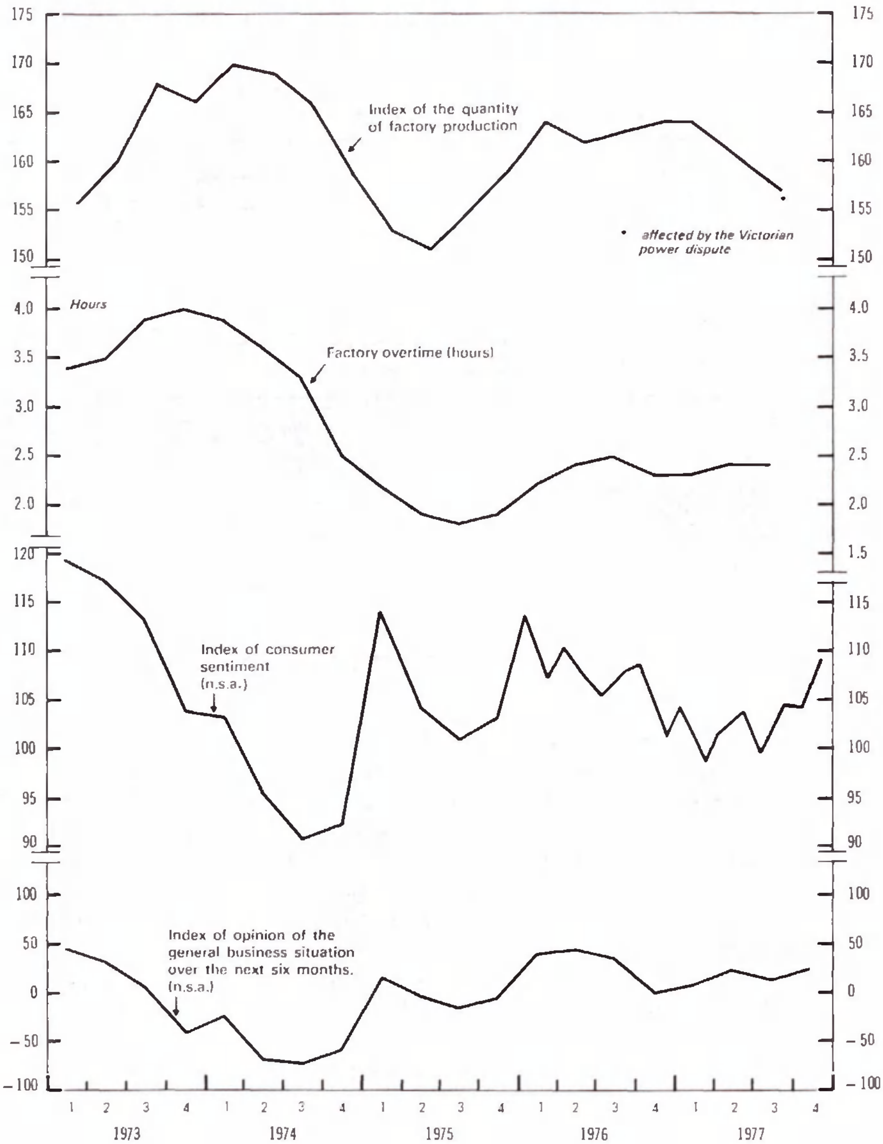
5 The national accounts do not give a very clear indication on this point. Although total domestic demand fell by 1.5 per cent between the first and third quarters of 1977, final domestic demand rose by 1.4 per cent. Most of this difference (2.4 per cent) is accounted for by the statistical discrepancy with stockbuilding only explaining 0.5 per cent of the difference.

6 The relationship between the saving ratio, real disposable income and the rate of inflation was discussed with reference to the economic literature on the subject in last year's Survey (p. 13).

7 Another factor behind the weakness of consumption in the first half of 1977 was that some expenditure had been moved forward into the second half of 1976 in anticipation of the devaluation.

8 As a result of the application of the new tax indexation factor real disposable income rose at an annual rate of 18 per cent in the third quarter. Although consumption grew strongly it could not have been expected to keep pace with such a rapid rise in real income. A similar rise in the saving ratio occurred in the third quarter of 1976 for the same reason. An additional technical reason for the rise in the saving ratio is that in the national accounts the tax cuts coming into effect on 1st February 1978 are spread evenly over the whole financial year (1st July 1977 to 30th June 1978).

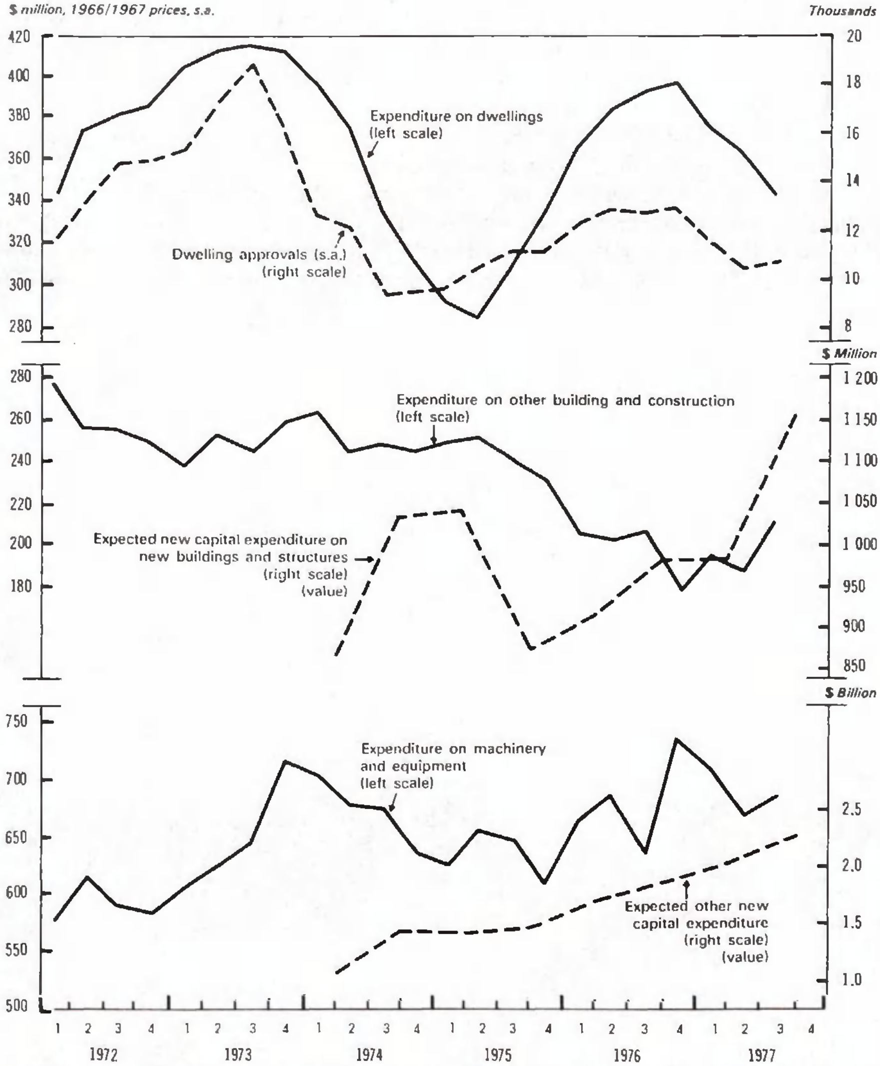
Diagram 2 **Cyclical indicators**



Source: The index of the quantity of factory production is from, ANZ Bank, ***Business Indicators***. Factory overtime is from ***Seasonally Adjusted Indicators***, and ***Digest of Current Economic Statistics***, both ABS. Index of consumer sentiment is from ***Consumer Surveys***, Institute for Applied Economic and Social Research. The opinion on the general business situation is from the ***Survey of Industrial Trends*** carried out jointly by the Associated Chambers of Manufacturers and the Bank of N.S.W.

nearly 10 per cent lower than at its peak in the second half of 1973, and this fall seems to have been more pronounced relative to the decline in output than in previous recessions (see Diagram 11 in Part II)[9]. Movements in the components of private fixed investment have been diverse during this cycle. Expenditure on dwellings, which has

Diagram 3 **Components of fixed investment**



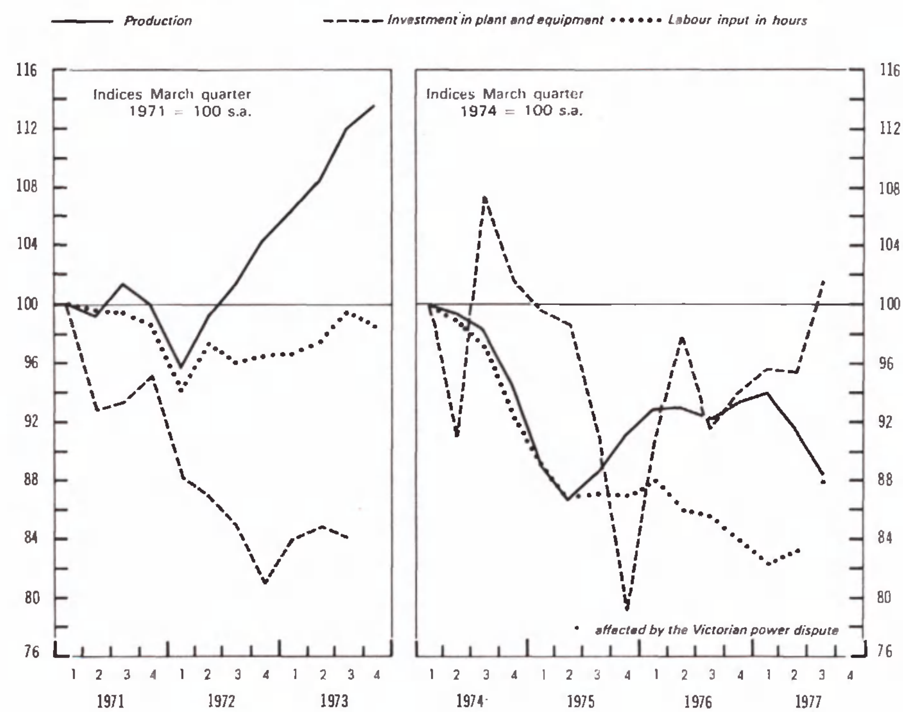
Source: Dwelling approvals from Monthly Review of Business Statistics, ABS. Expenditure on dwellings, other building and construction, and machinery and equipment from ***Quarterly Estimates of National Income and Expenditure,*** ABS. Expectations from ***New Capital Expenditure by Private Enterprises,*** ABS.

9 See also, C.I. Higgins, H.N. Johnston and P.L. Coghlan, "Business Investment: The Recent Experience", in *Conference in Applied Economic Research : Papers and Proceedings,* Reserve Bank of Australia, September 1976. They demonstrate that (*a*) the ratio of business investment to non-farm product was lower in the recent recession than in any other post-1959 recession and (*b*) simple accelerator-type equations based on previous cyclical experience over-predicted business investment during 1974/75 then under-predicted (particularly investment in plant and equipment) later in 1975.

followed its own cycle very much influenced by mortgage availability, reached a peak at the end of 1976 comparable with its earlier peak in 1973. Recent data on mortgage approvals suggest that the decline during 1977 is nearing its end as the excess stocks of end-1976 are reduced. Other building and construction has declined almost continually from its peak as far back as mid-1971. Present indications suggest that the trough may have been reached at about the end of 1976; the first three quarters of 1977 showed an improvement over the last quarter of 1976 and the survey of new capital expenditure in the fourth quarter of 1977 shows that in the second half of 1977 this category of investment grew by 16½ per cent in nominal terms. Of the three categories of private fixed investment, investment in plant and equipment has been the healthiest over the last two years.

The contrast between the weakness of investment in other building and construction and the strength of investment in plant and equipment (Diagram 3) is quite striking and suggests a process of capital deepening at the expense of capital widening, possibly in response to the relative increase in the cost of labour. This is not the usual cyclical response as is evidenced in the 1960/61 recession when in the period following the downturn in activity the two components of investment moved more closely

Diagram 4 **Investment, production and employment in manufacturing**



Source: Production is the ANZ Bank index of factory output excluding power from ANZ Bank Business Indicators. Investment in plant and equipment is expenditure on "other" new capital equipment by private enterprises in manufacturing from *New Capital Expenditure by Private Enterprises in Australia,* ABS. This is deflated by the implicit deflator for "other" private fixed capital expenditure from the national accounts. Employment is civilian wage and salary earners in manufacturing multiplied by average hours worked in manufacturing from *Employed Wage and Salary Earners* ABS.

together with plant and equipment being the weaker of the two[10]. Within the manufacturing sector, investment in plant and equipment has also been surprisingly strong given the weak growth of output. Diagram 4 compares output growth, investment in plant and equipment and labour input in hours for this sector in the two most recent recessions[11]. In the most recent episode investment in plant and equipment fell sharply with the decline in output and continued to fall until two quarters after the trough in output was reached. Thereafter, however, it recovered strongly so that by the first half of 1977 it was 13 per cent higher than it had been in the second half of 1975. This was achieved despite slow output growth of 3.3 per cent and a decline in labour input of 4.9 per cent over the same period. The recovery from the earlier recession had been quite different: strong output growth, increases in labour input and further declines in investment in plant and equipment. Extending this comparison to a broader range of activities, namely all business enterprises except mining, shows a similar result; the main difference being that the upturn in investment in plant and equipment in this cycle is even stronger and starts earlier (the trough being in the first quarter of 1975). While it is possible that some of this investment resulted from the various incentives that operated during this period, it is unlikely that these could explain such a large movement as this, sustained over nearly three years in the face of very modest output growth.

Total government expenditure on goods and services has grown more rapidly on average than the other domestic demand components during the 1974 to 1977 period. However, two phases are clearly distinguishable. In the year between the first halves of 1974 and 1975 it grew by nearly 13 per cent in real terms, while in the following two years the annual rate of increase was about 1¾ per cent. The sharp deceleration in government expenditure during this period occurred largely through falls in public investment (averaging 2.1 per cent through the period with a sharp fall at a 15 per cent annual rate in the first half of 1976), while public consumption, strongly influenced by expenditures at the state and local level, continued to grow at a rate of 5 per cent.

The turnaround in stockbuilding from decumulation to accumulation between 1975 and 1976 made a major contribution to output growth in 1976, particularly in the first half. Stockbuilding, though positive, then flattened out until the second quarter of 1977 when a very large accumulation occurred (no doubt also influenced by the large increase in imports in the previous quarter). Although much of this accumulation was in farm stocks, the ratio of non-farm stocks to sales reached its highest level since the last quarter of 1974 suggesting, perhaps, an element of unintentional stockbuilding. The rate of accumulation dropped sharply in the third quarter leading to a small decline in the stocks to sales ratio. The index of factory production rose erratically during 1976 but has turned down since the first quarter of 1977 (Diagram 2).

The labour market

As was shown in last year's survey, Australia experienced one of the sharpest deteriorations in unemployment relative to past averages in the period 1974 to 1976, even though its recession was less severe than in most OECD countries[12]. During the

10 Comparing the second half of 1962 with the second half of 1960, investment in plant and equipment had not quite recovered to its earlier peak while investment in other building and construction was 12 per cent higher than at its earlier peak.

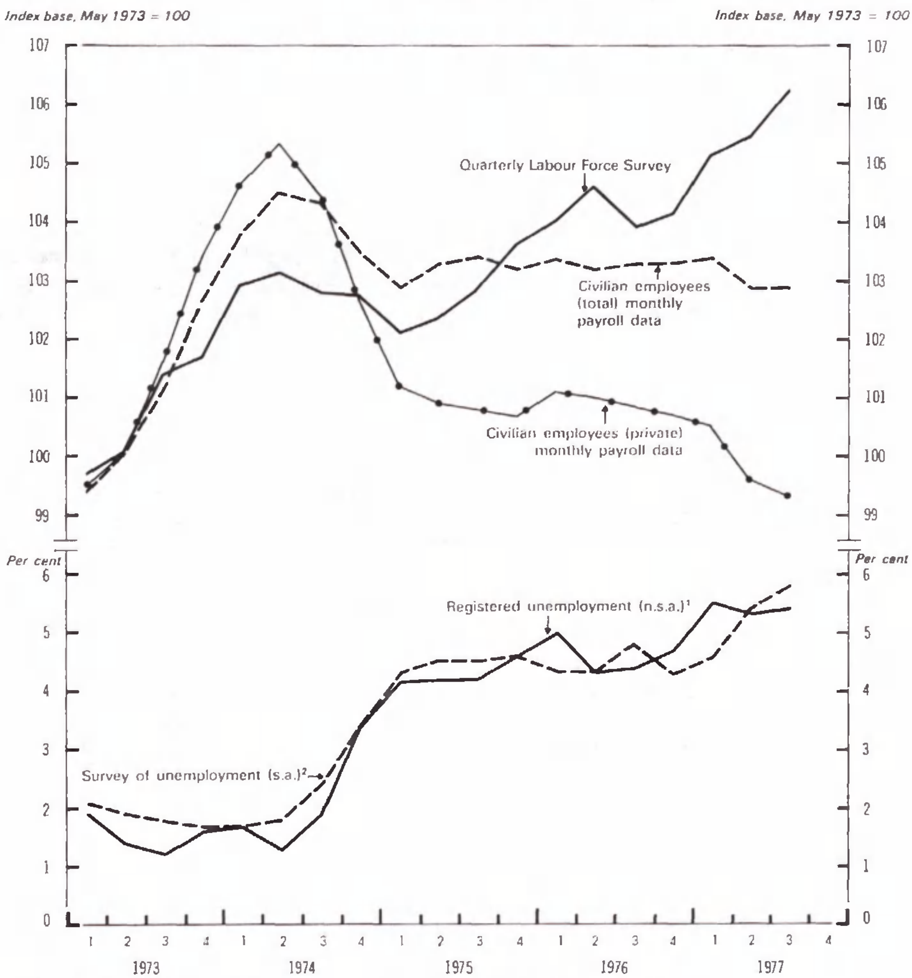
11 Availability of data did not permit the comparison to be extended to earlier recessions.

12 Ranking OECD countries by the mildness of their recessions, Australia was in the top quartile, while in a similar ranking for the mildness of the change in unemployment compared with traditional levels, Australia was in the bottom quartile. The mildness of the recession was measured by the ratio of the average annual growth rate between 1973 and 1976 to the average attained in the previous ten years. The mildness of the unemployment reaction was measured by comparing the level of unemployment in the second half of 1976 with the average attained between 1962 and 1973.

second half of 1975 and most of 1976 unemployment levelled out (Diagram 5) but since the fourth quarter of 1976 it has moved upward again coincident with the weakening of activity in the first half of 1977. The quarterly labour force survey shows the unemployment rate rising from 4.2 per cent in November 1976 to 5.1 per cent in November 1977. Registered unemployment reached 445 300 or 7.2 per cent of the labour force in January 1978, up from 355 000 or 5.7 per cent a year earlier[13].

The most widely used series for employment in Australia—the monthly series for civilian employment based on payroll tax returns—fell from a peak in the second

Diagram 5 **Employment and unemployment**



1 Persons registered for employment as a percentage of labour force.
2 Unemployed persons as a percentage of labour force.

Source: *The Labour Force*, ABS, *Employment and Unemployment*, ABS.

13 Neither of these series is seasonally adjusted. The seasonally adjusted series for registered unemployment was discontinued in August 1976 and that for the labour force survey in November 1977. In both cases it was felt that the large change in level was tending to overstate the seasonal compensation used in the seasonally adjusted series.

quarter of 1974 until the same quarter of 1975 when it levelled out, showing virtually no further movement until 1977. During 1977 civilian employment fell steadily from January to June and, despite a small pick-up in the second half, for most of the year has been below the corresponding level in 1976. When public sector employment (which grew more rapidly over this period) is removed from the above series, private civilian employment shows a declining trend since 1974 (Diagram 5). Employment as measured by the quarterly labour force survey shows, in contrast to the other measures, a rising trend since the beginning of 1975. The survey-based concept is broader than the other measures as it includes employers, self-employed persons, unpaid helpers and agricultural employment, in addition to wage and salary earners. Much of the stronger growth of employment shown in the labour force survey can be attributed to the sharp rise in employers and self-employed which rose by 7.1 per cent in the year to November 1976 and 4.4 per cent over the year to November 1977.

Table 3 **Selected unemployment rates**[1]
As a per cent of corresponding labour force; not seasonally adjusted

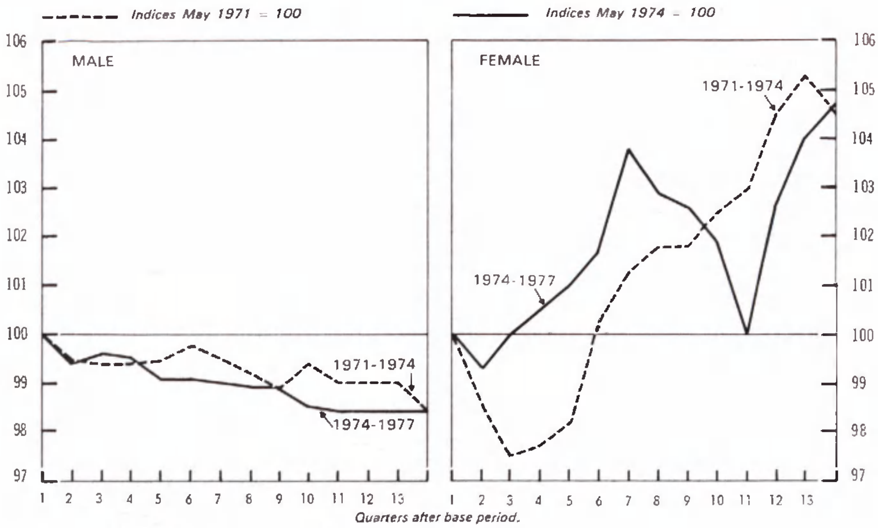
	Adult males	Adult females	Persons aged 15 to 19
May 1974	1.0	1.9	4.1
	(36.7)	(33.5)	(29.7)
May 1975	2.7	3.9	10.0
	(40.8)	(28.9)	(30.3)
May 1976	2.5	3.9	12.1
	(36.6)	(28.0)	(35.3)
May 1977	3.2	4.6	15.2
	(36.5)	(27.3)	(36.2)
November 1977	3.2	4.6	15.8

1 Figures in brackets are the proportion of total unemployment accounted for by each group.
Source: The Labour Force, ABS.

The unemployment pattern among major demographic groups continues to be reasonably stable (Table 3). Traditionally, the unemployment rate among young persons has been higher than among adult females which, in turn, has been higher than among adult males. The only noticeable difference in recent trends is that the proportion of total unemployment accounted for by young persons has increased while that of adult females has declined. This latter development is perhaps surprising in the light of the strong growth of the female labour force associated with the maintenance of the participation rate in the present cycle[14]. The smaller deterioration in female unemployment is accounted for by stronger growth of female employment, which grew by 5 ½ per cent between 1974 and 1977 compared with an increase of ¾ per cent for male employment.

14 In 1974 and 1975 the female participation rate continued a generally upward trend, despite the slackness of economic activity during the period—in sharp contrast to the relatively mild recession of 1971/72 when female participation rates showed a marked downturn. It is likely that the buoyance of the female participation rate was encouraged by the relatively rapid growth of female wages and their much higher absolute value than in earlier cycles. Somewhat surprisingly there was a decline in the female participation rate during 1976, a period of relatively buoyant activity. This accounts for some of the easing of unemployment in that period.

Diagram 6 **Comparison of participation rates in two cycles**



Source: The Labour Force, ABS.

This development might seem surprising in view of the much more rapid growth of female wages during the period. Two factors, however, have tended to exaggerate the aggregate growth of female employment. First, on a disaggregated basis, it may be seen from civilian employment figures that between June 1974 (the peak) and June 1977, in industries where productivity/cost factors could be expected to be most easily measurable and hence important, female employment has suffered more than male. In manufacturing as a whole, employment of males fell by 9.8 per cent compared with 21.8 per cent for females, in wholesale and retail trade the figures were 0.4 per cent and –0.3 per cent for males and females respectively, and in entertainment, restaurants, hotels, etc. they were 4.9 per cent and zero. Over the same period private male employment fell by 6.4 per cent compared with a 5.2 per cent fall for females while male employment in government (federal, state and local) rose by 5.7 per cent compared with a rise of 17.3 per cent for females. Second, female employment has benefited from the shift from full-time to part-time employment that has occurred over recent years, as females comprise by far the largest proportion of the latter[15]. Over the decade to 1973 female full-time and part-time employment grew over twice as fast as male, but this pattern seems to have changed recently. Taking the growth rates from 1974 to 1977 (as above) female full-time employment was slightly stronger than male (0.1 per cent against –0.4) while male part-time employment at 30.7 per cent was stronger than female at 18.6 per cent. The fact that total female employment showed a much higher growth rate than male is, in an arithmetic sense, almost entirely due to their traditionally higher share in the more rapidly expanding category of part-time employment[16].

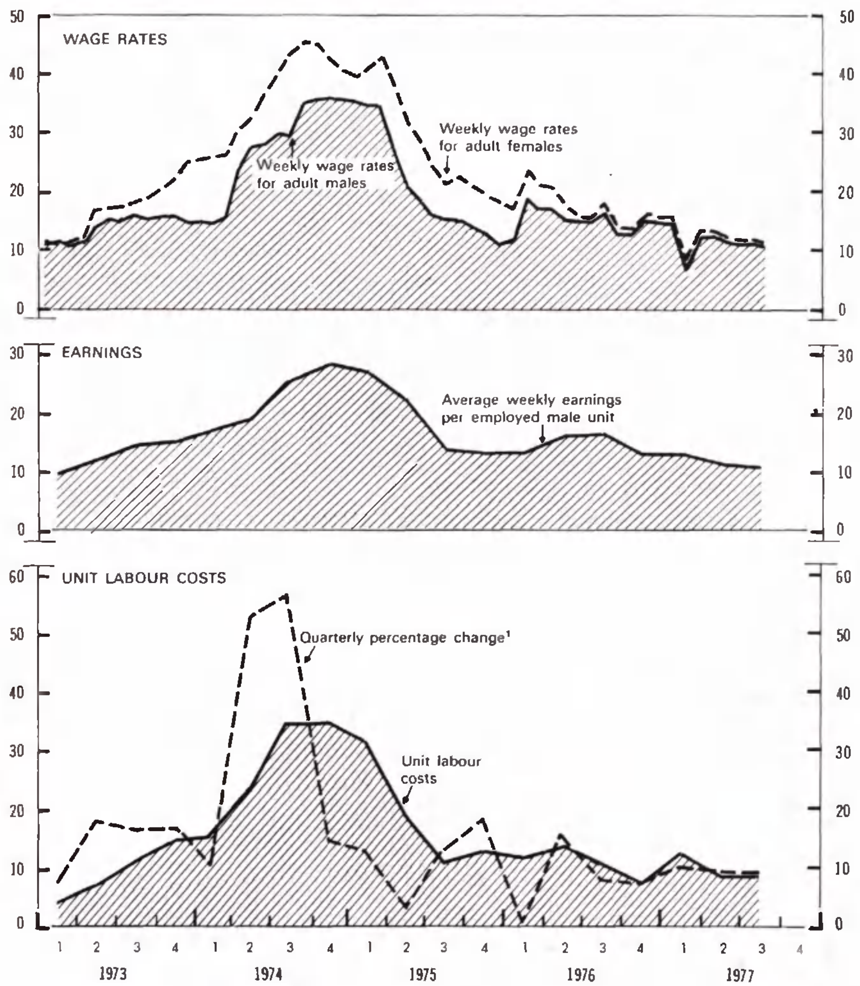
15 Between 1974 and 1977 part-time employment grew by 21 per cent while full-time fell by 0.2 per cent. In 1977 females accounted for about 80 per cent of part-time employment.

16 Had the comparison been made between 1974 and 1976, a paradoxical result, whereby total female employment grew more rapidly than total male employment yet both its full-time and part-time components grew less rapidly than those for males would have been obtained. This is of course quite possible when the two components grow at very different rates and where the weighting between them is very different. A sharp fall in male full-time employment in the last three quarters of 1977 prevented the same paradox arising in the comparisons between 1974 and 1977.

Wages, productivity and profits

The deceleration in wage rates and earnings which began in 1975 continued through to 1977 although the pace of the deceleration has become more modest and the pattern uneven[17] (Diagram 7). The year-to-year increase in male award rates (i.e. those accorded by the Arbitration Commission) which had peaked at 33 ½ per cent in the second half of 1974, was down to a little over 14 per cent in the corresponding

Diagram 7 **Wage rates, earnings and unit labour costs**
Growth rates over same period in previous year



1 Seasonally adjusted at annual rate.

Sources: Figures for wage and average weekly earnings from *Wage Rates and Earnings*, ABS. Unit labour costs estimated by dividing wages, salaries and supplements by real non-farm output, *Quarterly Estimates of National Income and Expenditure*, ABS.

17 The major erratic movement occurred at the beginning of 1976. For the reasons see last year's Survey, page 22.

period in 1975 and 1976, and to 11.4 per cent in the first half of 1977[18]. The recent deceleration reflects the winding down of the rate of inflation and the practice of the Commission, since early 1976, of generally awarding only partial indexation of wages rather than the full indexation which was awarded previously. Slack labour market conditions have also had a large impact. For example, over the period since the first quarter of 1975, average ordinary time earnings for adult males (13.2 per cent per annum) have risen more slowly than male award rates (14.3 per cent); although the two series have slightly different coverage, this result nevertheless suggests that the market has exerted a restraining pressure on the more flexible elements of earnings such as overaward payments, bonuses and allowances. Furthermore, average weekly earnings have risen less rapidly than ordinary time earnings reflecting a negative contribution from overtime during the same period.

Looking at wages from the cost side, over the period from 1972 to 1975, Australia exhibited the largest gap between the growth of real wages and the growth of productivity of any OECD country for which comparable data are available (Table 5)[19]. By 1976 Australia's cumulative real wage/productivity gap had narrowed somewhat (unlike those in a number of OECD countries) and although the gap remained very wide by historical standards, Australia had relinquished its extreme position on the international comparison.

The gap between the growth of real wages and productivity reached its widest point in the first half of 1975 (Diagram 8). Using the broadest definition of productivity, sometimes called "distributable productivity", which is the change in real GDP per employee-hour adjusted for changes in the terms of trade, it rose by 5 ¾

Table 4 **Real wages and productivity**
Growth of real wages minus the growth of productivity[1]
Total change since 1972
Percentage points

	Up to 1975	Up to 1976
United States	0.4	−1.1
Germany	3.5	1.9
Switzerland	4.1	3.4
Sweden	5.9	12.6
Netherlands	6.6	2.7
Italy	7.0	8.4
Canada	8.0	10.6
France	8.3	9.3
Belgium	8.8	7.5
United Kingdom	10.9	8.8
Denmark	12.0	10.8
Finland	12.2	13.7
Austria	13.6	11.8
Japan	13.7	9.4
Australia	14.6	11.8

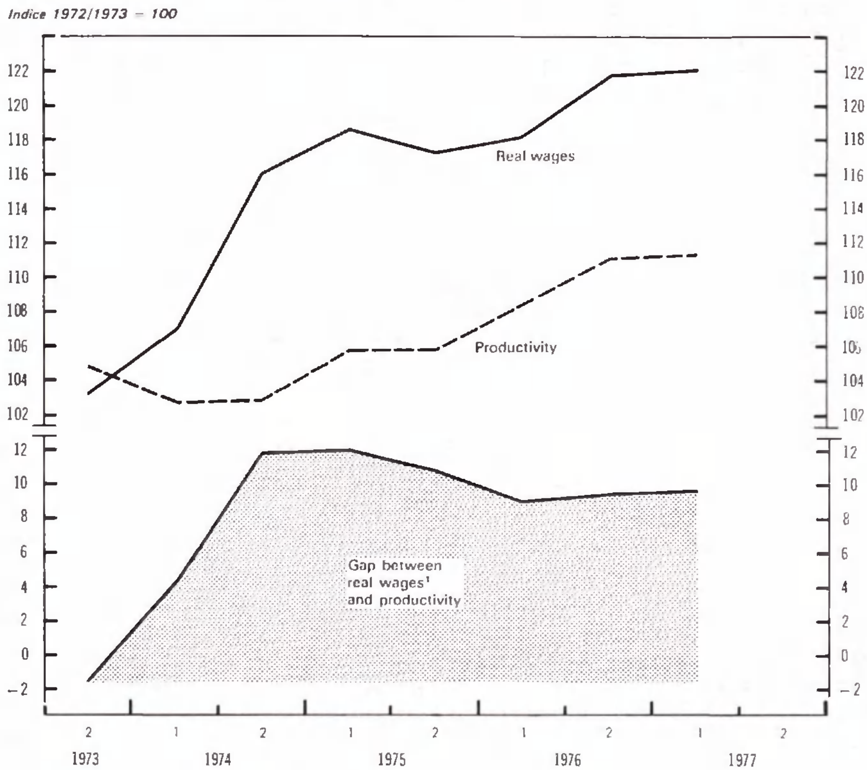
1 The growth of productivity is adjusted for changes in the terms of trade.

Source: OECD Secretariat, see Inter-Country Comparisons, Annex 1.

18 These measurements are very sensitive to slight changes of timing. For example, had the National Wage decision covering the fourth quarter of 1976 taken effect in February 1977 (following the previous year's example) rather than March, the year-on-year increase in the first half of 1977 would have been 12.1 per cent rather than 11.4.

19 See OECD, *Economic Outlook,* July 1977. For a comparison of the methods used in the *Economic Outlook* calculations and the slightly different calculations presented in this Survey see Annex 1.

Diagram 8 **Real wages and productivity**



1 Index of real wages divided by index of productivity.
Source: See Annex 1.

per cent between 1972/73 and the first half of 1975. At the same time, the broadest measure of labour costs—real wages, salaries and supplements per employee-hour—rose by 18½ per cent. The narrow definition of labour costs provided by average weekly earnings per employed male unit (which does not include non-wage labour costs or the increase in earnings caused by the faster growth of female than male earnings) rose by 11 per cent over the same period, still greatly in excess of productivity growth. In a period of weak activity some excess of real wage growth over productivity can generally be expected—typically as a result of real wages (or their growth rate) remaining approximately constant in the face of the cyclical fall in productivity. This was not the recent pattern in Australia, where the rapid widening of the gap occurred principally as a result of a wage explosion in 1974[20]. Between the second halves of 1973 and 1974 real wages, salaries and supplements per employee-hour rose by 12½ per cent, while hourly productivity declined by about 1 per cent.

Since then, real wages, salaries and supplements per employee-hour have continued to increase but at a much slower rate. Aggregate wages, salaries and supplements measured in real terms have barely increased between the first half of

20 A second condition was that prices could not be raised sufficiently to offset the increase in money wages. Although inflation accelerated at this time it provided only a partial offset, as price rises were limited by the weak demand, tight monetary conditions and the restraining influence of the Prices Justification Tribunal.

1975 and the first half of 1977 (a total increase of slightly less than 1 per cent). However, aggregate labour input in hours (total employment multiplied by average weekly hours) has declined by about 2½ per cent between the same periods, leading to an effective increase in real compensation per employee-hour of a little over 3 per cent[21]. A larger contribution to closing the gap was made by productivity which increased by about 5½ per cent over the same period, reducing the gap by some 2½ per cent—from its maximum of 12 per cent in the first half of 1975 to some 9½ per cent in the first half of 1977[22].

Table 5 **Indicators of real wages**
Indices, 1974 II=100

	1974 II	1975 I	1975 II	1976 I	1976 II	1977 I	1977 Q3
AWE[1]	100.0	99.8	99.2	99.2	100.8	99.9	102.0
AWE[2]	100.0	99.0	100.1	100.2	100.1	98.5	100.0
AWOE[1 3]	100.0	99.4	103.4	99.6	105.3	99.7	104.9
AWOE[2 3]	100.0	98.4	104.2	100.5	104.3	98.2	102.8
W, S, S[1 4]	100.0	101.6	101.8	101.8	105.6	105.3	106.4
W, S, S[2 4]	100.0	100.8	102.7	102.9	104.7	103.7	104.2

1 Deflated by the consumption deflator.
2 Deflated by the consumer price index.
3 Not seasonally-adjusted.
4 Wages, salaries and supplements per man hour worked by wage and salary earners.
Sources: Average Weekly Earnings, ABS; *Quarterly Estimates of National Income and Expenditure*, ABS.

The trough in the profit share of national income occurred in the third quarter of 1974 when it fell to 12½ per cent, compared with a longer-term average of about 17½ per cent[23]. Since then there has been a gradual recovery, with the share reaching nearly 15 per cent in the first quarter of 1977. In the second quarter it fell to 14 per cent and then again to 13.7 per cent in the third quarter, the latter being the lowest share recorded since the final quarter of 1975. Profits also fell in absolute terms after the first quarter, the first fall after six successive quarterly rises. Over the past three years, however, the company profit share has probably understated the after-tax profitability of the corporate sector, which has benefited from several tax incentives—notably the accelerated depreciation and investment allowances mentioned earlier.

21 Narrower definitions of earnings show a somewhat different picture (Table 5). Real average weekly earnings per employed male unit shows a slight fall between the first halves of 1975 and 1977, but this may be largely due to a reduction in overtime and a lower weight given to female earnings. Average weekly ordinary time earnings (abstracting from the strong seasonal component) show a noticeable upward trend over the same period. An exhaustive account of the various ways of measuring real wages and their recent movements is given in *Round-Up of Economic Statistics*, No. 57, October 1977, Australian Treasury.

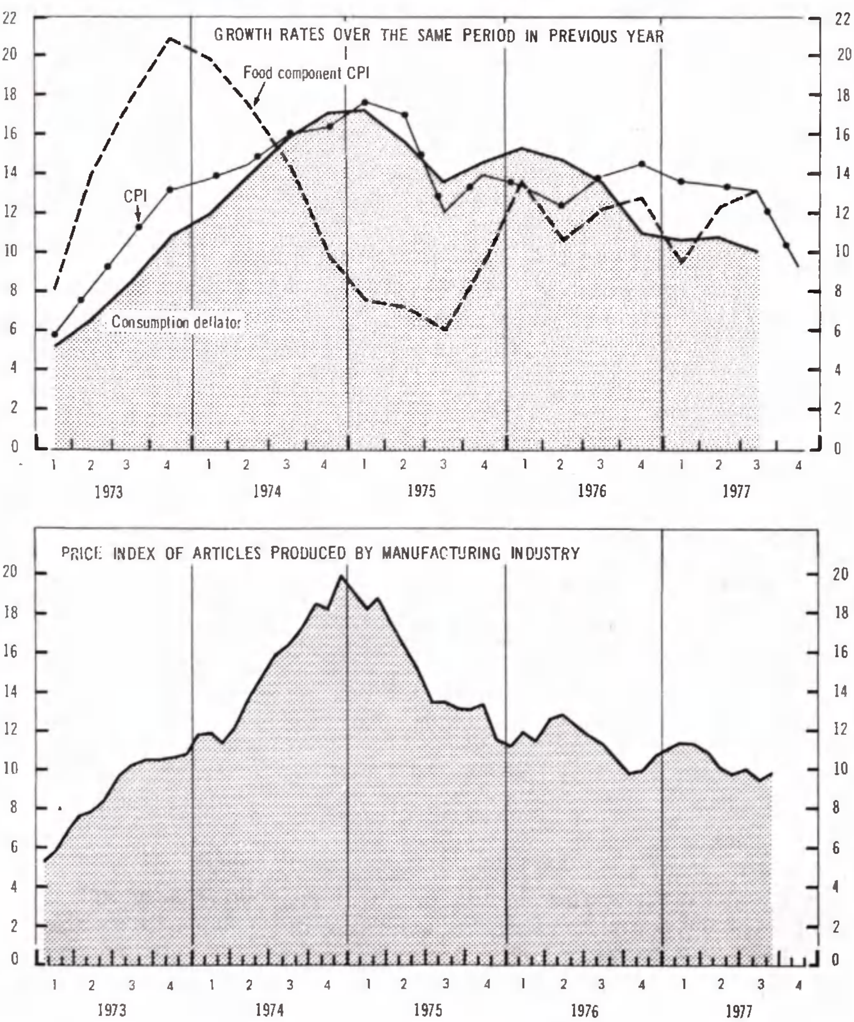
22 In fact, the gap in the two halves of 1976/77 slightly exceeded that in the first half of 1976. One of the reasons for this is that although partial indexation was used to adjust wage rates the index used for this purpose was the CPI (as opposed to the GDP deflator in the present calculations). Over the past two years (third quarter 1975 to third quarter 1977) the CPI rose by a total of 29 per cent as against 23.8 per cent for the GDP deflator.

23 This is the ratio of gross operating surplus of trading enterprise companies to non-farm product at factor cost.

Prices

Following a peak of 17.6 per cent in the first quarter of 1975, the increase over the previous year in the consumer price index has followed a downward, if somewhat irregular path (Diagram 9) reaching a figure of 9.3 per cent by the fourth quarter of 1977. Despite the November 1976 devaluation, the four quarterly increases in the CPI during 1977 were all below the 10 per cent mark when converted to annual rates. Taken in conjunction with the movement in other price indices this would suggest that the underlying rate of increase in consumer prices has been into the single digit range for most of 1977. The broader measure of the movement in consumer prices provided by the national accounts consumption deflator shows a smoother deceleration (Diagram 9) but roughly in line with that of the CPI adjusted for Medibank except for

Diagram 9 **Consumer prices and wholesale prices**



Sources: *Quarterly Estimates of National Income and Expenditure, Consumer Price Index,* and *Price Index of Articles Produced by Manufacturing Industry,* all ABS.

the first half of 1977 where it shows a slight reacceleration (particularly in the first quarter). Nevertheless, the rate of change between the third quarters of 1976 and 1977 comes out at 10 per cent with a very low figure (1.5 per cent actual rate) for the most recent quarter.

Other indicators of prices such as the deflator for gross non-farm product and for major GNE components also show the same pattern of a deceleration from a peak in late 1974 or early 1975, continuing through 1976, then followed by some reacceleration in the first quarter of 1977 (Table 6). Even with this acceleration in the first quarter of 1977 the GDP deflator slowed to an 8.7 per cent increase between the third quarters of 1976 and 1977, compared with 14.2 per cent over the previous four quarters. Some reacceleration in final expenditure price indices was not unexpected in the early part of 1977 as price indices for earlier stages of production reaccelerated following the November 1976 devaluation. In the first half of 1977 the price index for imported materials used in manufacturing rose at an annual rate of 32.0 per cent (up from 8.2 per cent in the previous half year). As a result, the increase in the index for all materials used in manufacturing rose from 13.9 per cent in the second half of 1976 to 19.4 per cent in the first half of 1977, while the corresponding rate of change of prices of manufacturing output rose from 9.7 per cent to 12.1 per cent. However, as the table below shows a marked deceleration was recorded in the second half of 1977 for these manufacturing price indices.

Table 6 **Indicators of price changes**
Percentage change from the previous period, annual rate

	1974		1975		1976		1977	
	I	II	I	II	I	II	I	II
Total CPI	13.1	19.3	15.2	11.0	14.7	13.6	13.4	8.9
Total (excluding food)	12.2	23.4	18.9	11.5	14.9	14.4	14.1	7.9
Total (excluding hospital and medical services)	13.2	19.3	13.7	16.8	15.3	10.1	10.4	9.4
Implicit deflators[1]								
Private final consumption	14.1	18.5	14.6	14.0	15.9	8.7	12.9	
Major GNE components	16.1	23.0	16.7	14.4	16.1	9.4	12.4	
Gross non-farm product	15.0	39.2	13.9	18.6	15.0	9.7	10.7	
Manufacturing industry								
Materials used in	16.5	5.9	3.4	11.3	10.8	13.9	19.4	4.9
Imported materials used in	65.5	45.9	21.2	7.5	11.8	8.2	32.0	4.7
Articles produced by	14.0	21.4	13.5	12.4	11.7	9.7	12.0	7.3

1 Seasonally-adjusted.
Sources: Budget Paper, No. 1, 1977-78, Statement No. 2; *Consumer Price Index*, ABS; *Quarterly Estimates of National Income and Expenditure*, ABS, September quarter 1977.

The continued deceleration in final product prices during early 1977 with little deceleration in wages or basic material prices has, as noted above, led to falling profits in the middle two quarters of 1977. Australia's rate of price inflation has recently come roughly into line with the (trade-weighted) average of that of trading partners (Table 7) after having been clearly above it for several years. However, if the deceleration in prices has come about by squeezing profits, comparative cost movements may still not yet be in line.

Table 7 **Consumer prices in selected OECD countries**
Percentage changes from previous period, not seasonally adjusted

	At annual rate				12 months to Dec. 1977
	Average 1963-73	1974	1975	1976	
United States	3.8	11.0	9.1	5.8	6.8
Japan	6.0	24.5	11.8	9.3	4.8
Germany	3.6	7.0	6.0	4.5	3.5
France	4.6	13.7	11.7	9.6	9.0
United Kingdom	5.6	16.0	24.2	16.5	12.1
Canada	3.9	10.8	10.8	7.5	9.5
Italy	4.6	19.1	17.0	16.8	15.0[1]
OECD Europe[2]	5.0	13.3	13.1	11.8	10.5[1]
Total OECD[2]	4.6	13.6	11.4	8.6	8.3[1]
Trade weighted average[3]	5.1	16.9	12.4	9.7	8.1[1]
Australia					
CPI	4.3	15.1	15.1	13.5	9.3[4]
Consumption deflator	4.2	14.7	15.7	13.6	10.0[5]

1 To latest available period.
2 Private consumption weights.
3 Average for eight countries (the major 7 countries as above plus New Zealand) weighted by shares of trade (average of imports and exports) with Australia.
4 Fourth quarter 1977.
5 Third quarter 1977.
Source: OECD Secretariat.

Balance of payments[24]

For 1977 as a whole the deficit on current account amounted to about $ 2.4 billion or 2¾ per cent of GDP. This is broadly in line with the longer-term average but an increase on the 0.7 per cent recorded in 1975 and 1.5 per cent in 1976. On a seasonally-adjusted basis the current deficit as a proportion of GDP declined from 2.0 per cent in the first quarter of 1976 to 1 per cent in the third quarter then widened markedly to an average of 3¼ per cent for the first two quarters of 1977 (Table 8) before declining again. Thus the current deficit could be characterised as having declined up to the November 1976 devaluation and then widened for a time thereafter. A number of explanations can be advanced for this pattern.

Following the devaluation, import prices accelerated, the deflator for imports of goods and services rising at an actual rate of 11¼ per cent in the first quarter of 1977. However, this only explains a small amount of the current account deterioration as export prices rose by 8¾ per cent in the same period[25]. Since then export prices have weakened, with the deflator for exports of goods and services standing 1 per cent lower by the third quarter against a further rise of 5½ per cent for the import deflator. Thus, leaving aside the effects of the devaluation, weak external demand has had a noticeable depressing effect on the price of Australian exports, particularly wool, cereals, and some metals.

24 As in the rest of this Survey, magnitudes expressed in dollars refer to Australian dollars unless otherwise specified.

25 A small proportion of Australian export contracts are denominated in Australian dollars which would be a reason for expecting the increase in export prices to be lower (at least in the short run) than in import prices.

Table 8 **Balance of payments**
$ million

	1975	1976	1977	1976 I	1976 II	1977 I	1977 II
Current account							
Exports fob	8 859	10 619	11 837	4 958	5 661	5 739	6 098
Imports fob	−7 231	−8 964	−11 012	−4 161	−4 803	−5 547	−5 465
Trade balance	1 628	1 656	824	798	858	191	633
Invisibles (net)	−2 098	−2 810	−3 227	−1 389	−1 421	−1 565	−1 662
Current balance	−470	−1 155	−2 403	−592	−563	−1 374	−1 029
Capital account							
Government (net)	−177	330	589	56	274	−162	751
Private capital and balancing item	−112	538	797	526	12	1 322	−525
Net apparent capital inflow	−289	868	1 386	582	286	1 160	226
Net official monetary movements	−759	−287	−1 017	−10	−277	−214	−803
Change in official reserve assets, end of period	−740	−9	−852	−44	35	225	−627

Source: Balance of payments, ABS.

More important was the behaviour of export and import volumes. Export volumes grew very rapidly in the first three quarters of 1976 showing an actual increase of 16 per cent between the fourth quarter of 1975 and the third quarter of 1976. Much of this rapid growth was probably associated with the stock turnaround in the major OECD countries during the first half of 1976. Over the period from the third quarter of 1976 to the third quarter of 1977 export volumes fell by 1 per cent because foreign demand was weak and, at least in the short-run, devaluation effects on the export side are relatively limited.

Coincident with the weakness in exports there was a surge of imports in the first quarter of 1977. Import volumes had grown very strongly through 1976, their level in the fourth quarter of 1976 being 15 per cent higher than a year earlier. In the first quarter of 1977 they rose a further 7 per cent before falling back in the following three quarters. The most likely reason for this pattern is that the first quarter figure was swollen by the delayed arrival of imports ordered in expectation of the devaluation at the end of November 1976. By the third quarter of 1977 imports of goods and services were 10 per cent lower in volume than in the first quarter and lower than at any time since June 1976. It is difficult to disentangle the various factors which brought about the sharp fall in imports in this period—the devaluation obviously played a role as did the unusual bunching of imports associated with it[26], but the weakness of domestic demand (which fell during this period) must also have been important.

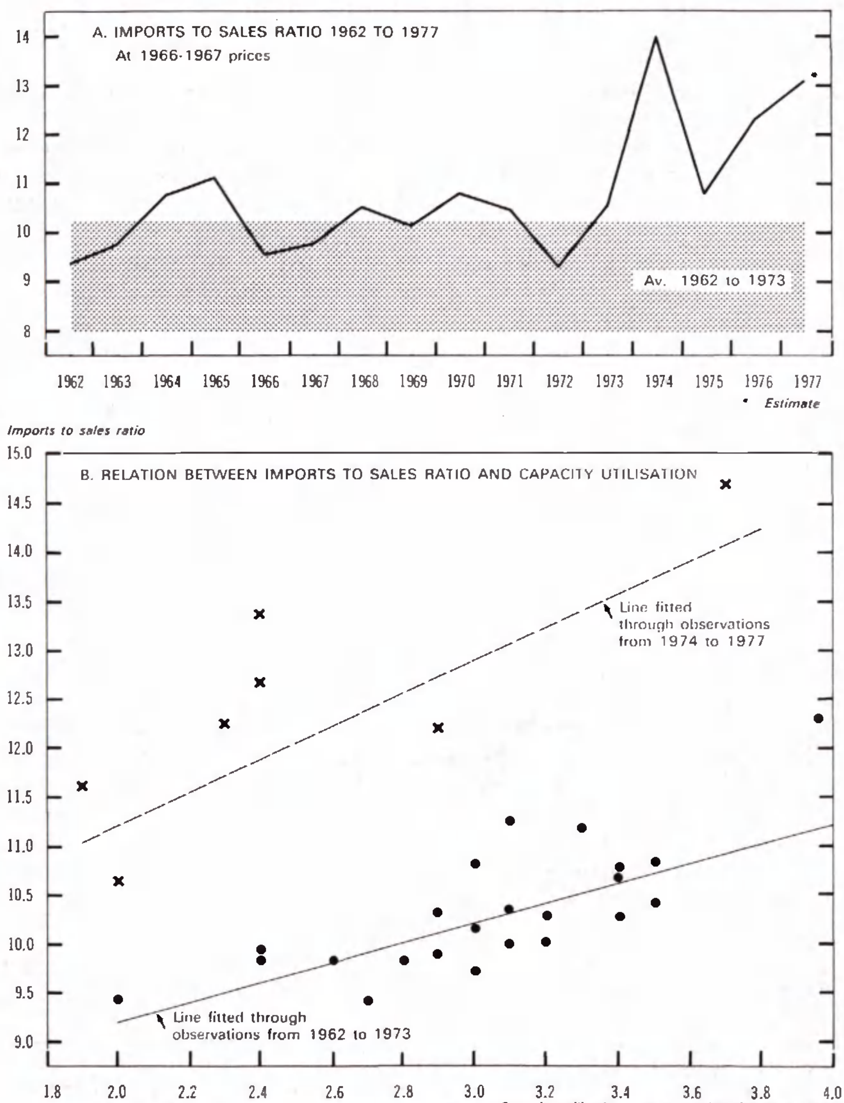
Over the last few years import volumes appear to have been higher than would be expected from the low levels of capacity utilisation and modest growth of activity[27].

26 The increased volume of imports in the March quarter no doubt reduced the volumes in subsequent quarters below what they might otherwise have been.

27 As part of the rebasing of the national accounts on 1974/75 prices, it is expected that major revisions may be made to the figures for import volumes; hence relationships derived from previous data should be treated with caution.

A number of factors could explain the apparent upward shift in the import to sales ratio shown in Diagram 10—the rapid growth of domestic demand in 1972 and 1973, the two revaluations of the currency (1972 and 1973), the 25 per cent tariff cut in 1973, the higher rate of inflation in Australia than in its trading partners, and the upward shift in costs in Australia as a result of the rapid boost to real wages in 1974. On the basis of a simple comparison of consumer prices in Australia and its trading

Diagram 10 **Ratio of Imports to Sales**



Note: Imports exclude government imports and imports of civil aircraft. Sales are gross non-farm product plus imports minus private non-farm stocks. In diagram B the imports to sales ratio has been lagged one quarter.

Source: The imports to sales ratio is from an Australian submission to the OECD. Factory overtime is from *Seasonally Adjusted Indicators*, ABS.

partners, adjusted for exchange rate changes, it appears that following the two devaluations and the recent deceleration in domestic inflation, relative prices may have been restored to around their level of 1970 or 1971, a period of excessive overall balance of payments strength. Thus, at the level of final product prices the factors which led to the upward shift in the imports to sales ratio in 1974 have reversed themselves[28], though this has not occurred at the costs level as evidenced by the low profit share (see page 20).

Assessment of Australia's international competitive position is particularly difficult. To the problems which beset such analysis in any country are added other more specific difficulties. The statistical series typically used—such as unit labour costs in manufacturing—do not exist, and the relatively low importance of manufactures in Australia's trade would in any case throw doubt on the relevance of the results. It was suggested above that on a crude purchasing power parity basis, the devaluations of the Australian dollar have restored competitiveness at least to a reasonable level, but that the final prices of imported goods (or goods containing an important import component) have not yet been fully raised to reflect the devaluations. For the present competitive position to be sustained—that is to ensure that domestic price increases for internationally traded goods do not exceed those in other countries—the latent pressure on prices reflected in the currently depressed profit share would need to be relieved by a greater distribution of productivity gains to profits than might normally be the case.

The capital account has displayed great instability over the past two years, but the prevailing problem, with the exception of the immediate post-devaluation period, has been the failure to attract private capital inflow. As explained in last year's Survey there was a large private capital outflow in December 1975 ($ 460 million) that was largely reversed in the following six months. From about mid-1976 renewed private capital outflow occurred, which, like the previous December outflow, was largely activated by expectations of a devaluation. In the five months between July and the beginning of December net apparent private capital outflow amounted to about $ 500 million, much of it in the form of leading of import payments and lagging of export receipts. Despite fairly large-scale official overseas borrowing, including a $ 309 million drawing under the IMF's Compensatory Financing Facility, reserves fell by nearly $ 500 million between the end of June 1976 and the devaluation at the end of November.

After the devaluation there was an immediate reflux of capital, net apparent private capital inflow totalling $ 900 million in December/January. With the introduction of controls on overseas borrowing on 17th January the rate of inflow was reduced[29], but nevertheless total net apparent capital inflow amounted to $ 1 800 million between the devaluation and mid-1977. In August and September, for the third time in two years, there was a pronounced turnaround in the private capital account with outflows amounting to $ 375 million in the two months. In September and

28 The introduction of quotas on certain imported goods over the last two years would have reduced the effects of the 1973 tariff cut on the import propensity.

29 The controls consisted of:

i) An extension of an existing embargo on overseas borrowing of less than six months to less than two years.

ii) The reintroduction of a Variable Deposit Requirement whereby 25 per cent of the borrowing was to be lodged in a non-interest bearing account with the Reserve Bank for a period up to three years. Most borrowings for mining and manufacturing investment were to be exempt from the VDR.

iii) A tightening of controls applying to the timing of payments and receipts from international transactions.

The first two of these provisions were reversed in July 1977.

October however, the first of the new series of official overseas borrowing was being received so that government capital inflow was about $ 660 million in those months and in October/November there was a small net private capital inflow. The situation is still uncertain, however, as there was a substantial private capital outflow again in December offset by an inflow in January.

II A COMPARISON OF BUSINESS CYCLES

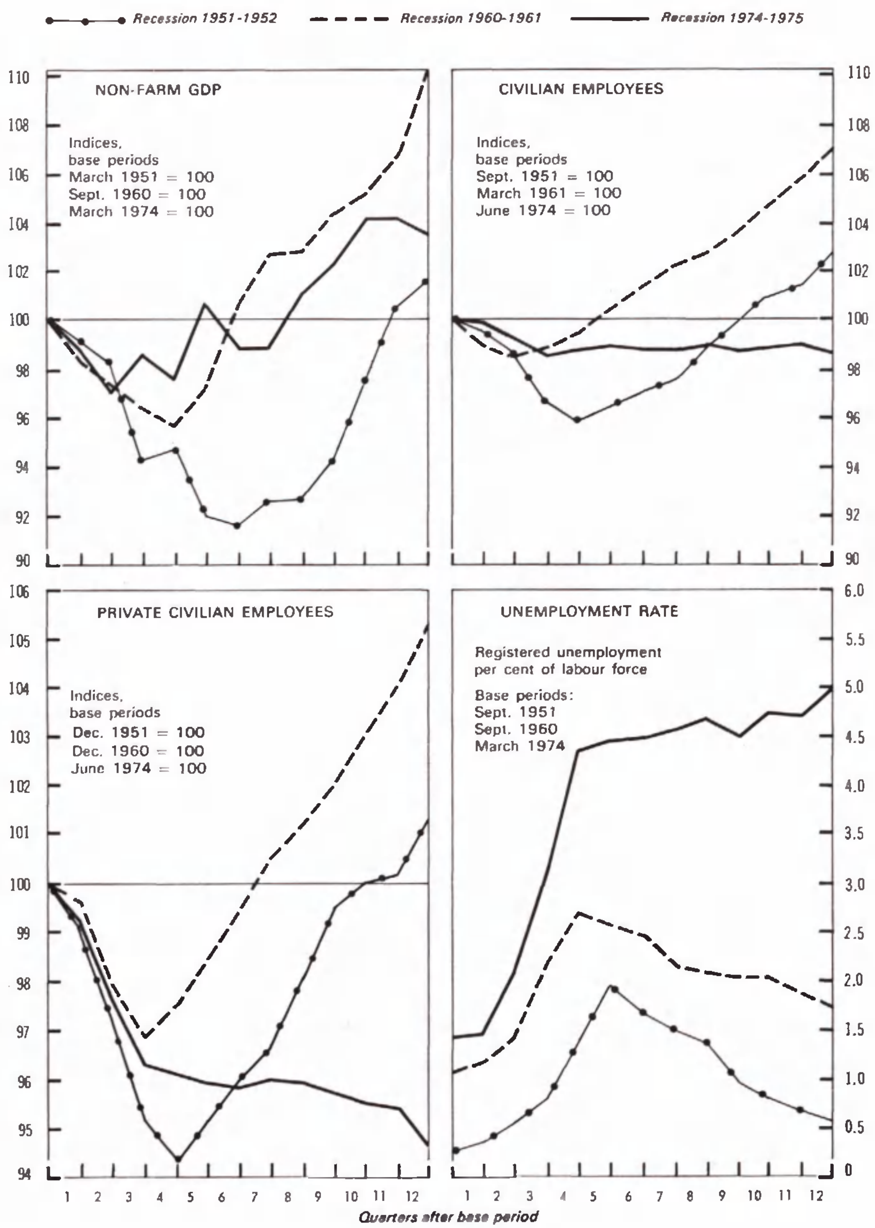
This section provides a comparison of the movements in a number of key economic variables in the three major post-war recessions—those of 1951-52, 1960-61 and 1974-75. It attempts to identify, in a broad manner, developments in the recent recession that could be explained in terms of normal cyclical experience and also to distinguish other developments whose magnitude does not appear to be explainable in purely cyclical terms. A complete comparison cannot be made as some quarterly data are not available for the earliest recession. Most of the discussion is based on the information contained in the two parts of Diagram 11, but reference is also made to some of the partial comparisons contained in the earlier section.

The recent recession was not the deepest post-war recession; non-farm real GDP fell more sharply in both 1951-52 and 1960-61 than over the recent period. Moreover, these earlier falls were not erratic movements confined to one or two quarters: the level of output five quarters after the onset of recession was lower in the two earlier periods than in the most recent recession. Extending the period of comparison to ten quarters shows that in 1960-61 and the recent recession, output had reached a similar level with respect to its previous peak (5 per cent above that for the 1960-61 episode and 4 ¼ for the recent one). And in the 1951-52 recession, output was still 2 ½ per cent below its previous peak ten quarters after the onset of recession. Thus for a period as long as 2 ½ years after the start of the recent recession, output has recovered about as strongly or more so than in the two earlier episodes[30]. While there is no reason to expect all business cycles to display exactly the same characteristics, it would, ***prima facie,*** appear that any significant deterioration in the evolution of output-related variables relative to their past cyclical behaviour could not be attributed to a greater weakness of aggregate demand in the recent recession, and would point to the existence of other influences.

Total employment, as measured by civilian employees, did not fall more sharply in the recent recession than in the previous ones, at least in the earlier stages. By ten quarters after the onset of the recession, however, total employment was still 1 per cent below its previous peak on this occasion, whereas in the two earlier cycles it had surpassed its previous peak by ¼ per cent in the 1951-52 case and 4 ¾ per cent in the 1960-61 case (Diagram 11). The weakness of employment in the recent experience, both in the immediate downturn and in the early part of the upswing, stands out even more clearly from the figures for private employment. Comparing the 1974-75 and 1960-61 recessions where, as stated earlier, the development of output was very similar, private employment fell more sharply from the beginning in the recent cycle. Five quarters after the recession began, private employment was about 4 per cent

30 The use of a ten-quarter comparison does not bring the story completely up-to-date. But a longer period would, for the earlier cycles, have involved analysis of boom conditions. It is in any case felt that 2 ½ years is a sufficiently long period to support an assessment of differences in cyclical response.

Diagram 11 **Comparison of cycles: output and labour market**



Source: All parts of the diagram except for private civilian employees are from ***Annual Report of the Reserve Bank of Australia***, 1977, page 19. Private civilian employees from ***Employed Wage and Salary Earners***, ABS. This series had to be linked in June 1975 owing to a break in the series.

below its previous peak (compared with 1 ½ per cent below in 1960-61) and ten quarters after the start it was still 4 ½ per cent below[31] whereas in 1960-61 it had risen to 4 ½ per cent above its previous peak. Not surprisingly in view of this behaviour of employment, the unemployment record over the recent cycle was also considerably worse than over the previous two[32].

The second panel of Diagram 11 shows that the deterioration in the employment-output relationship was accompanied, and in some cases preceded, by a worsening in other aspects of economic performance. First, private fixed investment has been considerably weaker than in the earlier episodes. Ten quarters after the onset of recession it was still 8 ½ per cent below its previous peak while in 1960-61 it had clearly exceeded it[33]. Moreover if, as suggested in Part I above, some recent investment has been in the nature of capital-labour substitution (i.e. producing the existing output with a more capital-intensive technique rather than investment in plant to produce additional output), the investment situation judged in terms of its employment-generating effect will be still weaker than shown in the diagram.

The second comparison concerns the rate of inflation which, while recording a lower peak than recorded in 1951-52, has persisted at a far higher rate in the present cycle than in its two predecessors. The evidence suggests, although it is difficult to disentangle the various influences, that this had an inhibiting effect on private consumption and private investment, particularly in the period of accelerating inflation. The third relationship examined is the profits ratio, which declined faster and further in the recent recession than in the earlier episodes. In common with fixed investment it also displayed the cyclically unusual characteristic of leading the downturn in activity rather than following it. The final comparison is of the real wage/productivity relationship from annual data for the three recessions. In the recent recession the excess of real wage growth over productivity growth was greater than in the two previous ones and, in contrast to the two earlier experiences, there has been only a limited movement back to more normal levels. The 1960-61 recession seems to have represented a " textbook" example of the cyclical factor-share movement to be expected during periods of recession and recovery. The movements in 1951-52 were more violent and largely explained by huge fluctuations in the terms of trade resulting from the Korean War commodity boom. In the year 1951/52 the gap (8.8 per cent) was nearly as high as in the recent episode but it was quickly brought back into a more normal relationship.

While a good deal of the deterioration in the employment situation and weakness of fixed investment in the recent cycle can be explained by the weakness of activity, the foregoing suggests that a further part is probably attributable to developments outside what would normally be thought of as cyclical. It is of course extremely difficult to quantify " cyclical" and " non-cyclical" elements of worsened performance. Such a task, which would involve considerable definitional problems, is in any case clearly outside the range of a Survey such as this. Nevertheless, the material presented here

31 Ten quarters after the start of the recent recession government employment stood at a level 8 ½ per cent above its level in the first quarter of 1974.

32 Indeed, given the size of the deterioration in private employment it is surprising that unemployment did not rise by more. The increase in unemployment was limited by:

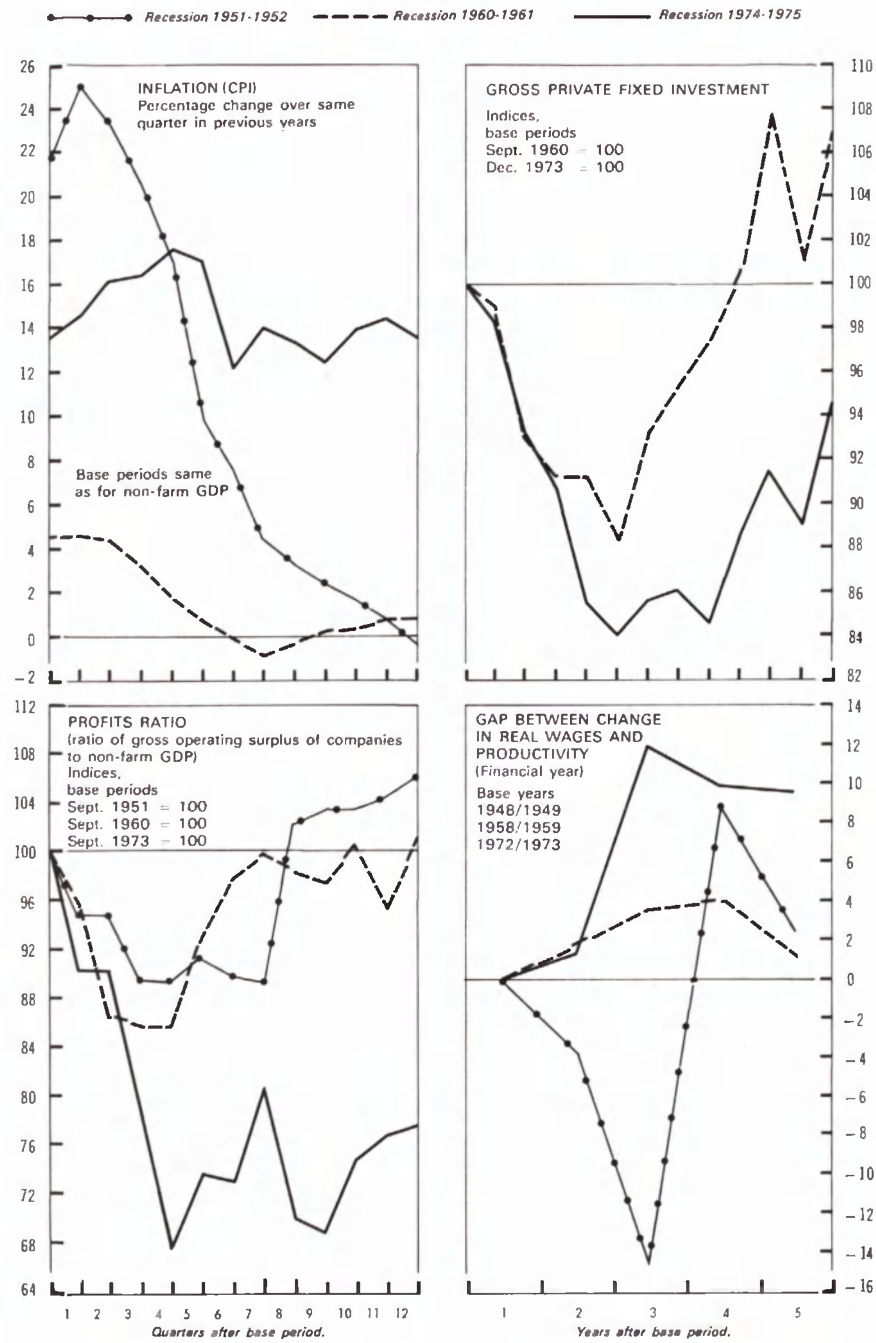
a) the growth of government employment;

b) the slower growth of the labour force (an average annual rate of 1.5 per cent during this period, compared with 2.6 per cent from 1964 to 1974;

c) the growth of non-contractual employment (self-employment) at the expense of contractual employment.

33 Although it is not possible to compare with the 1951-52 recession on a quarterly basis, on an annual basis the national accounts showed only one year of decline (1953/54). In the recent cycle the three years from 1974/75 to 1976/77 all had lower figures for private investment than 1973/74.

Diagram 11 (cont.) **Comparison of cycles: Prices, Profits, Investment and Real Wages**



Source: All parts of the diagram except for the gap between the growth of real wages and productivity are from Reserve Bank, *op. cit.* page 19. The calculations of the real-wage productivity gap for 1974-75 are explained in Annex I. The calculations for 1951-52 and 1960-61 do not include the adjustment for hours worked and in addition the employment series for 1951-52 is an estimate from M. Keating, "Australian Wages, Employment and Average Earnings, 1947/48 to 1962/63", *Economic Record, March 1967.*

does suggest that there has probably been a significant non-cyclical component, which would not automatically disappear in the "cyclical" process of recovery. The causes of the non-cyclical employment and investment decline are no doubt varied but it would be surprising if these were not due in significant part to the persistence of very high rates of inflation and, in particular, the massive shift in factor shares which occurred in 1974. Other evidence, such as the degree of capital-labour substitution, the differing rates of growth of private employment among demographic groups, the relative severity of the unemployment reaction in Australia compared with other countries, and the shift from contractual to non-contractual employment, reinforce this view. While a recovery in aggregate demand would probably reverse the cyclical decline in profits and the real-wage/productivity relation it could still leave them well away from their normal or historical values. In this respect, the recent recession bears very little resemblance to its predecessor in 1960-61, but quite a few similarities to the more severe events of 1951-52[34]. The question remains—returned to in the conclusions of this Survey—how far the recovery itself could become sustainable without substantial progress being made in correcting the imbalances which lie behind the so-called "non-cyclical" deterioration of the economy.

III ECONOMIC POLICY

The aims of economic policy over the last two years, as stated in the 1977/78 budget speech, were as a "first goal to maintain the underlying trend to lower inflation", and as a "second goal, which is dependent upon the achievement of the first, to promote moderate and non-inflationary growth in order to create jobs and reduce unemployment". In line with this order of priorities, fiscal policy shifted from a stance aimed at supporting the economy to one judged consistent with reducing the rate of inflation. The initial change of direction occurred in mid-1975 and it was strongly reinforced at the turn of the year; and both the 1976/77 and 1977/78 budgets have followed this strategy. One of the explicit reasons for the tightening of fiscal policy was to reduce the budget deficit in order to allow a more moderate rate of growth of the money supply without undue pressure on interest rates. Achievement of this objective was seen also to require substantial sales of government securities to the non-bank public. In the event, much less rapid rates of growth in the broadly defined money supply were recorded from the beginning of 1976 following a growth rate of around 20 per cent in 1975. In 1976/77 and so far in 1977/78 growth in money supply has conformed broadly to the authorities' expectations as made public in the budget speeches for these two years. Official long-term interest rates were raised in November 1976 following the devaluation but have fallen since, bringing them to a level somewhat lower than two years ago.

Within the framework of relatively tight fiscal and monetary policy there has also been an important role for both external policy and policy towards wage determination. Broadly speaking, exchange rate policy was directed to the anti-inflationary objective until the November 1976 devaluation, and this objective has also been an important consideration underlying movements under the new exchange rate regime since then. The need to maintain external competitiveness has also been important and this lay behind the devaluation decision, although the immediate influences came from the capital account side. The effects on the rate of inflation of the

34 The latter were also marked by high rates of inflation and very large shifts in factor shares, but on that occasion both these distortions were corrected relatively quickly.

devaluation were minimised by the non-accommodating monetary policy pursued throughout 1977. The other important aspect of external policy, namely trade policy, has on the other hand concentrated on the short-run employment objective and the increasing protection which this has implied runs counter to both the inflation and competitiveness objectives. Several specific employment incentives have been introduced, but by and large, less use has been made of these, at least in the last couple of years, than in most OECD countries.

With fiscal, monetary, and for the most part, exchange rate policy directed towards the anti-inflationary goal there has been a clear deceleration in the rate of inflation. The federal government's role in wages policy has been limited, constitutionally, to arguing before the Conciliation and Arbitration Commission's Wage hearings the view that the rate of increase of money wages must be reduced in order to fit into this framework. Specifically it has argued—with some degree of success—the need for the rate of increase to be lower than the past increase in prices (" partial indexation") in order both to contribute to the deceleration of inflation and to facilitate the reconstitution of the profit share. Some such reconstitution would normally occur through the process of cyclical productivity gain, but it has been argued that on this occasion more than the cyclical improvement is needed to re-establish something like the past norm. In 1977 much of the improvement in the rate of price inflation has been achieved at the expense of a check to the restoration of profits. With tight demand management policies, firms have been inhibited from raising prices to restore prior profitability and have had a strong incentive to raise productivity instead, implying considerable labour-shedding. Demand management has also played a role on the wages side, weak labour market conditions having largely eliminated wage increases outside the indexation guidelines.

Fiscal policy

While the main aim of fiscal policy over the last two years has been to reduce the rate of inflation, another important consideration affecting the way the policy was designed has been the Government's objective of reducing the size of the public sector, through reductions in government expenditure associated with personal tax reductions. In pursuit of the first objective the budget deficit has been reduced from 5.1 per cent of GDP in 1975/76 to 3.4 per cent in 1976/77, and the 1977/78 budget projected a further fall to about 2.3 per cent, although developments since then suggest an outturn above that figure. Given the conjunctural development of the economy, this represents a marked shift towards restraint. In pursuit of the second objective, which in itself is somewhat at odds with the first, there have been large reductions in personal taxes in both 1976/77 and 1977/78. Reconciliation of the two aims has been made possible by greatly reducing the growth of public expenditure, and by the elasticity of the tax system. The budgetary outturn for 1976/77 was in fact almost identical to the initial estimate. Expenditure increased by 10.4 per cent[35]

Table 9 **Budget deficit, 1973/74 - 1977/78**

	1973-74	1974-75	1975-76	1976-77	1977-78
Actual ($ million)	293	2 567	3 585	2 740	2 220
As per cent of GDP at current market prices	0.6	4.3	5.1	3.4	2.3

Source: Budget Paper, No. 1, various years.

35 For several reasons this figure overstates the deceleration in outlays in 1976/77. See last year's Survey, p. 32.

(compared with 22.5 per cent in 1975/76 and 46 per cent in 1974/75) which in real terms was equivalent to a decline of about 1 per cent[36]. Revenue increased by about 17 per cent in spite of the introduction of personal income tax indexation on 1st July 1976, at a cost of about $ 1 billion or 4½ per cent of total receipts[37].

The 1977/78 budget presented in August 1977 aimed at a further reduction in the budget deficit, but by a smaller amount than in the previous year. This reduction was intended to permit another small decline in the rate of growth of the broadly defined money supply and was also consistent with the Government's desire to limit the rate of growth of outlays to approximately zero in real terms. In nominal terms outlays were expected to rise by 10.5 per cent[38] with stronger growth projected for current expenditure and a further decline in capital expenditure. Revenue, which was estimated to rise by 14.3 per cent, has been held down both by the personal tax reductions contained in the budget, and by the fact that the cash effects of the adjustment to stock valuation for company taxation and the other investment incentives applying in 1976 appear in the 1977/78 receipts.

The main new measures introduced in the 1977/78 Budget were:

i) A change to the personal income tax system to become effective on 1st February 1978. The new system included a raising of the tax threshold from $ 3 154 to $ 3 751, a standard rate of 32 per cent to be applied to incomes over this threshold, with a surcharge of 14 per cent on incomes between $ 16 000 and $ 32 000, and a higher surcharge of 28 per cent on incomes over $ 32 000. It is estimated that these changes will cost $ 406 million in revenue foregone in 1977/78 (about 3.2 per cent of personal income tax receipts) and $ 973 million in 1978/79[39].

ii) A timetable for the movement towards pricing locally produced crude oil at world parity. Under this timetable 10 per cent of production would be priced at world parity in 1977/78 and 20, 35 and 50 per cent in the subsequent three years. The production levy on crude oil was increased from $ 2 to $ 3 per barrel. The duty on petroleum products was also raised. The total effect of these decisions in 1977/78 is expected to increase the retail price by about 2 cents a litre, most of it having occurred in the fourth quarter of 1977.

iii) The rate of company tax was raised by 3½ points to 46 per cent. This decision was taken in light of the large benefits that had already been received by the company sector from the investment allowance and trading stock valuation adjustment, together with what was seen to be the need to finance the cut in personal income tax while still achieving a reduction in the deficit. Even with the increased rate of company taxation, receipts from this source are expected to rise by only 6 per cent in 1977/78.

The impact of the 1977/78 budget on the household sector will be quite uneven during the course of the financial year. With the annual adjustment to tax scales under

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36 Deflated by the GDP deflator.

37 In 1977/78 revenue foregone due to tax indexation is estimated to be $ 970 million. The indexing factor in the 1976/77 financial year was 13 per cent, one per cent less than the movement in the published CPI in the year ending March 1976 compared with the previous twelve months. This difference represented the effects of increased indirect taxes. For 1977/78 the indexing factor of 10.9 per cent is again lower than the increase of 13.6 per cent in the CPI for the year ended March 1977 compared with the previous twelve months. For tax indexation purposes, the CPI has been discounted for the effects of devaluation, indirect taxes and the change in health insurance arrangements.

38 At the time the budget was introduced, a rate of increase of the GDP deflator of this order was thought possible. In the period since then most observers have revised the forecast for the deflator down considerably.

39 After allowing for the use of "half indexation" (see below).

Table 10 **Budget transactions**
$ million

	1975-76		1976-77			1977-78	
	Actual	Percentage change	Budget	Actual	Percentage change	Budget	Percentage change
Receipts							
Income tax							
Individuals	9 219	19.5	11 307	11 054	19.9	12 884	16.6
Companies	2 523	7.0	2 900	2 824	11.9	2 998	6.2
Other income	6.532	25.6	7 506	7 506	14.9	8 557	14.0
Total	18 275	19.7	21 713	21 384	17.0	24 439	14.3
Outlays							
Net expenditure on goods and services							
Defence	1 680	16.3	1 994	1 998	18.9	2 151	7.7
Other current	2 383	16.6	2 696	2 648	11.1	3 054	15.3
Capital	559	37.0	527	516	−7.7	476	−7.8
Transfer payments and net advances							
To States and Local Government	8 466	32.1	9 077	8 941	5.6	9 981	11.6
Cash benefits to persons	6 199	40.6	7 525	7 494	20.9	8 239	9.9
Other	1 790	6.4	2 130	2 141	19.6	2 534	18.4
Net advances	783	−45.7	371	341	−56.4	221	−35.2
Total	21 859	22.5	24 321	24 124	10.4	26 656	10.5
Surplus (+) or deficit (—)							
Domestic	−2 905		−1 879	−1 995		−1 347	
Overseas	−680		−729	−745		−870	
Total	−3 585		−2 608	−2 740		−2 217	
Financing transactions							
Net overseas financing, miscellaneous domestic financing plus increase in government's own holdings of debt	303			375			
Net domestic borrowing requirement	3 282			2 365			
Met by: Banks	69			−252			
Other private sector	1 453			1 089			
Reserve Bank	1 759			1 527			

Source: Budget Paper, No. 1; Reserve Bank of Australia, *Statistical Bulletin*.

tax indexation, disposable incomes receive a boost at the beginning of the financial year but thereafter tax collections exert an increasingly restraining influence. In 1977/78 this restraint was abruptly reversed in February 1978 when the new personal tax scheme came into effect. Secretariat estimates suggest that disposable income could be 1 ½ per cent higher in the last five months of the 1977/78 financial year than it would have been under a continuation of the old system. There are, in effect, two budgets applying during this financial year with the one concerning the last five months probably corresponding to a larger deficit than the average for the year as a whole. Lest this should cause the Government difficulties in its aim of continuing to reduce the deficit in 1978/79, it has already been announced that only half-indexation of the tax scales will be applied in that year. In the current financial year to date, the deficit is running ahead of budget estimates due to lower than expected revenue from customs duty, higher income tax refunds on the previous year's income[40] and higher expenditure on schemes announced since the budget, for example, assistance to the beef industry.

Monetary policy

The 1976/77 financial year was a period of consolidation for monetary policy, the major change in course having been made midway through the previous year. Nevertheless, a number of factors, most notably the devaluation and the extremely pronounced seasonal pattern in company and non-P.A.Y.E. personal tax payments, meant that monetary management had to be quite active in order to achieve this consolidation. In terms of the growth of the monetary aggregates, the monetary authorities were quite successful in broadly maintaining these within the range they had earlier indicated as being consistent with their economic objectives[41]. The resulting stance of monetary policy could be classified as fairly tight, as was most clearly evidenced by the success achieved in minimising the inflationary effects of the devaluation[42].

As a result of the tightening of fiscal policy, the budget contribution to the growth of the money supply was reduced by $ 1 billion in 1976/77 compared with the previous year (Table 11). Sales of government securities to the non-bank sector, although a little less than in the previous year down from $ 1.5 billion to $ 1.1 billion), still made a significant contribution to financing the government deficit, accounting for 40 per cent of the total deficit or nearly 60 per cent of the domestic deficit[43]. Thus the contribution of the unfunded government domestic deficit to the growth of the money supply fell by about $ 650 million in 1976/77 compared with the previous year. Over

40 The sharper fall in inflation than expected at the time the budget was drawn up will also, no doubt, lead to a widening of the deficit. Receipts will increase less rapidly in line with a probably lower growth of nominal incomes, but expenditure may be only slightly affected. The expected reduction in indexed transfer payments may be small as the indexing factors are based on lagged price indices.

41 In the budget for 1976/77 the Treasurer had indicated a figure for M3 of 10-12 per cent over the course of that year as being appropriate to underwriting the expected recovery while being less than fully accommodating to inflationary demands. In the 1977/78 budget a range of 8 to 10 per cent was indicated as being the likely outcome for this financial year; as in 1976/77 it was also indicated that the "range may change as circumstances unfold".

42 Other evidence for the tightness includes the fact that M3 grew less rapidly than nominal GDP minus the trend increase in monetary velocity and that the usage ratio of major trading banks' overdrafts has been on an increasing trend since the beginning of 1976.

43 Domestic deficit is the total deficit minus direct government expenditure overseas. Although the Federal government domestic deficit was reduced in 1976/77 and sales of government securities to the non-bank private sector were also slightly lower, the borrowing requirement of the public sector as a whole may have been slightly higher in 1976/77 than in the previous year. This is accounted for by the 1975/76 prepayment of hospital operating expenses to the States and the growth in the borrowing programmes of public authorities outside the budget sector.

the year as a whole, private sector foreign exchange transactions had a negligible influence. With an expansion of bank lending similar to that experienced in the previous two years, the broadly defined money supply grew by 10.6 per cent, down from 13.7 per cent in the previous year.

Table 11 **Formation of the volume of money**
Not seasonally adjusted, $ million

	1974-75	1975-76	1976-77	1976 I	1976 II	1977 I	1977 II
Budget deficit (+) or surplus (—)	2 567	3 585	2 740	−207	4 362	−1 622	4 120
Less O/S budget transactions	618	712	875	339	352	524	437
Budget contribution to private sector LGS assets	1 949	2 873	1 864	−546	4 010	−2 146	3 683
Private sector foreign exchange transactions	156	−466	19	126	−294	314	−1 209
Reserve Bank accounts	143	−381	−436	549	−1 328	890	−458
Private sector LGS assets	2 248	2 026	1 447	129	2 388	−942	2 016
Less non-bank holdings of							
a) Notes and coins	399	395	360	41	330	31	393
b) Government securities	599	1 453	1 091	1 058	619	471	1 162
Banking sector LGS assets	1 250	178	−4	−970	1 439	−1 444	461
Loans and advances	2 206	2 788	2 731	1 705	1 594	1 137	1 567
Other assets and liabilities	231	1 048	959	−96	665	296	−251
Bank deposits	3 687	4 014	3 686	639	3 698	−11	1 777
Less government and interbank deposits	296	433	577	359	306	270	−234
Add back notes and coins of public	399	395	360	41	330	31	393
Volume of money (rate of growth)	3 796 (15.3)	3 976 (13.7)	3 469 (10.6)	285	3 725	−257	2 405

Source: Budget Paper, No. 2 and *Round-up of Economic Statistics*, February 1978.

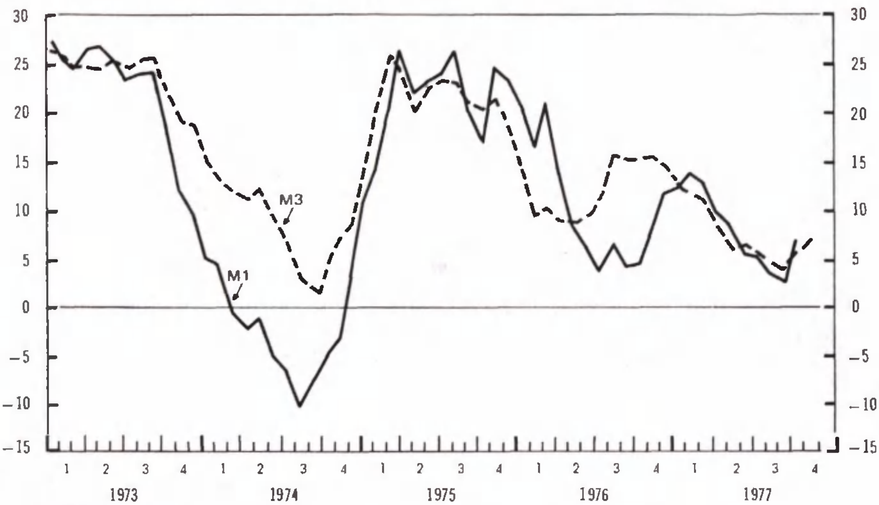
Within-year movements in the growth rates of the broadly-defined money supply have been rather more diverse than indicated by the financial-year growth rates in Table 11. During virtually all of 1975, M3 grew at about a 20 per cent annual rate before decelerating to less than 10 per cent by mid-1976 (Diagram 12). In the second half of 1976, M3 growth reaccelerated to around 15 per cent before returning to below 10 per cent in the first half of 1977. The acceleration in the second half of 1976 was partly due to the exceptionally strong seasonal outflow of funds from the government sector associated with the postponement of company tax collections; combined with a low non-bank take-up of government securities this was leading to an unacceptably sharp acceleration in the monetary aggregates and was also assisting the financing of speculative outflows. Early in November, short-term official interest rates were raised[44], the SRD ratio of major trading banks[45] was increased from 5 to 6 per cent and trading banks and other financial intermediaries were asked to restrain their lending[46].

44 Treasury note issue yields were increased by 1 per cent in two steps in August and September partly to restrain the growth of liquidity and partly to encourage the private sector to build up holdings of short-term assets to finance the liquidity drain expected in the second quarter of 1977.

45 Statutory reserve deposits (SRD's) are trading bank deposits held at the Reserve Bank.

46 From early 1975 trading banks had been asked to limit their new lending to approximately $ 90 million per week. During most of the second half of 1976 this had been running at over $ 100 million per week. The other financial intermediaries consulted were savings banks, building societies, finance companies and money market corporations.

Diagram 12 **Volume of money**
Percentage change over 6 months earlier, seasonally adjusted annual rate



M1 is currency and current deposits with all trading banks.
M3 is currency, total deposits with trading banks and deposits with savings banks.
Source: Reserve Bank of Australia; *Statistical Bulletin.*

After the devaluation further measures were necessary to provide a monetary environment in which the devaluation could work without too great an effect on prices. In particular, measures were required to prevent an undue build-up of capital inflow in the wake of the devaluation. The yields on government paper were again raised, but on this occasion the increases were extended to longer-dated securities and a new series of savings bonds was issued offering 10 per cent (up from 9 ¼ per cent a few months earlier)[47]. Some of the increase in trading bank liquidity was also offset by four increases in the SRD ratio between December and February, taking it from 6 to 10 per cent. Despite these measures, it became apparent that the large capital inflows ($ 1.2 billion in the three months following devaluation) would not be sterilised by domestic monetary measures and controls on certain forms of capital inflow were introduced to take effect from 17th January[48].

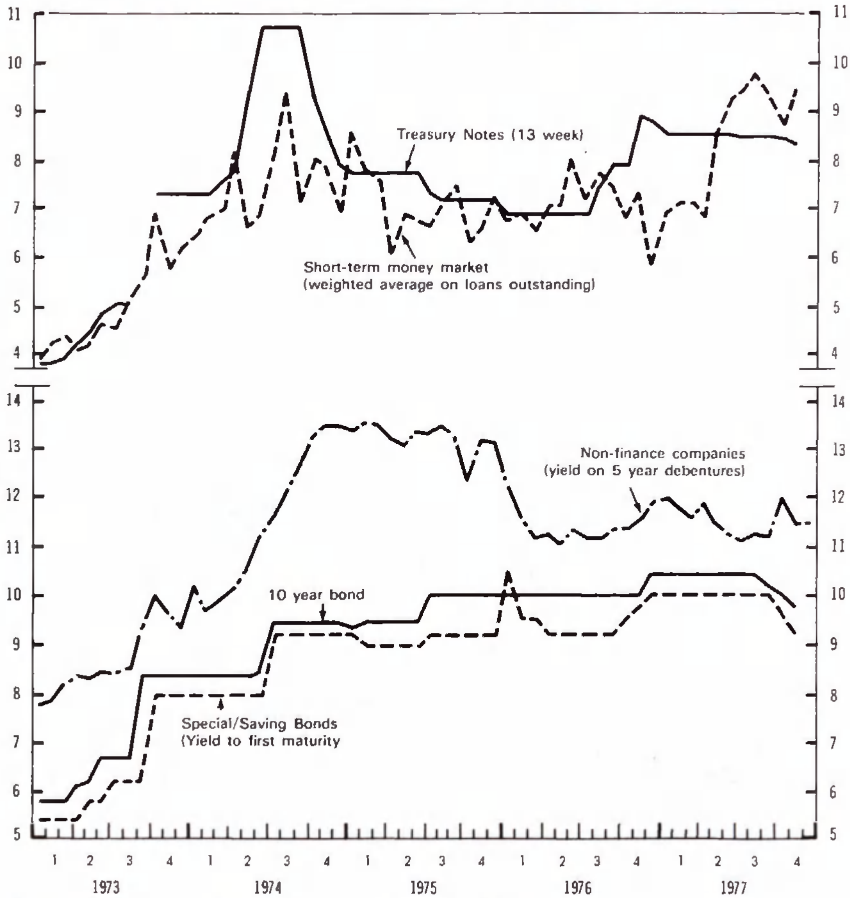
The seasonal run-down in liquidity in the second quarter of 1977 was negotiated without undue strain[49] even though conditions were further tightened by the external account moving into deficit and an unusually large demand by the non-bank private sector for government securities. Despite the seasonal tightness of liquidity, there were heavy subscriptions to the loan issue in May as the opinion seemed to be forming that interest rates would fall. This was also connected with the perception that the rate of

47 In fact the inflow of funds from abroad and continuing large monthly government deficit outweighed the effect of the increase in official rates so that most private short-term interest rates fell during December and January.

48 Changed exchange rate expectations and a very favourable interest rate differential between Australia and most other capital markets for a time encouraged a capital inflow in excess of the estimated normal reflux of speculative capital.

49 Short-term interest rates rose so that for much of the second quarter they exceeded longer-term rates. Trading bank liquidity fell sharply, the LGS (liquidity) ratio declining from 31 per cent in March to 21 per cent in June. To alleviate the tightening of bank liquidity, the SRD ratio was reduced at the end of June from 10 to 8 per cent.

Diagram 13 **Interest rates and security yields**



Source: Reserve Bank of Australia, ***Statistical Bulletin.***

inflation was falling and was likely to continue to do so. The July loan was also heavily subscribed (encouraged by government pronouncements of expected falling interest rates) and in October the authorities elected not to offer new government securities but confined themselves to providing for the conversion of maturing stocks. Bond yields have fallen for all maturities since mid-1977, with the decline at the longer end of the yield curve (1 ¼ percentage points) the most pronounced. The non-bank take-up of government debt during the second half of 1977 amounted to about $ 1.1 billion and, because of the strength of this flow and the deficit on private sector foreign transactions, private interest rates did not, until recently, follow official rates down. The fall in bond rates occurred at a time when monetary conditions were not being eased; in fact the growth of the monetary aggregates decelerated during much of the second half of 1977. The movement into government securities and the continued private capital outflow contributed to the broadly defined money supply growing by only 6.0 per cent in the twelve months to December 1977[50].

50 Domestic credit expansion would have been considerably higher than the increase in M3 owing to the deficit on private overseas transactions.

Policies towards wage determination

As explained in previous Surveys on Australia, the Commonwealth (federal) Government has no direct powers over either wages or prices other than those paid to its own employees or charged for its own services[51]. Its policy towards wage determination is largely confined to advocacy before the quarterly wage hearings of the Arbitration Commission. In these hearings the Government has argued for the granting of less than full wage indexation and met with an apparently increasing acceptance of its views. In the last Survey (Annex 1) a table was included showing the results of the seven hearings between the first quarter of 1975, when these were introduced, and the third quarter of 1976. Broadly speaking, in the four cases applying to the 1975 year, full indexation was awarded; in two of the three cases applying to the 1976 year, then concluded, a form of partial indexation was awarded. In the five cases held since then, partial indexation has been awarded[52].

Thus, since the case pertaining to the fourth quarter of 1975 when the Government first opposed the granting of full-indexation, there have been nine hearings and on seven of these occasions a form of partial indexation has been granted. In these nine hearings the average level of indexation has amounted to slightly less than 80 per cent of the increase in the CPI[53]. As explained earlier[54] the CPI increased rather faster than other more general measures of inflation over this period, particularly over the last eighteen months, and this has limited the contribution that partial indexation has been able to make to the restoration of factor shares[55]. In the four hearings for 1977, the Arbitration Commission has made it explicit that, for indexation purposes, it regards the CPI minus an estimate of the devaluation-induced price effects[56] as the appropriate index on which to base its decision. In the hearing based on the September quarter CPI increase, it also explicitly made some allowance for the cost of a major dispute in the Victorian power supply industry[57]. In its decision pertaining to the fourth quarter of 1977 the Commission awarded an increase of 1.5 per cent up to the median wage and a flat increase above that. This amounts to about 55 per cent indexation: reasons cited for this relatively low increase included effects of the devaluation, oil price increases and personal income tax cuts. Hence although there appears to have been an increasing recognition of the government's arguments, the partial indexation has mainly resulted from the discounting of the price increase for specific factors.

External policy

External policy in 1977 has been dominated by the 17.5 per cent devaluation of the Australian dollar in November 1976 and the changed arrangements for setting the exchange rate that accompanied it. Broadly speaking the exchange rate was no longer

51 The Prices Justification Tribunal, which was established in August 1973, does not have any legal power to enforce its decisions.

52 See Calendar of Main Economic Events for details.

53 If the first of these hearings, which applied full-indexation to the largest of the quarterly CPI increases, is eliminated, the degree of partial indexation is estimated to be about 75 per cent.

54 Page 20.

55 On the other hand, the weak state of the labour market has meant that there has been little slippage with respect to award wages.

56 It is difficult statistical task to accurately identify the contribution of the devaluation to the rise in the CPI. The Australian Bureau of Statistics has published a figure for each quarter of 1977 which identifies the contribution of *items wholly or substantially imported,* but does not include other categories of goods and services whose prices would be expected to rise following a devaluation e.g. import-competing goods, exportables consumed at home. The Arbitration Commission has used the ABS figure.

57 One of the principles of the indexation hearings is that there should be *substantial compliance* with the previous decisions. Significant increases in earnings additional to those granted by the national decisions or large-scale industrial disputation aimed at achieving such increases are regarded as contravening this principle.

to be fixed for long periods in terms of a trade-weighted basket of currencies as it had been in the two years preceding the devaluation, but was to be flexibly administered[58] in a way which might entail more frequent and smaller changes with respect to the same basket of currencies. A number of upward adjustments occurred in the period immediately after the devaluation which reduced the effective depreciation from 17.5 per cent to about 12.2 per cent. During most of the period of controls on capital inflow[59], between mid-January and July, no further movements were made.

The weaker external account position early in 1977-78, and in particular the emergence of net apparent private capital outflows during August and September 1977, prompted a number of corrective external policy measures. After a small devaluation of the Australian Dollar (about 1.5 per cent) early in August under the more flexible exchange rate policy, the Government revalued Australia's official gold holdings on the basis of a market-related gold price rather than the previous official price, effectively increasing the published value of Australia's official reserves. In September, an expanded programme of official overseas borrowing was announced amounting to $ 1 700 million gross in 1977-78. Thereafter the exchange rate for the Australian dollar was adjusted in a number of steps which had the net effect of bringing the effective depreciation since 26 November 1976 from 12.2 per cent in July 1977 to about 16 per cent by end-February (Diagram 14). The criteria used to decide the appropriate movements in the exchange rate have not been made public. However, it would seem that the fall in reserves experienced during 1977 (which is more marked if government borrowings are excluded) has been an important influence, as has the apparent desire, more recently, to avoid too large an appreciation vis-à-vis the US dollar when that currency has fallen markedly in relation to most of the others in the basket.

Another aspect of external policy in Australia has been the increased resort to temporary trade restriction as a means of protecting domestic industry from import competition. While the general level of long-term assistance to industries has tended to decline[60], the increase in temporary quantitative restrictions has offset this. The most common form of trade restrictions has been either a normal quota or a "tariff quota"[61], and these now apply to 25 per cent of dutiable imports (10 per cent of total imports). Commodities covered by these measures include textiles, apparel, footwear, motor vehicles, refrigerators, washing machines, freezers, dryers, plywood and some tools. The main reason for this increase in temporary protection has been to shield employment in industries most threatened by import competition. In this it has probably had some short-run success compared with what may have occurred in the absence of protection, but employment in manufacturing has still fallen sharply over the last three years, with the more highly protected industries showing sharper falls than the average[62]. Prices in these industries have also risen faster than the average over the same period and it has been estimated[63] that the effect of new quantitative restrictions since 1974 has been to raise the general level of consumer prices by at least 2 per cent.

58 A Committee comprising the Governor of the Reserve Bank, the Secretary of the Treasury and the Secretary of the Department of the Prime Minister and Cabinet was set up to advise the government on movements in the exchange rate on a daily basis.

59 Explained on p. 26.

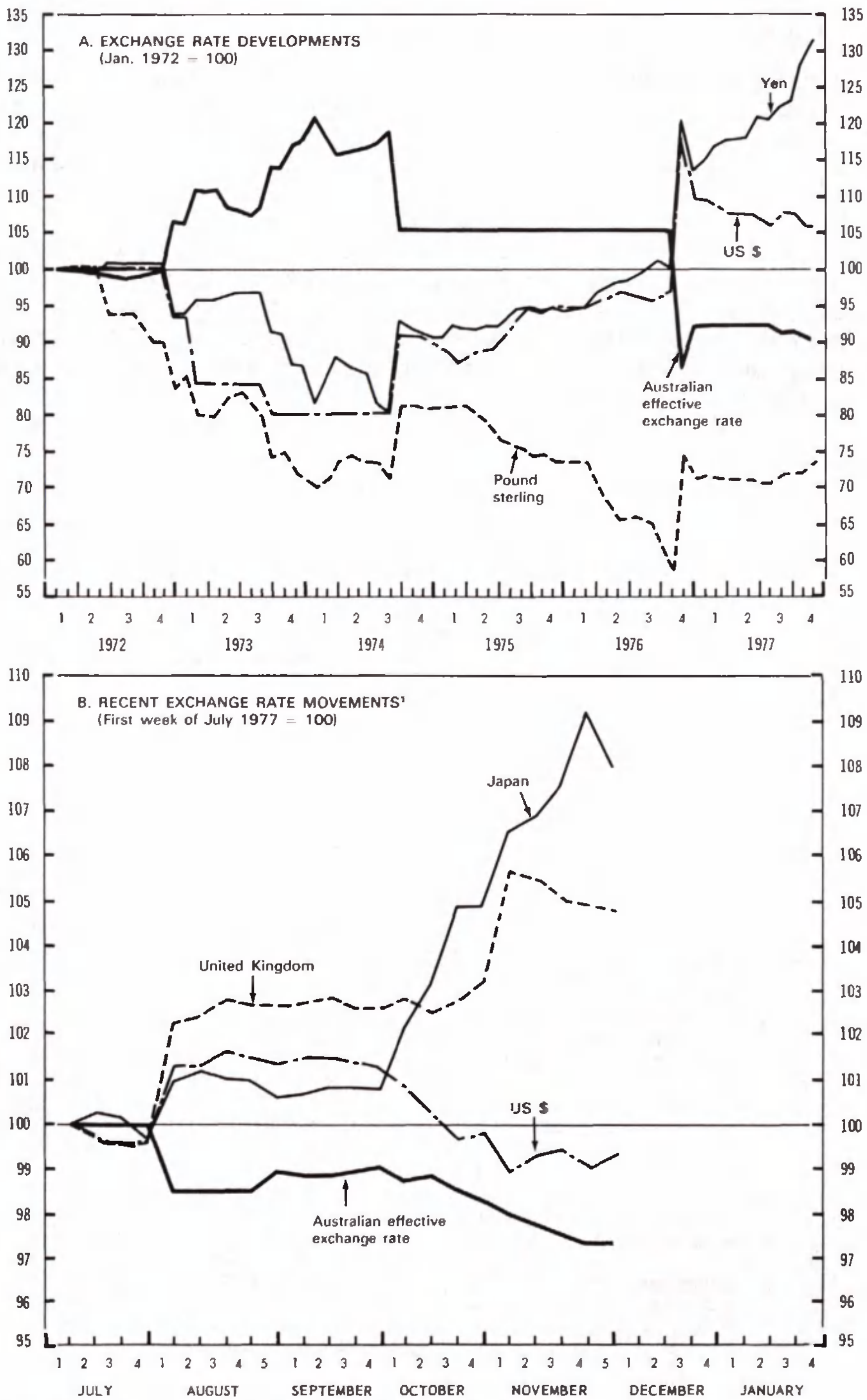
60 This refers mainly to tariffs, which have been reduced as a result of the 25 per cent tariff cut of 1973 and the continuing review of tariff levels by the Industries Assistance Commission.

61 A "tariff quota" usually applies one tariff level to a specified quota of imports and a higher one to imports in excess of the quota.

62 Industries Assistance Commission, *Annual Report,* 1976-77, p. 46.

63 Industries Assistance Commission, *ibid.,* p. 19 and Annex 2.

Diagram 14 **Exchange rate developments**



1 Bilateral rates are Australian dollars per unit of foreign currency.

Source: Statistical Bulletin, Reserve Bank of Australia.

IV PROSPECTS AND CONCLUSIONS

Short-term prospects

In Part I of this Survey an account was given of the rather bumpy and not very rapid process of recovery. The view expressed there was that, despite the marked setback experienced in the first half of 1977, recovery was proceeding again in the second half, but at a pace considerably slower than in the earlier stage of the upturn. The Secretariat forecast shown in Table 12 suggests that this recovery should continue in 1978, although growth in the first half of the year could still be relatively weak. There should also be further progress in reducing the rate of inflation, with a year-on-year increase in the consumer price index of perhaps 7½ per cent for 1978. This output and price picture is consistent with a small decline in the current account deficit in 1978 but with some possible further increase in unemployment, at least during the first half of the year. The forecast is based on the continuation of the present policy stance. The main assumptions in this respect are:

i) Government revenue and expenditure broadly follow the 1977/78 budget estimates, suitably adjusted for revisions as shown in Part III. It is assumed for the second half of 1978 that no discretionary changes in expenditure or taxes[64] occur.
ii) A moderately restrictive monetary policy with the growth of M3 being kept below the growth of nominal GDP—broadly consistent with the 8-10 per cent range in 1977/78, lower thereafter.
iii) The continuation of partial indexation, with wage rates being adjusted upwards by roughly three-quarters of the increase in the CPI.
iv) No major changes in the effective exchange rate.

Table 12 **Short-term forecasts**
Per cent change in volume

	From previous year		
	1976	1977	1978
Consumption			
Private	2.7	2.3	3½
Public	5.5	3.8	3
Gross fixed investment	1.5	0.8	3¼
of which:			
Residential construction	26.5	−7.4	¼
Other construction	−18.4	2	11¼
Machinery and equipment	7.4	2.1	5¾
Public	−6.8	3.6	½
Final domestic demand	2.7	2.1	3½
Change in stockbuilding[1]	2.4	0.4	−1¼
Total domestic demand	5.2	2.4	2¼
Exports of goods and services	8.9	1.8	3¼
Imports of goods and services	13.2	3.6	−2½
Change in foreign balance[1]	−0.7	−0.3	1
Gross domestic product[2]	4.2	2.1	3¼
Consumer prices[3]	12.9	12.3	7½

1 As a percentage of GDP.
2 Includes a statistical discrepancy not contained in the components.
3 Consumer price index.
Source: OECD Secretariat.

64 The temporary change to "half income tax indexation" for the 1978/79 year, announced in August 1977, is allowed for in the forecasts.

Private consumption seems likely to expand faster in 1978 than in 1977. Given plausible assumptions about the growth of earnings, income of unincorporated enterprises, transfer payments, and farm income, total household incomes could grow by about 10 per cent in 1978 with only the last item providing a significant negative influence. With the February tax cuts and the half tax indexation in July, disposable income could grow by about 10½ or about 2½ per cent in real terms. As the deceleration in the rate of inflation has at last become widely perceived, and is forecast to continue, a further fall in the saving ratio has also been assumed. This is supported by the latest consumer sentiment survey which shows that index to have risen in November 1977 to its highest level since early 1976.

Both categories of private non-residential fixed investment showed reasonable strength through 1977, and taken together were about 8 per cent higher in the third quarter than a year earlier. In line with the strong results of the survey of capital expenditure for the fourth quarter of 1977, this pick-up is forecast to continue into 1978, yielding a 7 per cent increase year-on-year for these categories[65]. Even though the financial position of the corporate sector is no doubt healtier than it has been in recent years, an increase of this size in 1978 may seem surprising in view of the moderate output growth, the still depressed profits ratio and the stance of monetary policy. Seen in perspective, however, this represents a ratio of private fixed investment to GDP of 10.5 per cent, up slightly from 1977 but still much lower than the average of about 12½ per cent between 1964/65 and 1973/74. Residential construction, after declining through 1977, may pick up early in 1978. Although housing starts are still weak, mortgage approvals rose strongly towards the end of 1977 reflecting the selective relaxation in monetary policy towards this sector.

Government spending is forecast to decelerate quite noticeably in 1978. Despite federal expenditures remaining constant in real terms in 1976/77, total government consumption rose strongly under the influence of state and local expenditures. These were financed to some extent by using the reserves of State and local governments and their authorities. Such reserves are not limitless and given the pattern of growth in expenditure during 1977, this could lead to growth of about 3 per cent for 1978. As a result of the high stocks to sales ratios (reduced somewhat in the third quarter) stocks will probably be reduced over the next quarter or two before recovering later in the year. Stock accumulation in the second and third quarters of 1977 was stronger in retailing than in wholesale or manufacturing, and within manufacturing was stronger for work in progress and finished goods than in materials. Additionally, farm stocks are assumed to show a substantial fall as a result of the drought[66].

The outlook for exports during 1978 looks quite weak. In part this is due to the slow growth of world trade and in particular to the depressed state of the world steel industry on which so much of Australia's coal and iron ore exports depend. Exports rose extremely strongly in the third quarter of 1977 and this may represent a "bunching" of shipments likely to lead to a downward reaction in early 1978. In addition the recent drought could lead to declines in some categories of farm exports, notably wheat and beef. The forecast shows virtually no growth of exports between the second halves of 1977 and 1978. Imports, after their sharp decline during most of 1977, are forecast to pick up during 1978, very slowly at first, then more strongly in the second half in line with the expansion of final domestic demand and the renewed accumulation of stocks. Year-on-year the forecast assumes a decline of 2½ per cent in

65 Private surveys suggest that the figure for 1979 could be higher as a number of large resource-based projects get under way.

66 There has been a widespread drought in the pastoral and grain growing regions of Australia, partly relieved by rain in early 1978. Farm product is expected to fall in 1977/78 and exports of meat and cereals will also be affected even though they may be maintained initially by a rundown of stocks.

imports of goods and services. With some deterioration in the terms of trade in 1978, and a continued widening of the invisibles deficit, a small reduction in the current deficit to something in the order of $ 2 billion seems likely.

Last year's Survey suggested that the rate of inflation (CPI) was likely to decelerate to a 7½ per cent annual rate in the second half of 1977. In the event, the CPI did show a deceleration, but only to a little under 9 per cent annual rate. With the present assumptions about monetary policy, the exchange rate, world prices and wage indexation, there is no reason why this deceleration should not continue through 1978, the more so as there was presumably a downward adjustment to inflationary expectations as a result of the deceleration through 1977. Consumer prices are, therefore, forecast to decelerate to about 7½ per cent in 1978, with some further slowdown in the course of the year. The GDP deflator, influenced by the small deterioration in the terms of trade and its flatter base in 1977, might increase a little less.

The outlook for the labour market in 1978 is not strong. The Secretariat forecast implies, on the basis of past trends, that employment might grow only slowly. Even then the gain in employment may be limited, as productivity improvement rather than increases in employment could be the source of much of the increased output growth. With positive growth of the labour force, and with some lag between increases in output and employment, 1978 may see some further rise in unemployment at least during the first half of the year.

Conclusions

Nearly four years after the initial downturn in activity, the Australian economy is still undergoing a process of slow cyclical recovery and gradual adjustment of some of the major imbalances which developed in recent years. As explained in the body of the Survey, even though policies have been fairly tight, real output has grown at an average rate of about 3 per cent in the three years since the trough. During the same period, the rate of inflation, which has been the main focus of policy attention, has been approximately halved and is now running at a rate of around 8 or 9 per cent. This is an important achievement, and has brought Australia nearly into line with the OECD average. Unemployment on the other hand has shown no improvement over this period and, after a pause in 1976, rose further in 1977. Other underlying imbalances such as the profits ratio and investment share of GDP have shown some return towards more normal levels, but progress has been uneven. Although the current account of the balance of payments strengthened in the second half of 1977, the hoped-for improvement in the private capital account has yet to materialise.

Australia has suffered, in acute form, two problems common to many OECD countries: rapid inflation and an increase in real wages well in excess of productivity. Although their timing was broadly the same as elsewhere, the proximate cause of these problems was not, as in many countries, the import price rise for oil and other raw materials but a domestic wage explosion. As in other countries, however, the take-off of inflation followed a period of excessive monetary growth, largely external in origin. Inflation reached a rate which indicated serious instability. And the analysis in Part II of this Survey points to the emergence of some of the classic symptoms of real wage imbalance—deterioration of employment and investment beyond what can be explained by the weakness in activity, weak balance of payments despite low levels of capacity utilisation, and greatly accelerated capital-labour substitution.

After an initial phase of expansionary fiscal and monetary policy in 1974/75, the authorities have thus deliberately eschewed further use of supportive policies over the last two and a half years, and have concentrated on tackling these two fundamental problems. Reducing the rate of inflation has been given top priority and this has involved a tightening of demand management policies. There has also been a desire to restore factor shares, for which the main instrument has been partial indexation of wages. Correction of these problems is seen as a necessary condition for a return to satisfactory longer-run investment and employment performance.

Unemployment has increased to a level which is not only a post-war peak but higher in relation to past averages than in most other countries. It might be argued that the concentration of policy on the anti-inflationary and factor-share issues, rather than on speeding up the pace of recovery, has resulted in costs in terms of output and employment foregone in the short term. With a considerable part, but by no means all, of unemployment cyclical in nature there would, on the face of it, seem to be strong reasons to turn to more expansionary policies to try to alleviate the problem. It seems probable that such policies would indeed lead to some ***short-term*** expansion of output and reduction in unemployment, but that the net gains so achieved would be less over the longer run than what is likely to be achieved under policies broadly similar to those now being followed. This assessment is based, not on the proposition that fiscal and monetary policies do not work—in fact the Australian experience suggests that they do—but on the view that with inflation only recently into single figures and the present real wage imbalance the circumstances are not propitious for a relaxation of demand management.

Apart from the obvious point that steadiness in policy should be maintained unless there are overwhelming reasons to change course, there are a number of other reasons for suggesting that maintenance of the present stance is broadly appropriate. With moderate growth expected in 1978, strengthening as the year proceeds, and with some additional expansion already built into the existing stance, further measures would anyway seem unnecessary. In a slightly longer-term sense, the conclusions of Part II of the Survey suggest that even if the cyclical slack were to be eliminated, serious problems would remain—unemployment would very likely still be unacceptably high and investment too low. It is necessary to consider whether the appropriate adjustments of the underlying imbalances would be more likely to occur in an environment of faster growth or in the present situation of modest growth and tighter demand management policies. On balance, it would seem that the latter is more likely. Another potential difficulty is that more rapid expansion would generate a bigger current external deficit—though Australia's ability to finance such a deficit is not in doubt.

It is as yet too early to say whether, on the basis of present policy, the projected expansion in 1978 will prove self-sustaining. Considerable uncertainty inevitably attaches to several elements in the forecast. In particular, if the underlying imbalances remain uncorrected, there must be doubt whether the next upturn will be any more enduring than the aborted upswings of 1975 and 1976. There are, however, a number of encouraging features. Widespread support seems to have developed in Australia for the view that nominal wages should rise less rapidly than prices in the immediate future. If this consensus does exist, and partial indexation continues, the imbalance between real wages and productivity could be corrected in the foreseeable future. With, say, 3 per cent real GDP growth and a 7½ per cent rate of inflation in 1978, partial indexation (along the lines assumed in the Secretariat forecast) could considerably reduce the gap in that year. With some indications that 1979 may show a stronger investment picture than 1978, prospects are at least reasonable that the overall economic performance could continue to improve in that year, particularly if export demand picked up.

In terms of the ultimate goals of stabilisation policy, the authorities' stance is clear: priority has been given to reducing inflation, accepting that in the short-run this involves certain costs. As regards the intermediate objectives of policy, however, the present position could give rise to some conflict. Monetary and fiscal policy have in general been operating effectively in tandem. On the monetary side, the authorities have announced their expectations for the growth of the monetary aggregates as well as an objective for the reduction of interest rates; and it has further been indicated that the intention is to maintain approximately the present exchange rate. It may be difficult to achieve all three objectives with the available instruments. In the present circumstances, with M3 appearing to grow less rapidly than envisaged, relatively small private capital inflow and no upward pressure on interest rates, an attempt to push up the growth of the money supply could have undesirable external results, as could its corollary, an excessive downward movement in interest rates. If there were increased private capital inflows in the remainder of the present half year, an approximate reconciliation among the various objectives might be more readily achieved. Otherwise, for reasons outlined later, it would seem most appropriate at present to concentrate on maintaining the exchange rate.

In the immediate future the balance of payments may continue to give some cause for concern. As explained in Part I of the Survey, the import to sales ratio in Australia seems to have shifted upwards in 1974. While some upward movement in this ratio had a balancing effect following the rapid growth of mineral exports in the late 1960s, the shift in 1974 came too late to avert the surpluses of the early 1970s. Indeed, it came at a time when exports had weakened because of subdued external demand, and when foreign investors had developed a reluctance to engage in direct investment for a variety of reasons, probably connected in the main with their perception of the instability of the economy. By the second half of 1977 the current balance had improved quite markedly, restoring it to a small deficit (about 2 per cent of GDP). In order to restore overall balance, however, a stronger revival of private capital inflow and/or further government borrowing will be required. If private capital inflow is likely to resume shortly, there are good grounds for government borrowing in the meantime to help support the exchange rate, especially as in the somewhat longer term Australia is exceptionally well-placed to satisfy increased demand for resource-based exports. If there proves to have been a major structural shift in the economy such that private capital inflow fails to return to its former importance (an eventuality that seems unlikely) there could still be good grounds for resort to official borrowing all the time there is an *ex ante* deficiency of domestic savings and rates of return remain high by international standards. Only if Australia wished to change from its traditional development strategy should an increase in official borrowing be resisted in these circumstances.

Turning to the exchange rate regime, it could be argued that the present system of frequent small managed changes runs the risk of encouraging destabilising expectations rather than preventing their build-up; if so, the system may not contribute to confidence and predictability compared with, for example, a pegged rate or other possible arrangements. However, a considered judgement would require somewhat more experience with the present arrangements. As regards selective protection measures in Australia, as in all countries, it seems probable that the balance of advantage in the long term lies with lower levels of protection. The immediate employment benefits within the industries receiving assistance may have been achieved partly at the expense of some increase in cost and price pressures and consequent unfavourable effects on other industries. The adoption of protection measures in any country can be a force provoking retaliatory action in other countries that undermines the intended immediate effects of such measures and threatens living standards in general. It is to be hoped that as the efforts that have gone into improving overall economic performance in the medium term bear fruit, these temporary stop-gap measures will be quickly withdrawn.

Annex I

REAL WAGES AND PRODUCTIVITY

1. *The OECD Inter-Country Comparison* (*Economic Outlook*, No. 21)

The purpose of these calculations was to provide a simple internationally-consistent set of figures which could be used to make rough comparisons among a large number of OECD countries. Real wages were measured by wages, salaries and supplements from the national accounts deflated by the private consumption deflator. This was then divided by employment, which in Australia's case was measured by total employment from the quarterly labour force survey. Productivity was GDP deflated by the GDP deflator adjusted for the terms of trade, then divided by the same denominator as above. For the purpose of a more detailed examination of one country it is possible to refine considerably the technique used in the inter-country comparison. These refinements are discussed below.

2. *Calculations made for this Survey*

At the outset it must be stressed that there are a number of points which occur in this type of calculation which are open to interpretation. In these calculations the decision as to which particular economic time series to use has been made by trying to find the series which most accurately corresponds to its intended purpose and which is both publicly available and reasonably up to date.

a) *Choice of measure for wages*

Since these calculations treat wages from the cost side, the measure chosen should include all labour costs and should be pre-tax rather than after-tax. The most suitable measure for these purposes is wages, salaries and supplements as shown in the national accounts. This includes wages, allowances for income in kind, supplements to wages (employers' contributions to pension and superannuation funds, retirement allowances and amounts paid as workers' compensation) plus pay and allowances for defence forces[1].

b) *Choice of price deflator*

In the case of wages there is no clear reason why the deflator should reflect the purchasing power of income receivers e.g. by using the CPI or the consumption deflator. Since wages are being viewed as a cost, a more general indicator of the overall increase in costs faced by employers would seem to be more appropriate. For this reason the GDP deflator has been used here and in Diagram 8 to deflate wages, salaries and supplements. On the productivity side, the GDP deflator has of course been used to deflate nominal GDP.

c) *Choice of employment*

In the case of employment it is unfortunately necessary to use two different measures—one on the wages side and one on the productivity side. In order to get real wages, salaries and supplements per employee it is necessary to use as the denominator the actual recipients of the wages used in the numerator. The closest approximation to this can be found by using the series for total wage and salary earners plus defence forces in the quarterly labour force survey (though only shown in the annual publication).

In the case of productivity, the appropriate measure of employment is the total number of persons who contributed to the production of GDP. That is, it is necessary also to include self-employed and employers who contribute to GDP but are not recipients of wages, salaries and supplements in a national accounting sense. The best series for this purpose is total employment in the quarterly labour force survey.

An adjustment is also required to bring the employment measure into total man-hours or total labour input rather than persons employed. This is particularly important over the last three or four years as there has been a quite large reduction in overtime and a move from full-time to part-time employment.

1 Payroll taxes have not been included.

The method of adjustment used here has been to multiply each measure of employment by the corresponding measure of average weekly hours worked, i.e. average weekly hours worked by wage and salary earners and average weekly hours worked for total employment.

d) *Choice of output measure*

The output measure chosen was the broadest available, namely gross domestic product.

e) *Terms of trade adjustment*

Since the calculations in this Survey are an outgrowth of the earlier OECD inter-country comparisons it has been decided to continue with the practice of adjusting productivity for changes in the terms of trade for two reasons:

i) In many OECD countries it has been changes in the terms of trade that have brought about the imbalance between real wages and productivity.

ii) In the long run, if external balance is to be maintained, the terms of trade are an important determinant of how fast real wages can grow.

Against this it can be sensibly argued that in the short run the important cost factor limiting firms' ability to meet real wage bills is the actual domestic value of production rather than its international purchasing power equivalent.

The method for adjusting for changes in the terms of trade has been to use the most commonly used method below[2] :

$$e_i = (X_i/Pm_i - x_i) - (x_i Px_{i-1}/Pm_{i-1} - x_i)$$

where e_i = terms of trade effect in constant dollars (absolute amount)

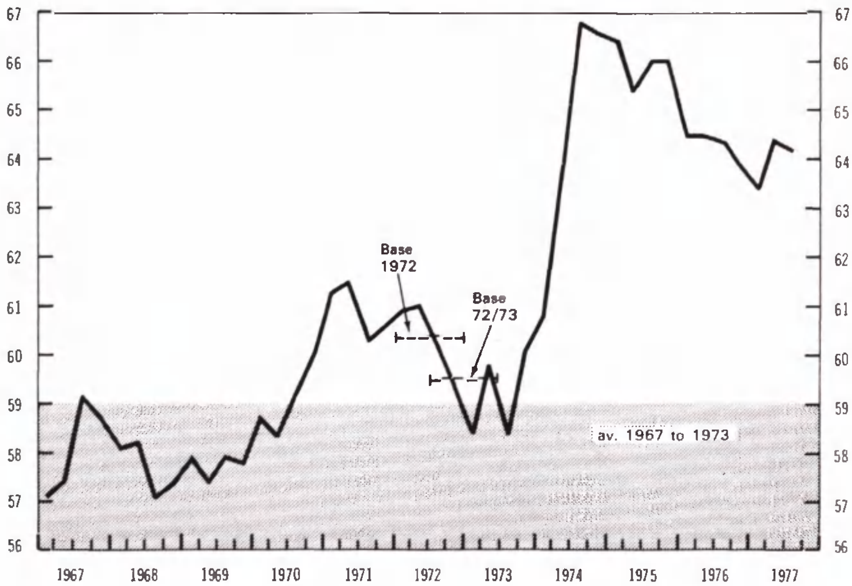
X_i = exports of goods and services in current prices in period_i

x_i = export volumes in period_i (X_i/px_i)

Px_i = implicit deflator for exports of goods and services in period_i

Pm_i = implicit deflator for imports of goods and services in period_i

Diagram 1 **Wages, salaries and supplements as a percentage of gross domestic product at factor cost**



2 There are a number of different methods of making this adjustment that have been used in the economic literature on the subject. A useful discussion of the subject is Hibbert J. "Measuring changes in a nation's real income", *Economic Trends*, 1975.

f) *Choice of base period*

The basic period for these calculations should be a year (or a period longer than a year if thought desirable) which represents, in some way, a "normal" factor-share distribution of national income. This is rather difficult to choose as the factor-share distribution is subject to both a trend and a cyclical movement (Annex Diagram 1). One possibility would be to use a long period such as 1967 to 1973 where the wage share of gross domestic product at factor cost was 59 per cent. The alternative chosen in this Survey was to pick a recent year that was representative of the pre-1974 period. The most appropriate choice seemed to be 1972/73 where the wage share was 59.5 per cent. For comparative purposes calculations were also made on a base of calendar year 1972 which exhibited, to some extent, a "cyclically-high" wage share, being still affected by the 1970/71 recession.

g) *Sensitivity of calculations to different assumptions*

In Annex Table 1 some comparisons are presented to show the effects of:

i) using the consumption deflator rather than the GDP deflator to deflate nominal wages, salaries and supplements;
ii) using a different base period, i.e. 1972 instead of 1972/73;
iii) using domestic productivity rather than productivity adjusted for the terms of trade.

Gap between real wages and productivity in 1977 I
Per cent

	1972-73 base	1972 base
Basic calculations[1]	9.6	5.3
Consumption deflator[2]	13.7	11.4
Without terms of trade adjustment[3]	7.8	5.8

1 As described in text above.
2 Using consumption deflator to deflate nominal wages, salaries and supplements. Everything else as in note 1.
3 Not adjusting productivity for the terms of trade. Everything else as in note 1.

The results show a range between about 5¼ and 13¾ for the gap between real wage and productivity growth in 1977 depending on the assumptions chosen. In each case there is a smaller gap if 1972 (when the wage-share was cyclically high) is used as the base rather than 1972/73. Use of the consumption deflator (which grew less rapidly than the GDP deflator over this period) on the other hand results in a considerably larger gap. Using domestic productivity rather than terms-of-trade-adjusted productivity narrows the gap based on 1972/73 and widens the gap based on 1972. This is because the terms of trade in 1977I were lower than in 1972/73 but higher than in 1972.

3. *Sources*

Except for employment and hours all data are from *Quarterly Estimates of National Income and Expenditure,* ABS, Ref. 7.5. Total employment and average weekly hours worked by total employed are from *The Labour Force,* (quarterly) ABS. Ref.6203.0. Employment of wage and salary earners and average weekly hours worked by wage and salary earners are from *The Labour Force* (annual), ABS, Ref.6.22. All data have been used in seasonally-adjusted form. Where this was not available from official sources, the seasonal adjustment was carried out by the OECD Secretariat.

Annex II

CALENDAR OF MAIN ECONOMIC EVENTS

1976

7th November

A set of monetary measures was announced comprising:

- an increase of about 0.5 percentage points in yields on 13-week and 26-week Treasury Notes, to 8.478 per cent and 8.727 per cent respectively, effective 8 November, with corresponding adjustments, on a diminishing basis, in yields on Commonwealth bonds;
- a rise in the Statutory Reserve Deposit ratio of major trading banks from 5 to 6 per cent, effective 16 November, with further calls to be made if necessary to keep free liquidity at a low level;
- an increase from 10 November in the interest rate payable to trading banks by the Reserve Bank on Statutory Reserve Deposit accounts from 0.75 to 2.5 per cent per annum;
- a request to trading banks by the Reserve Bank for some further moderation in the growth of their financing; savings banks and permanent building societies were also made aware of the need to avoid any upsurge in their lending.

11th November

A new series of Australian Savings Bonds, Series 6, carrying an interest rate of 9.8 per cent, compared with 9.5 per cent on Series 5 was introduced.

17th November

Negotiations for the Commonwealth's $ 200 million public bond issue on the United States capital market were completed.

22nd November

The Conciliation and Arbitration Commission handed down its quarterly National Wage Case decision. The Commission granted an increase in all federal awards of 2.2 per cent (the increase in the Consumer Price Index for the September quarter) effective from the first payday on or after 22nd November 1976.

28th November

The Treasurer announced that the Australian dollar would be devalued by 17.5 per cent with effect from the opening of business on 29 November 1976. At the same time it was announced that a flexibly administered exchange rate system was to be introduced.

28th November

In conjunction with the devaluation announcement, an increase of about 0.5 percentage points on 13-week and 26-week Treasury Note yields to 8.981 per cent and 9.230 per cent respectively, effective 29 November was announced. The Treasurer also foreshadowed an associated adjustment, on a diminishing basis, in market yields on Commonwealth Bonds to be effected over the following few days, and announced a review of Government expenditure to identify areas where further savings could be made.

2nd December

A new series of Australian Savings Bonds, Series 7, carrying an interest rate of 10.0 per cent, compared with 9.8 per cent on Series 6 was introduced.

An adjustment to market yields on Commonwealth bonds, following the adjustment to Treasury Note yields announced on 28 November, was completed. Rates on short stocks increased by approximately 0.5 percentage points and on stocks maturing in ten years by about 0.4 percentage points tapering out to 0.3 percentage points on the longest securities.

15th December

An increase in the rates for semi-government public and private borrowings of 0.5 percentage points for securities in the 4-6 year range, 0.4 percentage points for securities in the 7-9 and 10-14 year ranges and 0.3 percentage points for securities in the 15 year and over range was announced.

21st December

The statutory Reserve Deposit ratio of the major trading banks was increased from 6 to 7 per cent, effective 30 December.

1977

7th January

The Statutory Reserve Deposit ratio of the major trading banks was increased from 7 to 8 per cent, effective 18 January 1977.

14th January

A series of measures to restrict the inflow of funds from abroad was announced. The measures, which took effect on 17 January 1977, were:

— an extension of the existing embargo on overseas borrowings of less than six months to less than two years;
— the reactivation of the Variable Deposit Requirement (VDR) Scheme in a modified form to apply to overseas borrowings for two years or more. Under the scheme a proportion of the loan proceeds, initially set at 25 per cent, is required to be lodged by the borrower in a non-interest bearing account with the Reserve Bank for a period of up to a maximum of three years. Overseas borrowings for certain forms of capital investments in the mining and manufacturing sectors are exempt from the VDR.
— a tightening of controls presently applying to the timing of payments/receipts from certain international transactions.

It was also announced that:

— the system under which company tax is collected by quarterly instalments would be fully reintroduced from fiscal year 1978-79; however in 1977-78 two quarterly instalments would be collected—the first in November 1977 and the second in February 1978;
— as Public Service Act staff numbers in June 1977 were expected to be 700 below the ceiling that had been determined earlier, the Government was taking this lower figure as the ceiling objective for that date; in addition, the Government would be regarding the actual aggregate staff numbers at end-June 1977 as the ceiling objective for Public Service Act employment in 1977-78;
— 1977-78 Budget outlays would be kept to within zero 'real' growth.

The Statutory Reserve Deposit ratio of the major trading banks was increased from 8 to 9 per cent, effective 25 January 1977.

2nd February

The Statutory Reserve Deposit ratio of the major trading banks was increased from 9 to 10 per cent, effective 21 February.

16th February

The Minister for Business and Consumer Affairs announced changes to the Industries Assistance Commission Act relating to the Temporary Assistance Authority. The amendments clarify the role of the TAA as the principal body dealing with cases involving requests for temporary assistance and would provide both the Authority and the Government with greater flexibility in dealing with requests for temporary assistance.

31st March

The Conciliation and Arbitration Commission granted an increase of $ 5.70 in all Federal awards, comprising $ 2.90 for the "Medibank" component of the increase (corresponding to the maximum amount levied on single contributors) and $2.80 for general price increases (derived by applying the 2.8 per cent increase in the CPI excluding the hospital and medical services component to the Six Capitals Minimum Wage).

1st April

The minimum LGS ratio for purposes of the LGS convention reverted to 18 per cent.

13th April

The heads of the Commonwealth and all State Governments meeting in the Premiers' Conference, unanimously called for a three-month pause in price and wage increases. They resolved to approach business and union organisations to obtain agreement to the voluntary restraint.

5th May

A variation in the application of the controls on overseas borrowings was announced. With immediate effect, approved borrowings for certain categories of capital investment in the mining and manufacturing industries would also be exempted from the VDR in those cases where the funds were borrowed overseas by an Australian financial intermediary and on-lent directly to an end-user.

24th May

The Arbitration Commission granted an increase of 1.9 per cent on all federal awards up to $ 200 a week and a flat $ 3.80 per week increase beyond that level. The increase was based on the March quarter increase in the CPI discounted for estimated direct effects of devaluation.

The Prime Minister announced the termination of the 'pause' in wage and price increases.

The May Commonwealth cash loan raised $ 452 million, a record result for a cash loan held in the April/May period. Net subscriptions to Australian Savings Bonds Series 8, from its introduction on 6 May to 24 May, totalled $ 20 million bringing the total raised from 1 July 1976 to 24 May 1977 to a net $ 290 million.

25th May

It was announced that for purposes of personal income tax indexation in 1977-78 the CPI would be discounted for the effects of devaluation, changes in health insurance arrangements and indirect taxes.

16th June

The Statutory Reserve Deposit ratio of the major trading banks was reduced from 10 per cent to 9 per cent, effective 20 June.

30th June

A further one percentage point reduction to 8 per cent in the Statutory Reserve Deposit ratio of the major trading banks, effective from 1 July was announced.

6 July

Changes to the controls on overseas borrowings which had operated since 17 January 1977 were announced. As from 7 July, the Variable Deposit Requirement on borrowings of two years or more was suspended, and the embargo on overseas borrowings was limited to apply only to borrowings for less than six months.

12th July

The Minister for Industry and Commerce announced import quotas on motor vehicles, restricting imports in the second half of 1977 to 45 000 vehicles pending an Industries Assistance Commission report.

27th July

The July Commonwealth cash loan raised $ 610 million. Net subscriptions to Australian Savings Bonds Series 8, from its introduction on 6 May to 27 July, totalled $ 190 million.

11th August

Gold held in Australia's official reserves was revalued from the official price (about $ A37 an ounce) to the average London gold price for the month (at that time about $ A128 an ounce).

16th August

The Treasurer presented the 1977-78 Budget. The main features were:

- the introduction of a new simplified rate scale of personal income tax incorporating a three-step scale of effective marginal rates of 32, 46 and 60 per cent applying to income over $ 3 750, between $ 16 000 and $ 32 000, and over $ 32 000 respectively. The new system will apply from 1 February 1978 for pay-as-you earn and assessment purposes;
- an increase in corporate tax rates of 3.5 per cent (to 46 per cent);
- a change in the pricing policy for 'old' crude oil. Annually increasing proportions from each field discovered before 14 September 1975 would attract import parity pricing with a basic quota of 6 million barrles per field for each new development within a field. In 1977-78 the proportion is 10 per cent, rising to 20 per cent, 35 per cent and 50 per cent in subsequent financial years. The Government intends to move to full import parity as soon as practicable after June 1981.

22nd August

The Conciliation and Arbitration Commission granted an increase of 2 per cent in all federal awards. The increase was based on the June quarter increase in the CPI discounted for increases in the prices of goods wholly or largely imported.

25th August

The terms of an official Eurodollar loan were announced. The loan was expected to be for $ 200 million in two tranches, expected to carry interest rates of 7.5 per cent for a seven year maturity and 8.25 per cent for 15 years.

2nd September

The amount of the Government's Eurodollar bond issue (announced on 25 August) was increased from the $ 200 million originally planned to $ 250 million ($ A226 million). Other terms remained the same as indicated on 25 August.

2nd-15th September

Market yields on Commonwealth bonds were reduced during the period by around 0.3 per cent on securities maturing in five years and beyond, with smaller changes in yields on shorter-dated securities.

6th September

A 1.5 percentage point reduction in the Statutory Reserve Deposit ratio of major trading banks to 6.5 per cent was announced, effective from 9 September. Of the $ 252 million released by this measure, $ 168 million added directly to banks' free liquid assets while the remainder formed part of a replenishment of the Term and Farm Development Loan Funds.

14th September

The Minister for Business and Consumer Affairs announced a number of proposed amendments to the Industries Assistance Commission Act. The proposed changes have been designed to make the IAC more responsive to Government policy with respect to industry, especially in terms of the employment consequences of specific IAC recommendations.

27th September

Arrangements under which an amount of about $ 850 million would become available to supplement Australia's international reserves were announced. These arrangements involve an extension of, and are additional to, the on-going programme of Commonwealth overseas borrowings, also in the order of $ 850 million, which the Treasurer announced on 25 August. The first two of four deutschemark denominated borrowings under the additional programme were finalised in Canberra. The two borrowings were for an aggregate amount of DM 750 million ($ A291 million).

8th October

The completion of arrangements for a deutschemark private placement amounting to DM 250 million ($ A97 million) was announced. The placement was the third of the four DM borrowings mentioned by the Acting Treasurer on 27th September, and carried an interest rate of 5.25 per cent.

14th October

A new series of Australian Savings Bonds, Series 9, available from 17 October and carrying an interest rate of 9.75 per cent—0.25 per cent lower than that on Series 8 was introduced.

In addition the Loan Council reduced maximum interest rates applying to public and private borrowings by local and semi-government authorities by 0.2 percentage points for loans of 4-6, 7-9 and 10-14 years maturity, and by 0.3 percentage points for loans of 15 years and over.

21st October

Negotiations for the Commonwealth's DM 250 million ($ A98 million) public bond issue arranged by the Deutsch Bank on the German capital market were completed, with a reduced coupon rate of 5.75 per cent. This was the fourth and final element of the DM 1 250 million borrowing package announced by the Acting Treasurer on 27 September.

27th October

A reduction of 0.3 percentage points in the maximum interest rates to apply to borrowings by local and semi-government authorities was announced.

3rd November

New yields for Treasury Notes were announced. As from 4 November the yield on 13-week Notes was reduced from 8.436 per cent to 8.353 per cent and on 26-week Notes from 8.836 per cent to 8.749 per cent.

11th November

The Treasurer announced that Australia had filed a Registration Statement on 10 November with the Securities and Exchange Commission in Washington relating to a proposed $ U200 million public bond issue in the United States. The proceeds of the issue will form part of the Commonwealth borrowing programme for 1977-78.

11th November

A new series of Australian Savings, Bonds, Series 10, were made available from 14 November and carrying an interest rate of 9.25 per cent, 0.5 per cent lower than on Series 9 which it replaced.

22nd November

The Ministers for Industry and Commerce and Business and Consumer Affairs announced new measures to protect the textiles, clothing and footwear industries. The measures included:

- extension of coverage of import quotas;
- stricter quotas for some imports;
- new duty rates for some products; and
- extension of bounties on some textile products.

10th December

National elections for both the House of Representatives and the Senate were held resulting in the return of the Liberal-National Country Party Government.

12th December

The Conciliation and Arbitration Commission granted an increase of 1.5 per cent in all federal awards. The increase was based on the September quarter increase in the CPI.

1978

6th January

It was announced that the Commonwealth Government had filed with the Japanese Ministry of Finance a Registration Statement for a public bond issue on the Tokyo capital market for an amount which was not expected to exceed Y50 billion (approximately $ 183 million). The Treasurer noted that, when the proposed borrowing had been completed about $ 600 million of the $ 850 million or more that the Government had been planning to borrow in 1977-78 under its on-going programme would have been raised.

STATISTICAL ANNEX

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Table A Gross domestic product

$ million, current prices

Year ended 30th June	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
Expenditure										
1 Private consumption	15 259	16 508	18 172	20 008	22 207	24 806	29 256	35 200	41 649	47 734
Durables	1 919	2 050	2 299	2 489	2 758	3 087	3 919	4 765	5 676	6 289
Other	13 340	14 458	15 873	17 519	19 449	21 719	25 337	30 435	35 973	41 445
2 Government current expenditure	3 054	3 336	3 646	4 195	4 754	5 431	6 748	9 143	11 307	13 211
3 Gross fixed capital formation	6 520	7 252	7 906	8 758	9 586	10 040	11 926	14 406	16 958	19 310
Private	4 164	4 728	5 162	5 838	6 301	6 585	7 962	8 743	10 326	12 064
Public enterprises	1 304	1 367	1 513	1 553	1 776	1 775	2 012	2 834	3 155	3 553
General government	1 052	1 157	1 231	1 367	1 509	1 680	1 952	2 829	3 477	3 693
4 Change in stocks	145	670	447	354	−116	−336	1 653	670	−230	1 364
5 Exports of goods and services	3 557	3 913	4 751	5 066	5 620	6 956	7 754	9 926	10 888	13 100
6 Imports of goods and services	4 156	4 289	4 780	5 134	5 215	5 328	7 648	9 986	10 434	13 257
7 Statistical discrepancy	−311	−322	−190	−324	−113	312	1 118	789	686	98
8 Gross domestic product at purchasers' values	24 068	27 068	29 952	32 923	36 723	41 881	50 806	60 149	70 825	81 560
Origin										
1 Agriculture, hunting, forestry and fishing	1 840	2 337	2 179	2 019	2 309	3 008	4 369	3 474		
2 Manufacturing	5 732	6 352	6 926	7 474	7 944	8 885	10 523	11 898		
3 Other industry	3 022	3 414	4 044	4 552	5 169	5 736	6 669	8 261		
4 Services	10 990	12 224	13 781	15 573	17 604	20 014	23 934	29 900		
5 Indirect taxes less subsidies	2 484	2 741	3 022	3 305	3 697	4 238	5 312	6 616	8 516	9 687
6 Gross domestic product at purchasers' values	24 068	27 068	29 952	32 923	36 723	41 881	50 806	60 149	70 825	81 560

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

Table B **Gross domestic product**

$ million, average 1966-67 prices

Year ended 30th June	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
EXPENDITURE										
1 Private consumption	14 775	15 557	16 524	17 164	17 958	18 993	20 140	20 814	21 491	22 124
Durables	1 909	1 992	2 192	2 298	2 429	2 629	3 113	3 302	3 522	3 622
Other	12 866	13 565	14 332	14 866	15 529	16 364	17 027	17 512	17 969	18 502
2 Government current expenditure	2 915	3 032	3 099	3 227	3 268	3 433	3 665	3 900	4 139	4 349
3 Gross fixed capital formation	6 341	6 806	7 112	7 422	7 605	7 487	7 933	7 792	7 906	8 009
4 Change in stocks	154	702	393	336	−96	−178	1 033	496	−145	650
5 Exports of goods and services	3 684	3 975	4 739	5 161	5 489	5 719	5 457	5 793	5 972	6 471
6 Imports of goods and services	4 149	4 286	4 721	4 880	4 733	4 916	6 396	6 462	6 108	6 866
7 Statistical discrepancy	−299	−297	−158	−266	−79	242	769	462	351	66
8 GROSS DOMESTIC PRODUCT AT PURCHASERS' VALUES	23 421	25 489	26 988	28 164	29 412	30 780	32 601	32 797	33 606	34 805

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

Table C **Income and expenditure of households (including unincorporated enterprises)**

$ million, current prices

Year ended 30th June	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
Compensation of employees	12 645	13 976	15 664	17 939	20 056	22 409	27 573	35 439	40 739	46 053
Wages and salaries	12 214	13 497	15 119	17 320	19 296	21 485	26 355			
Supplements to wages and salaries	431	479	545	619	760	924	1 218			
Income from property and entrepreneurship	4 653	5 443	5 709	6 021	6 905	8 261	10 568	11 019	12 445	15 074
Income from independent traders	3 216	3 881	3 961	4 100	4 731	5 818				
Interest, rents and dividends	1 437	1 562	1 748	1 921	2 174	2 443				
Current transfers from Government	1 348	1 470	1 670	1 858	2 173	2 697	3 315	4 605	6 428	7 751
Third party insurance transfers	48	51	61	66	80	89	119	182	190	208
Current transfers from the rest of the world	159	168	186	181	226	238	275	355	359	280
INCOME	18 853	21 108	23 290	26 065	29 440	33 694	41 850	51 600	60 161	69 366
less: Direct taxes payable on income	2 083	2 427	2 861	3 123	3 815	4 103	5 870	7 280	9 400	11 948
Consumer debt interest	145	166	185	217	240	279	429	567	673	830
Other direct taxes, fees, fines, etc.	324	368	391	408	440	488	557	584	677	763
Current transfers to the rest of the world	86	92	114	134	172	217	261	266	313	289
DISPOSABLE INCOME	16 215	18 055	19 739	22 183	24 773	28 607	34 732	42 904	49 098	55 536
Consumption expenditure	15 259	16 508	18 172	20 008	22 207	24 806	29 256	35 200	41 649	47 734
Food	3 199	3 342	3 570	3 819	4 144	4 569	5 393	6 190	7 082	8 177
Clothing	1 479	1 553	1 667	1 814	1 987	2 224	2 698	3 097	3 487	3 893
Rent	1 830	2 042	2 314	2 680	3 053	3 469	4 038	4 889	6 014	7 258
Other	8 751	9 571	10 621	11 695	13 023	14 544	17 127	21 024	25 066	28 406
SAVING	956	1 547	1 567	2 175	2 566	3 801	5 476	7 704	7 449	7 802
(Per cent of disposable income)	5.9	8.6	7.9	9.8	10.4	13.3	15.8	18.0	15.2	14.0

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

Table D **Labour market**

Calendar year averages	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
	Thousand persons									
Civilian employment: Total[1]	5 001.4	5 150.9	5 329.2	5 424.5	5 488.8	5 640.2	5 753.9	5 725.5	5 806.9	5 872.4
In manufacturing[2]	1 468.1	1 493.0	1 531.1	1 559.8	1 414.6	1 442.3	1 308.2	1 209.3	1 195.2	1 156.6
Unemployment[3]	77.8	80.0	74.7	87.6	125.9	107.7	133.2	265.7	267.7	321.4
Unfilled vacancies[4]	37.1	44.3	50.9	40.8	32.4	64.0	62.0	30.1	24.2	22.0
	Per cent									
Unemployment	1.5	1.5	1.4	1.6	2.3	1.9	2.3	4.4	4.4	5.2
Participation rate: Male	83.3	83.3	83.2	82.6	82.5	82.1	81.6	81.1	80.6	80.1
Female	36.8	37.6	38.9	39.2	39.5	40.6	41.7	42.5	42.6	43.2
	Hours									
Average weekly hours paid for[5 6]:										
All industries	43.3	43.6	43.5	43.2	42.9 42.0	42.3	41.3	40.6	40.7	
Manufacturing	43.7	44.1	44.0	43.5	43.2 43.1	43.6	42.2	41.3	41.3	

1 These figures are from the quarterly labour force survey. Estimates for 1972 and 1973 not comparable with those for earlier periods due to exclusion of trainee teachers from labour force since 1971 (about 24 thousand at August 1971).
2 These figures are from the payroll-tax based estimates of wage and salary earners. Including electricity, gas and water. Estimates for 1972 and 1973 not comparable with those for earlier periods. The 1966 census classification of industries has been used prior to 1972 and Australian Standard Industrial Classification from 1972 onwards.
3 According to labour force survey.
4 Registered with Commonwealth Employment Service.
5 Refers to full time adult male employees (other than managerial, executive, professional and higher supervisory staff) in private employment (excluding rural industries and private domestic service) as at the last pay-period in October each year.
6 From 1972 figures refer to full time adult male employees in private and government employment.

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

Table E Prices and wages

Year ended 30th June	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
	1966-67=100										
Implied GDP deflator, total	100.0	102.8	106.2	111.0	116.9	125.0	136.1	155.9	183.4	210.8	234.3
Private consumption	100.0	103.2	106.2	110.1	116.6	123.9	130.6	145.3	169.1	193.8	215.8
Gross fixed capital formation	100.0	102.8	106.5	111.2	118.0	126.0	134.1	150.3	184.9	214.5	241.1
Consumer prices: Total	100.0	103.3	106.0	109.4	114.6	122.4	129.8	146.6	171.1	193.3	220.0
Food	100.0	104.7	105.8	108.1	112.4	116.8	125.7	149.5	164.0	180.2	201.2
Non-food	100.0	102.7	106.1	110.0	115.6	124.9	131.6	145.4	173.7	198.2	226.8
Foreign trade prices[1]: Exports	100.0	96.6	98.4	100.3	98.2	102.4	121.6	142.1	171.3	182.3	202.4
Imports	100.0	100.2	100.1	101.2	105.2	110.2	108.4	119.6	154.5	170.8	193.1
Terms of trade	100.0	96.4	98.3	99.1	93.3	92.9	112.2	118.8	110.9	106.7	104.8
	Dollars										
Hourly wage rates[2]											
All activities[3]	1.09	1.14	1.22	1.28	1.39	1.54	1.69	2.01	2.62	3.01	3.41
of which: Manufacturing	1.06	1.12	1.19	1.25	1.34	1.50	1.64	1.94	2.52	2.87	3.25
Hourly earnings[4]											
All industries[5]	1.50	1.59	1.70	1.84	2.08	2.24	2.72	3.59	4.05	4.44	
Mining and quarrying	1.86	1.97	2.13	2.32	2.68	2.88	3.28	4.43	5.30	6.07	
Manufacturing	1.48	1.57	1.66	1.79	2.04	2.21	2.58	3.44	3.82	4.33	
Building and construction	1.59	1.72	1.80	2.02	2.26	2.42	2.66	3.55	3.97	4.82	

1 Implicit prices.
2 Weighted average minimum rates payable to adult males as prescribed in awards, determinations, etc. Average of twelve monthly figures.
3 Excluding the rural, shipping and stevedoring industries.
4 Refers to full-time adult males in private employment (other than managerial, etc. staff) and to conditions in October of respective year.
5 Excluding rural industry and domestic service.

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

Table F **General government receipts and expenditure**

$ million

Year ended 30th June	Total[1]					Australian Government				
	1973	1974	1975	1976	1977	1973	1974	1975	1976	1977
Current receipts	11 863	14 783	18 745	22 777	26 612	8 856	11 277	14 487	17 509	20 542
Direct taxes on income	5 702	7 498	10 141	11 813	13 941	5 702	7 498	10 141	11 813	13 941
Households	4 084	5 485	7 708	9 213	11 047	4 084	5 485	7 708	9 213	11 047
Corporations	1 617	2 013	2 434	2 600	2 894	1 617	2 013	2 434	2 600	2 894
Indirect taxes	4 560	5 630	6 937	8 830	9 984	2 629	3 238	3 878	5 010	5 647
Income from property and entrepreneurship	1 116	1 097	1 083	1 458	1 924	385	371	334	551	803
Compulsory fees, fines, etc.	486	557	584	677	763	140	171	134	136	152
Current disbursements	9 792	11 861	15 914	20 155	23 887	7 578	9 165	12 591	16 712	19 407
Goods and services	5 416	6 748	9 143	11 307	13 211	2 347	2 833	3 531	4 053	4 590
Subsidies	324	319	322	313	296	295	288	284	272	249
Interest on public debt	1 011	1 072	1 293	1 462	2 019	15	6	109	117	433
Current transfers to domestic sectors	2 786	3 427	4 796	6 686	7 947	4 666	5 743	8 307	11 883	13 721
Current transfers to the rest of the world	255	295	360	387	414	255	295	360	387	414
Saving	2 071	2 922	2 832	2 622	2 727	1 278	2 113	1 897	798	1 137
Capital transfers	—	—	—	—	—	−707	−900	−1 414	−1 570	−1 525
Finance of gross accumulation	2 071	2 922	2 832	2 622	2 727	571	1 213	483	−772	−388
Investment expenditure	1 692	1 952	2 829	3 477	3 693	222	256	373	509	454
Net lending	379	970	3	−855	−966	349	957	110	−1 281	−842

1 Combined Australian, State and Local Sectors.

Sources: Australian submission to the OECD; ABS, "National Income and Expenditure 1976-1977".

Table G **Balance of payments** *$ A million*

Year ended 30th June	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
Current account										
Exports, fob	2 931	3 235	3 967	4 230	4 740	6 010	6 688	8 490	9 408	11 399
Imports, fob	3 159	3 203	3 553	3 790	3 791	3 808	5 754	7 652	7 924	10 350
Trade balance	−229	32	414	440	949	2 202	934	838	1 484	1 049
Invisibles, net	−902	−995	−1 106	−1 207	−1 260	−1 447	−1 757	−1 781	−2 591	−2 985
CURRENT BALANCE	−1 131	−963	−692	−767	−311	755	−823	−943	−1 108	−1 936
Capital account										
Government	88	70	−185	−63	−60	−64	−22	−34	−129	112
Trade credit n.e.i.[1]	33	27	−48	−42	−45	59	−56	−70	106	238
Other private capital	962	946	901	1 506	1 384	324	379	803	558	1 331
Balancing item[2]	127	68	60	−36	506	−4	87	−221	−448	−235
APPARENT CAPITAL BALANCE	1 210	1 111	728	1 365	1 785	315	388	478	87	1 446
Official monetary movements										
Change in official reserve assets	73	143	118	742	1 544	1 079	−384	−460	−1 053	−190
Allocation of SDR	—	—	−75	−64	−63	—	—	—	—	—
Other transactions[3]	6	6	−7	−81	−8	−9	−50	−4	32	−301
Net official monetary movements	79	148	37	598	1 474	1 071	−435	−464	−1 020	−491
CHANGES IN MARKET VALUE OF OFFICIAL RESERVE ASSETS[4]										
(*a*) Gold[5]	25	1	10	−14	6	−13	−10	28	511	198
(*b*) Currency assets	−134	187	16	741	1 404	539	−634	−41	−865	19
(*c*) IMF gold tranche	71	−45	13	−31	−37	−6	6	7	−1	19
(*d*) Special Drawings Rights	—	—	79	67	63	−9	−50	−61	−52	−10
Total	−38	143	118	763	1 436	511	−688	−67	−407	226

1 Prior to 1972-1973 estimates cover principal Australian marketing authorities only. From 1972-1973 the coverage of marketing authorities is more comprehensive and the item covers trade credit transactions, mainly of short-term nature, of Australian exporters and importers.

2 Includes discrepancies in the current account as well as errors, omissions and timing differences related to capital transactions.

3 Prior to 1971-1972 includes changes in the net foreign exchange assets of Australian Trading Banks adjusted for settlements pending with the Reserve Bank. Since 1971-1972 Trading Banks have been permitted to deal in foreign exchange on their own account, hence this treatment has been inappropriate. Changes in foreign currency balances of Trading Banks are now included in private capital flows. Also included are:

— Drawings and repayments made by Reserve Bank of New Zealand under a special loan arrangement with the Reserve Bank of Australia for the purposes of financing Australian exports to New Zealand.

— Purchases by Australia of shares in the Bank for International Settlements.

— Government working balances, other than London, held overseas.

— Changes in the balance of foreign central monetary institutions with the Reserve Bank of Australia and changes in Australian currency liabilities (notes and coins in circulation) in Papua New Guinea.

4 Includes changes due to fluctuations in the foreign currency value of assets, variations in exchange rates and the receipt of compensation under the Sterling Agreement. Prior to 1971, conversion to Australian dollar equivalents is based on official parity relationship. Figures from 1971 are converted at market rates of exchange. Since 1973, foreign currency value of currency assets has been based on market quotations: figures for earlier periods are on a historical cost basis.

5 Prior to 1976 gold is valued at the IMF official price in SDRs converted to Australian dollars at the derived SDR/dollar a rate. From 1976, gold holdings are valued at the average London gold price for the month, converted to dollar a at market rate applying on last day of month.

Source: Australian Bureau of Statistics.

Table H **Foreign trade-commodity and geographic structure**

Per cent

	Imports			Exports		
	1974	1975	1976	1974	1975	1976
SITC sections:						
Food and live animals	4.0	3.4	3.8	33.7	34.7	31.9
Beverages and tobacco	1.0	1.1	0.9	0.2	0.2	0.2
Crude materials, inedible, except fuels	5.9	4.5	4.8	28.6	26.1	29.2
Mineral fuels, lubricants and related materials	8.4	9.8	9.6	8.8	11.7	12.5
Animal and vegetable oils and fats	0.6	0.5	0.5	0.6	0.7	0.7
Chemicals	10.4	8.5	9.1	5.6	6.0	6.9
Manufactured goods classifed chiefly by material	21.8	17.3	18.6	13.5	12.6	11.1
Machinery and transport equipment	34.4	40.7	38.0	6.7	5.9	4.5
Miscellaneous manufactured articles	12.1	12.3	13.3	1.5	1.4	1.2
Commodities and transactions not classified according to kind[1]	1.5	2.0	1.3	0.7	0.7	1.8
Total (merchandise and non-merchandise)	100.0	100.0	100.0	100.0	100.0	100.0
OECD countries	77.7	78.4	77.1	64.8	64.5	68.7
North America	23.7	22.8	23.3	12.3	13.1	11.8
Japan	18.4	17.6	21.0	28.8	29.2	33.7
EEC	27.8	29.5	24.9	15.5	14.6	15.7
Other	7.8	8.5	7.9	8.2	7.6	7.5
Non-OECD countries	21.8	20.9	22.3	34.5	34.7	30.6
Sino-Soviet area[2]	1.8	1.3	1.4	6.4	6.9	7.3
Other developed countries	0.4	0.6	0.4	1.2	1.0	0.7
Developing countries	19.6	19.0	20.5	26.9	26.8	22.6
Unspecified	0.5	0.7	0.6	0.7	0.8	0.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

1 Including non-merchandise.
2 Including Mainland China, North Korea and North Vietnam.
Source: OECD, Foreign Trade Statistics, Series A and B.

INTERNATIONAL COMPARISONS

BASIC STATISTICS: INTERNATIONAL COMPARISONS

	Reference period	Units	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany
Population	Mid-1976	Thousands	13 916	7 510	9 818	23 143	5 073	4 729	52 921	61 513
Inhabitants per sq. km	»	Number	2	90	322	2	118	16	96	247
Net average annual increase	Mid-1966 to Mid-1976	%	1.8	0.3	0.3	1.4	0.6	0.3	0.7	0.4
Employment Total civilian	1976	Thousands	5 808	2 947	3 718	9 572	2 392	2 144	20 870	24 556
of which: Agriculture, forestry, fishing	»	% of total	6.4	12.4	3.4	5.9	9.3	13.9	10.8	7.1
Industry[4]	»	»	33.2	40.1	39.0	29.7	31.4	34.7	38.1	45.1
Other	»	»	60.4	47.5	57.6	64.4	59.3	51.4	51.1	47.8
Gross domestic product at market prices	1976	US $ billion[11]	94.12	40.62	65.91	194.60	38.53	28.14	346.76	445.91
Average annual volume growth[6]	1971 to 1976	%	3.5	3.9	3.1	4.6	2.3	3.8	4.1	2.4
Per capita	1976	US $[11]	6 760	5 410	6 710	8 410	7 590	5 950	6 550	7 250
Gross fixed capital formation	1976	% of GDP	23.7[7]	26.0	20.6	23.1	21.5	27.0	23.1	20.7
of which: Machinery and equipment	»	»	7.4[6a]	10.5		7.6	9.2	10.5	9.0	8.4
Residential construction	»	»	5.0[6a]	5.2	6.7	6.4	5.4	6.5	7.2	5.8
Average annual volume growth[6]	1971 to 1976	%	1.0	3.1	2.6	5.3	1.0	1.8	3.3	–1.2
National savings ratio[12]	1976	% of GNP	23.7[7,22]	27.3	22.1	21.7	16.7	27.1	23.3	24.4
General government										
Current expenditure on goods and services	1976	% of GDP	16.2[7]	16.5	17.9	20.1	24.2	19.7	14.7	20.4
Current transfer payments	»	»	10.4[7]	16.1[22]	21.4	12.1	17.5	14.4	24.1	19.1
Current revenue	»	»	32.6[7]	39.1[22]	35.5	36.8	46.5	44.8	42.4	42.2
Net official development assistance	1976	% of GNP	0.4	0.1	0.5	0.5	0.6	0.2	0.6	0.3
Indicators of living standards										
Private consumption per capita	1976	US $[11]	3 950	3 040	4 150	4 780	4 430	3 100	4 080	4 010
Passenger cars, per 1 000 inhabitants	1975	Number	368	229	266	374[16]	257	211	289	290
Telephones, per 1 000 inhabitants	»	»	390	281	285	572	454	389	262	317
Television sets, per 1 000 inhabitants	1974	»	227[13]	247	252	366	308	269	235	305
Doctors, per 1 000 inhabitants	1975	»	1.4[13]	2.1	1.9	1.7	1.6[13]	1.4	1.5	1.9[16]
Access to higher education[15]	»	% of relevant age group	39.7	15.9[16]	34.4[16]	49.8[13]	36.3[16]	24.5	31.4[16]	24.2[16]
Infant mortality[17]	»	Number	16.1[16]	20.5	16.2[16]	15.0[16]	10.7[16]	10.3[16]	13.6	19.7
Wages and prices	Average annual increase									
Hourly earnings in industry[18]	1971 to 1976	%	16.4	12.5	16.4	11.9	16.7	17.9	15.4	8.9
Consumer prices	1972 to 1977	%	13.1	7.7	9.7	8.9	10.8	14.5	10.3	5.7
Foreign trade										
Exports of goods, fob	1976	US $ million[11]	13 116	8 508	32 844[21]	38 628	9 108	6 342	55 812	102 036
As percentage of GDP	»	%	14.1	21.1	48.9	20.4	23.8	22.3	16.1	22.5
Average annual volume increase	1971 to 1976	%	3.7	7.7	7.3	4.1	4.2	4.0	7.6	7.6
Imports of goods, cif	1976	US $ million[11]	11 196	11 520	35 352[21]	37 956	12 420	7 392	64 392	87 780
As percentage of GDP	»	%	12.1	28.5	52.6	20.0	32.5	26.0	18.6	19.4
Average annual volume increase	1971 to 1976	%	5.6	8.4	6.7	8.4	5.4	4.1	8.6	6.5
Total official reserves	End-1977	US $ million	2 384	4 244	5 761[21]	4 608	1 671	570	10 194	39 737
As percentage of imports of goods	In 1977	%	19.5	29.9	14.3[21]	11.7	12.6	7.5	14.5	39.5

	Greece	Iceland	Ireland	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia[1]
Population	9 165	220	3 162	56 157[2]	112 768	357	13 770	3 116	4 027	9 664	35 970	8 219	6 346	41 162	56 001	215 118	21 560
Inhabitants per sq. km	69	2	45	186	299	138	407	12	12	109	71	20	154	52	230	23	83
Net average annual increase	0.6	1.2	0.9	0.7	1.3	0.7	1.0	1.5	0.7	0.6	1.1	0.5	0.6	2.4	0.2	0.9	(0.9)
Employment Total civilian	(3 230)	93[22]	1 021	18 930	52 710	147	4 542	1 206	1 789	3 088	12 535	4 088	2 676	14 710	24 425	87 485	8 887[3]
of which: Agriculture, forestry, fishing	(34.3)	15.1[22]	23.8	15.5	12.2	6.1	6.5	11.8	9.4	27.1	21.5	6.2	8.2	63.1	2.7	3.8	47.3
Industry[4]	(29.0)	37.6[22]	29.8	43.5	35.8	46.3	33.7	34.2	33.1	36.3	37.1	35.4	43.9	15.5	40.0	28.7	21.1
Other	(36.7)	47.3[22]	46.4	41.0	52.0	47.6	59.8	54.0	57.5	36.6	41.4	58.4	47.9	21.4	57.3	67.5	31.6
Gross domestic product at market prices	22.04	1.45	7.93	170.77	555.06	2.24	89.52	12.86	31.30	15.74	104.62	74.22	56.29	41.06	219.18	1 702.02	32.56[5]
Average annual volume growth[6]	4.8	3.8	2.9	3.2	5.1	1.9	3.5	3.5	4.8	4.3	4.9	2.5	–0.4	7.4	1.8	2.9	5.1
Per capita	2 400	6 610	2 510	3 040	4 920	6 280	6 500	4 130	7 770	1 630	2 890	9 030	8 870	1 000	3 910	7 910	1 510
Gross fixed capital formation	21.5[8]	29.5	24.5	20.3	29.6	28.2	19.7	25.2[9]	36.3	23.9	22.9	20.6	20.7	20.5[22]	19.2	16.2	34.2
of which: Machinery and equipment	8.4	6.0	9.6[22]	8.6	13.4	8.6[22]	8.1	..	13.9	6.9[22]	8.9	8.7	6.7	..	8.6	6.8	14.1
Residential construction	5.8	6.4	6.2[22]	5.8	7.9	7.6[22]	5.0	..	5.1	3.8[22]	6.2[22]	4.0	..	3.7[22]	3.8	3.9	7.4
Average annual volume growth[6]	–0.3	3.1	2.3	0.0	2.5	0.4	–1.6	..	7.3	5.8	6.3	1.2	–4.4	11.7	0.0	0.0	4.8
National savings ratio[12]	19.5	27.9	17.8	20.2	32.3	27.4[22]	24.5	20.6[22]	26.6	3.8[22]	19.8	20.6	26.3	17.7[22]	18.9	17.4	35.6
General government																	
Current expenditure on goods and services	15.3	9.9	19.5	14.0	10.9	15.5	18.3	18.4[9]	17.1	15.4[22]	10.3	25.6	13.4	11.3[22]	21.8	18.7	19.1
Current transfer payments	10.9	..	21.9[22]	22.1	9.2	26.2[22]	30.5	..	23.7	9.1[22]	12.7	22.0	15.5	6.5[22]	15.2	11.8	..
Current revenue	29.4	..	34.2[22]	36.5	23.6	50.6[22]	53.5	..	50.1	24.7[22]	25.7	57.4	34.0	20.5[22]	40.6	31.5	42.2
Net official development assistance	..	..	..	0.1	0.2	..	0.8	0.4	0.7	..	..	0.8	0.2	..	0.4	0.3	..
Indicators of living standards																	
Private consumption per capita	1 680	3 980	1 580	1 960	2 790	3 970	3 720	2 380[9]	4 280	1 230	2 010	4 830	5 590	633[22]	2 350	5 110	821
Passenger cars, per 1 000 inhabitants	48	291	164	257[16]	154	391	249	373	237	97	136	336	278	8[16]	249	498	72
Telephones, per 1 000 inhabitants	221	417	141	259	405	411	368	502	350	113	220	661	611	25	379	695	61
Television sets, per 1 000 inhabitants	106	217[10]	178	213	233	257	259	304[10]	256	66	174	348	264	12	315	571	131
Doctors, per 1 000 inhabitants	2.0	1.6[10]	1.2	2.0[16]	1.2[16]	1.1[16]	1.6	1.3	1.7	1.3	1.6	1.6[16]	1.8	0.6	1.3[16]	1.6[16]	1.4
Access to higher education[15]	..	..	..	31.0	34.3[16]	..	21.1[16]	..	40.3[16]	(9.8)[10]	29.3[10]	(31.1)[13]	..	..	21.8[16]	43.2	16.6
Infant mortality[17]	24.0[16]	11.4[16]	17.0[16]	20.7	10.0	14.8	10.3	16.0	10.5[16]	37.9[16]	12.1	8.3	10.7	..	16.0	16.1	39.7
Wages and prices																	
Hourly earnings in industry[18]	20.8	34.0[19]	19.9	20.8	17.7	..	13.2	11.9	14.6	16.3[20]	20.8	13.4	7.5	23.6[20]	17.0	7.8	..
Consumer prices	16.1	34.7	16.1	16.5	12.9	8.6	8.7	13.0	9.4	16.9[14]	17.2	9.6	5.6	20.4	16.3	7.7	18.7
Foreign trade																	
Exports of goods, fob	2 544	396	3 312	36 924	67 224	—	38 748	2 780	7 920	1 812	8 724	18 444	14 844	1 960	46 260	114 996	4 556
As percentage of GDP	11.5	28.3	42.5	22.6	12.2	—	43.9	22.4	25.7	11.5	8.5	25.0	26.2	5.1	21.3	6.8	13.9
Average annual volume increase	17.0	..	6.6	6.9	10.1	—	7.0	2.3	8.4	2.6	11.2	3.1	4.8	..	5.1	8.2	7.1
Imports of goods, cif	6 012	468	4 200	43 368	64 800	—	39 948	2 830	11 112	4 212	17 460	19 164	14 772	5 129	55 968	121 788	6 881
As percentage of GDP	27.1	33.4	53.8	26.5	11.7	—	45.2	22.8	36.1	26.8	17.0	26.0	26.1	12.9	25.8	7.2	21.0
Average annual volume increase	6.7	..	5.3	3.7	6.3	—	4.3	5.1	6.4	3.2	10.4	5.6	1.1	..	5.0	4.7	2.5
Total official reserves	1 020	100	2 372	11 608	23 261	—	8 065	445	2 200	1 076	6 590	3 668	13 830	774	21 057	19 390	2 780
As percentage of imports of goods		16.3	44.0		32.8	—	17.7				37.1	18.2	77.2	13.5	33.1	13.1	28.8

1 Partly from national sources.
2 Total resident population.
3 Private and socialised sector.
4 According to the definition used in OECD: Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
5 Social product.
6 At constant prices.
6a Private.
7 Fiscal year beginning July 1st.
8 Excluding ships operating overseas.
9 Fiscal year beginning April 1st.
10 1973.
11 At current prices and exchange rates.
12 $\left[\frac{\text{GNP} - (\text{Priv. cons.} + \text{Pub. cons.})}{\text{GNP}}\right] \times 100.$
13 1972.
14 1971 to 1976.
15 Figures are not strictly comparable due to differences in coverage. For more details see " Educational Statistics Yearbook - Volume 1 (1974) and volume 2 (1975) - OECD, Paris ".
16 1974.
17 Deaths in first year per 1 000 live births.
18 Figures are not strictly comparable due to differences in coverage.
19 1971 to 1975.
20 1970 to 1975.
21 Including Luxembourg.
22 1975.

Note Figures within brackets are estimates by the OECD Secretariat.

Sources: Common to all subjects and countries: OECD: Labour Force Statistics, Main Economic Indicators, National Accounts, Observer, Statistics of Foreign Trade (Series A); Office Statistique des Communautés Européennes, Statistiques de base de la Communauté; IMF, International Financial Statistics; UN, Statistical Yearbook.

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