OECD
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

AUSTRALIA

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

JUNE 1979

BASIC STATISTICS OF AUSTRALIA

THE LAND

Area (1 000 sq. km)	7 686.8	Urban population, 30.6.1971 census, % of total (cities over 100 000)	64
Agricultural area, 1977, % of total	64.5	Population of major cities, 30.6.1976 (1 000):	
		Sydney	3 094
		Melbourne	2 672
		Brisbane	986
		Adelaide	912
		Perth	820

THE PEOPLE

Population, 30.6.1978 (1 000)	14 249	Civilian employment, 1978 (1 000)	5 975
No. of inhabitants per sq. km	1.9	*of which:* Agriculture	383
Natural increase rate, per 1 000 inhabitants, 1977	8.4	Industry	1 887
Net migration, 1977 (1 000)	55	Other activities	3 705

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, 1978 ($ A million)	90 681	Gross fixed capital formation, 1978: Percentage of GDP	23.0
GDP per head (US $)	7 190	Per head (US $)	1 654

THE PUBLIC SECTOR % OF GDP IN 1978[1]

Expenditure on goods and services[2]	25.2	Current revenue	31.3
Current transfers	9.6	*of which:* Direct taxes	17.8

FOREIGN TRADE

Exports		Imports	
Main exports in 1977, % of total:		Main imports in 1977, % of total:	
Food and live animals	30.8	Machinery and transport equipment	38.1
Crude materials, inedible, except fuels	28.1	Manufactured goods	17.8
Manufactured goods	11.8	Miscellaneous manufactured goods	13.2
Machinery and transport equipment	4.4	Chemicals	9.0

THE CURRENCY

Monetary unit: Australian dollar	Currency unit per US dollar, average of daily figures:	
	Year 1978	0.8725
	April 1979	0.8994

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

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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.

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The annual review of Australia by the OECD Economic and Development Review Committee took place on 29th May 1979.

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INTRODUCTION

The principal objectives of policy over the last few years have been to reduce inflation and reverse the large shift in factor incomes which occurred as a result of the 1974 wage explosion. Success in these areas is considered essential for the achievement of sustainable growth in real output and employment. In pursuit of the main objectives, the Government has maintained a relatively restrictive stance of demand management for more than three years and in the absence of direct powers over wages, has advocated wage restraint before the Conciliation and Arbitration Commission. Given that only partial success has been achieved in reducing inflation and correcting factor share imbalances to date, it is not really surprising that the expansion of activity has been slow and unemployment has risen.

The period covered by this Survey—mid-1977 to the present—witnessed further but uneven progress of the process of recovery and adjustment, the first two years of which were analysed in detail in the previous OECD Survey of Australia. While it is unlikely that the expansion has become self-sustained, the growth of output accelerated with a particularly strong pick-up in investment in plant and machinery and farm output while unemployment levelled off and moderate growth in employment has been occurring since mid-1978. The rate of inflation further slowed down to mid-1978, but has since plateaued due largely to external price pressures. The current external deficit rose considerably in 1978 but for largely temporary reasons. Entering 1979, some acceleration in the growth of money supply prompted corrective measures towards restoring the intended policy, and on the assumption that the present stance of demand management is broadly maintained, the outlook is for a continued acceleration in the rate of expansion, but for little change in the rate of unemployment. Provided the increase in wage and salary incomes is kept in line with prices, the rate of inflation may be held at about its present level. External prospects are brighter and the current external deficit is narrowing somewhat in the wake of strong rural exports and a sizeable improvement in the terms of trade.

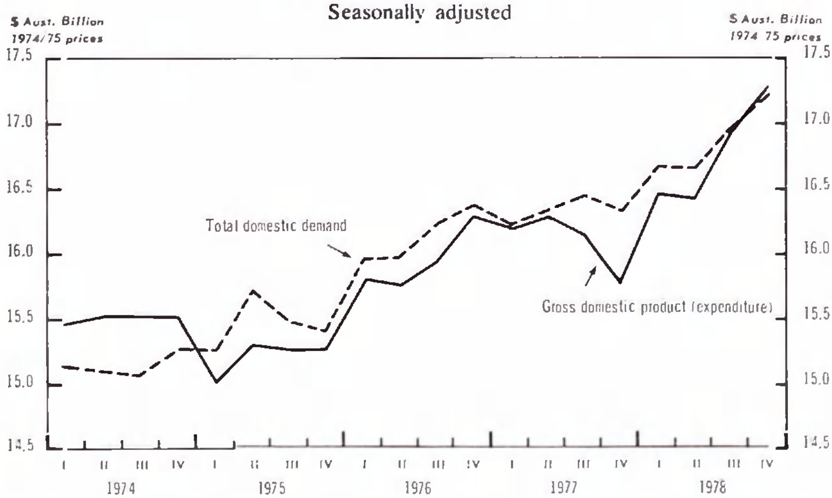
Following the discussion of the main economic developments since mid-1977 (Part I), the present Survey examines in Part II medium-term trends in the balance of payments. Economic policies are assessed in Part III and the Survey concludes with a discussion of short-term prospects and some policy considerations (Part IV).

I RECENT TRENDS

Demand and output

Following the pause in late 1976 and early 1977 in the gradual recovery from the 1974-1975 recession, aggregate demand and output have resumed their upward trend. The pick-up in real GDP since the second half of 1977 began slowly but then gathered momentum to reach an annual growth rate of 5¼ per cent in the second half of 1978. In 1978 as a whole real GDP probably rose at an underlying rate of about 3 per cent, more than double the 1977 rate[1]. The rapid growth in real GDP in the most recent period owed much, however, to the increase in farm stocks built up as a result of the large cereal crop; excluding farm output, there was a slow-down between the two halves of the year, largely because of a weakening in private consumption. The development of private consumption also affected final domestic demand which although picking up considerably since mid-1977, decelerated from an annual rate of increase of 4½ to 3½ per cent between the two halves of 1978. The quickening during the expansion in 1978 as a whole was partly related to the tax changes in February, the phasing down of the investment allowances and the acceleration in public consumption and partly to the effect on real disposable incomes of lower average inflation.

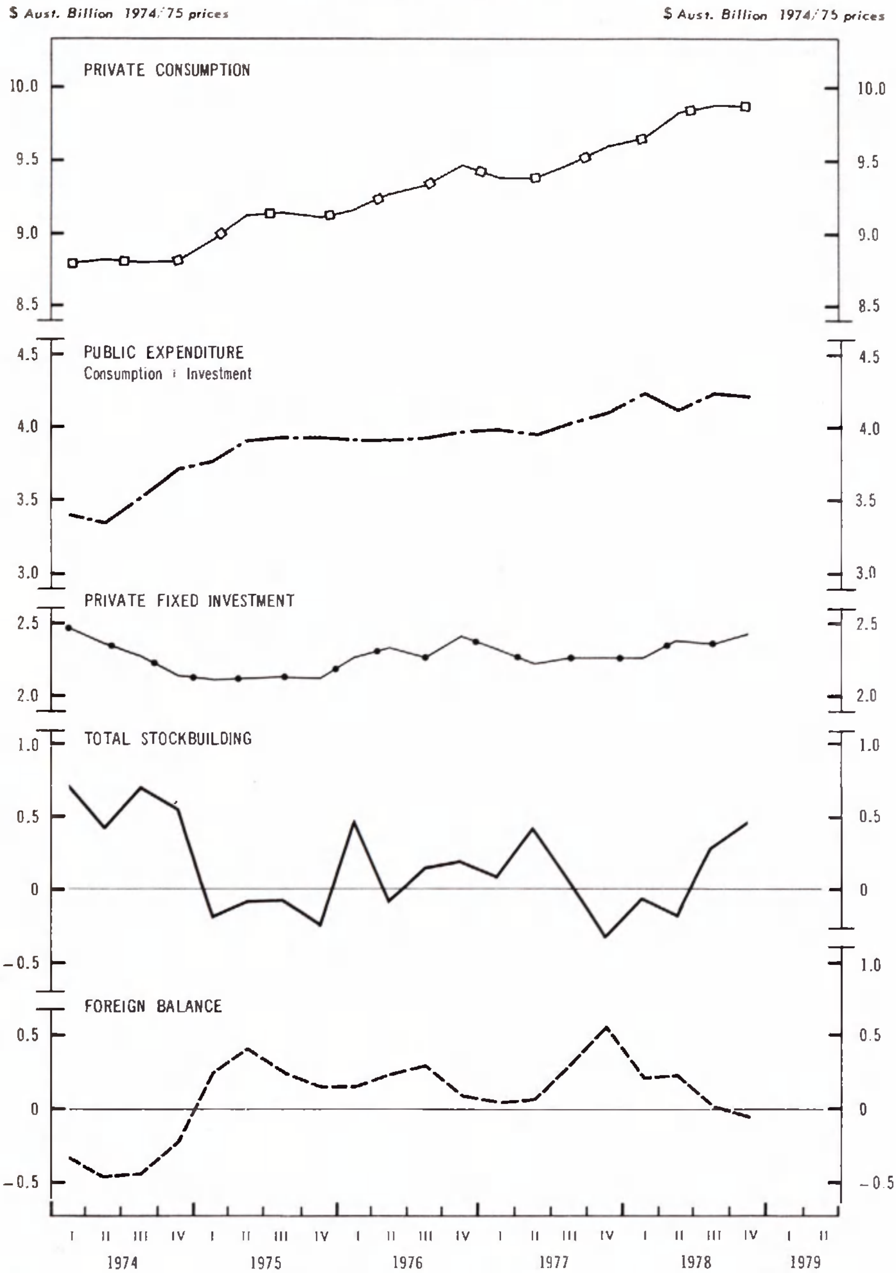
Diagram 1 **Demand and output**
Seasonally adjusted



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

1 Interpretation of the national accounts is complicated by large swings in farm output. As explained in Annex I, interpretation of the national accounts on a calendar year basis is further complicated by the method used to seasonally adjust Gross Farm Product. Table 1 shows a rise in real GDP of 2.7 per cent for 1978, the total being the sum of the non-seasonally adjusted quarterly series. Using the seasonally adjusted quarterly series, the rise in real GDP was 3.3 per cent.

Diagram 2 **Components of demand**
Seasonally adjusted



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

Despite the improved growth performance, however, it seems unlikely that at this stage the expansion has become self-sustained: the growth of output has stemmed at different times from different demand components, none of which have risen consistently fast. Initially, the expansion rested largely on

Table 1 **Demand and output 1976 to 1978**

Percentage change, volume[1]

	From previous year[3]			From previous half year Seasonally adjusted, annual rate					
	1976	1977	1978	1976 I	1976 II	1977 I	1977 II	1978 I	1978 II
Consumption									
Private	2.6	1.5	3.7	2.0	4.3	−0.5	3.4	4.2	2.9
Public	7.2	3.2	7.2	7.6	6.3	0.5	5.8	8.0	7.2
Gross fixed investment									
Private	10.0	−2.2	4.1	17.1	3.3	−5.5	−0.3	4.5	6.8
of which: Residential	27.6	−5.4	−7.5	38.7	11.8	−10.3	−10.6	−6.0	−7.3
Other construction	−15.1	−1.2	6.0	−13.2	−15.3	−5.2	22.1	−4.9	13.6
Machinery and equipment	10.8	−0.4	10.9	18.2	4.7	−2.2	−0.1	14.7	12.8
Public	−7.9	0.4	−0.8	−16.0	−4.6	2.1	2.2	1.2	−6.6
Final domestic demand	3.3	1.1	3.9	3.0	3.6	−0.9	3.1	4.6	3.3
Change in stockbuilding[2]	(1.3)	(0.0)	(−0.3)	(4.6)	(−0.3)	(1.0)	(−4.8)	(0.3)	(5.8)
of which: Private non-farm[2]	(1.9)	(−0.2)	(−0.6)	(2.3)	(1.5)	(−0.1)	(−2.0)	(−0.6)	(0.9)
Farm and miscellaneous[2]	(−0.6)	(0.2)	(0.3)	(2.3)	(−1.9)	(1.1)	(−2.7)	(0.9)	(4.9)
Statistical discrepancy	(−0.3)	(0.3)	(−0.0)	(−0.6)	(1.0)	(1.4)	(−1.7)	(1.2)	(−0.9)
Total domestic demand	4.3	1.4	3.6	7.0	4.2	1.6	−3.4	6.1	8.4
Exports of goods and services	8.7	2.6	−1.5	16.1	12.6	−7.5	14.7	−5.3	−7.7
Imports of goods and services	13.0	0.8	4.0	17.6	13.4	2.9	−14.0	10.7	10.7
Change in foreign balance[2]	(−0.5)	(0.3)	(−0.9)	(0.0)	(0.0)	(−1.8)	(4.7)	(−2.5)	(−2.9)
Gross domestic product	3.8	1.7	2.7	6.9	4.2	−0.2	1.3	3.4	5.2
of which: Farm	−8.4	9.3	−3.3	4.8	−2.7	3.2	−13.2	−2.0	57.3
Non-farm	4.6	1.2	3.1	7.0	4.6	−0.4	2.3	3.8	2.5

1 Volume data are measured at 1974-1975 prices.
2 Contribution to GDP growth (percentage points).
3 Published annual national accounts estimates are compiled for years ended 30 June. These calendar year estimates have been obtained by summing original quarterly figures.

Source: Quarterly Estimates of National Income and Expenditure, ABS, December 1978.

private consumption and public expenditure which grew rapidly in the second half of 1977 and the first half of last year. But both components slowed down in the course of the year, there being a sharp fall in public investment partly as a result of a reduction in Commonwealth Budget sector capital expenditure. The expansion was maintained by a strong pick-up in stockbuilding (almost, entirely from farm stocks although the non-farm stock cycle entered the accumulation phase) and the growth of private fixed investment, particularly in plant and machinery. The contribution of these to aggregate growth was sufficiently large to more than offset a slowdown in the other components and a stronger negative contribution from the change in the real foreign balance.

Components of demand

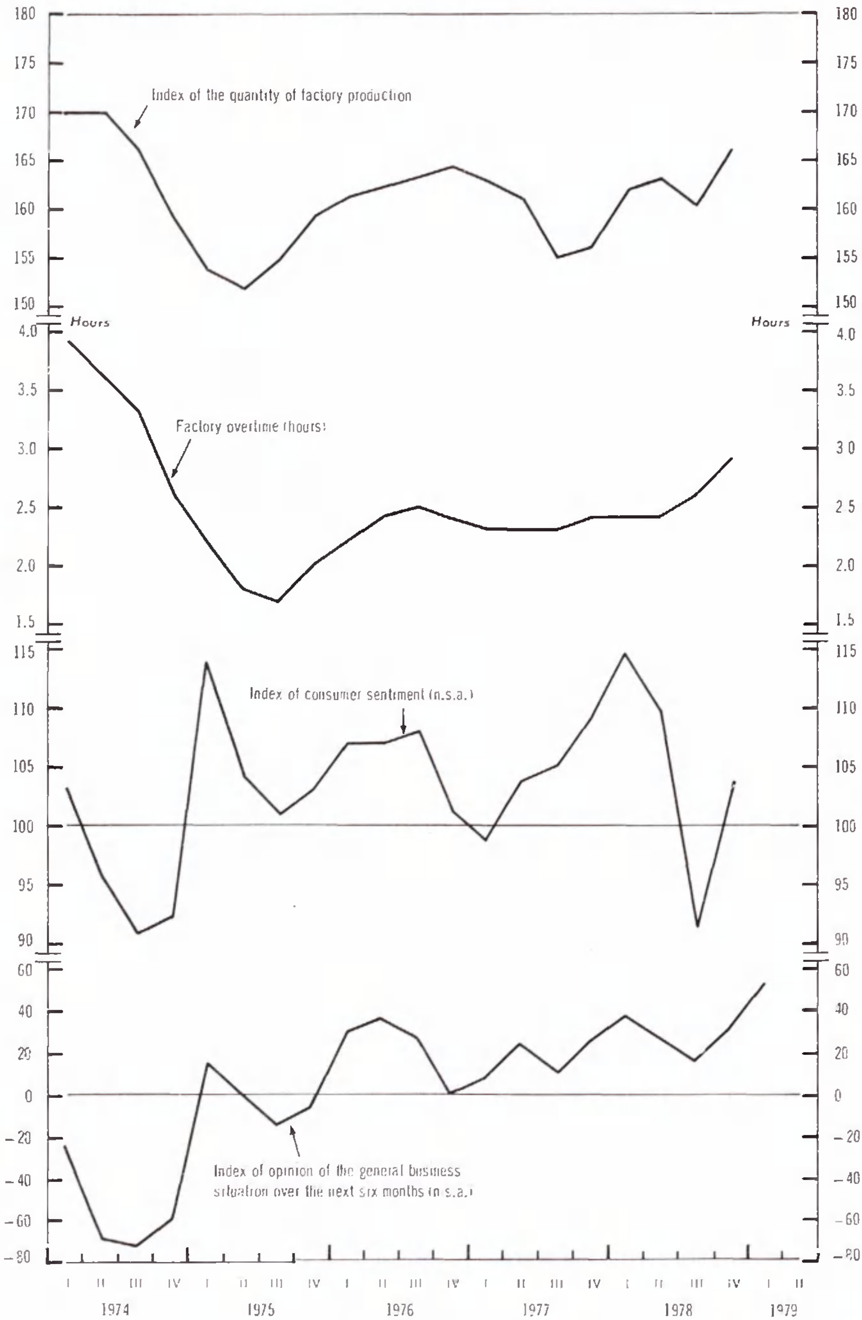
Private consumption, although losing some strength in the second half of the year, held up well in 1978 as a whole and increased at a faster rate than in 1977. This was largely due to the growth of non-wage incomes and a reduction in average income tax rates (Table 2). As noted above, farm incomes rose very rapidly, the result of improved export prices. These were accompanied by a strong growth in other personal incomes (mainly from self-employment and rents) and in transfer payments. As a result of lower inflation, partial indexation and the move from quarterly to half-yearly wage cases in the second half of the year, the rise in wages and salaries continued to slow down and contributed little to the overall acceleration of household incomes. After increasing by 11.6 per cent in 1977, disposable household incomes rose by 12.8 per cent in 1978, and in the second half were growing at an annual rate of about 13 per cent but the share of wages and salaries in the total was 63 per cent, some 4 percentage points below the level two years earlier. The changed tax structure fore-shadowed in 1976 and 1977 and the first full year of the new tax indexation factor started on 1st July, 1977, helped to boost disposable incomes by reducing the aggregate tax ratio[2]. The saving ratio, which had fallen to 15½ per cent in the second half of 1977 rose during 1978 due largely to the growth of farm incomes in the second half of the year[3]. As a result of this the aggregate ratio rose a little between 1977 and 1978 although the longer-term trend has been clearly downward since 1975; some unevenness in the recent movements of the saving ratio probably arises from a lagged reaction to sudden changes in disposable income. The ratio may also have been influenced by the redistribution away from wages and salaries.

An important feature of the present expansion has been the strong rise of 10.9 per cent in investment in plant and machinery in 1978 following a small fall in 1977 but a similar strong rise in 1976. The other component of business investment—non-residential building and construction—has also grown substantially, but it started to recover later, in the second half of 1977. It seems likely that the recovery in business investment is partly a replacement cycle and partly a modest extension of industrial capacity whose timing and composition have been influenced by a number of factors. As far as timing is concerned, investment

2 In the eighteen months to end-1978, the tax changes were the equivalent of 1 percentage point of the growth of private consumption.

3 Historical experience has shown that initially farmers typically save substantially more when farm incomes rise. This reflects a number of factors including the fact that debt repayment is recorded in the national accounts as "savings". In addition the national accounts farm income aggregate included in household disposable income is income of farm unincorporated enterprises. In any given period this aggregate is not equal to the amount actually received by farmers as it includes the increase in assets held with marketing authorities. As a result of the rise in the saving ratio in the second half of 1978 the saving ratio in 1978 was higher than in 1977.

Diagram 3 **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.

Table 2 **Household incomes and consumption**[1]
Per cent change from previous year

	1976	1977	1978
Wages, salaries and supplements	15.2	10.5	8.9
Farm income	−12.5	28.7	20.0
Other private income	18.8	17.2	14.1
Government transfers	26.8	16.0	11.0
Total household income	16.0	12.9	10.5
Tax ratio[2]	(16.1)	(17.2)	(15.6)
Disposable income	14.0	11.3	12.4
Consumption deflator	14.0	10.3	8.4
Real disposable income	—	0.9	3.7
Savings ratio[3]	(16.1)	(15.7)	(15.7)
Real private consumption	2.6	1.5	3.7

1 Published annual national accounts estimates for Australia are compiled for years ended 30th June. These calendar year estimates have been obtained by summing original quarterly estimates.
2 Income tax and other direct taxes, fees, fines, etc., as a percentage of total household income.
3 As a percentage of real disposable income.
Source: Quarterly National Accounts, ABS, December 1977 and December 1978.

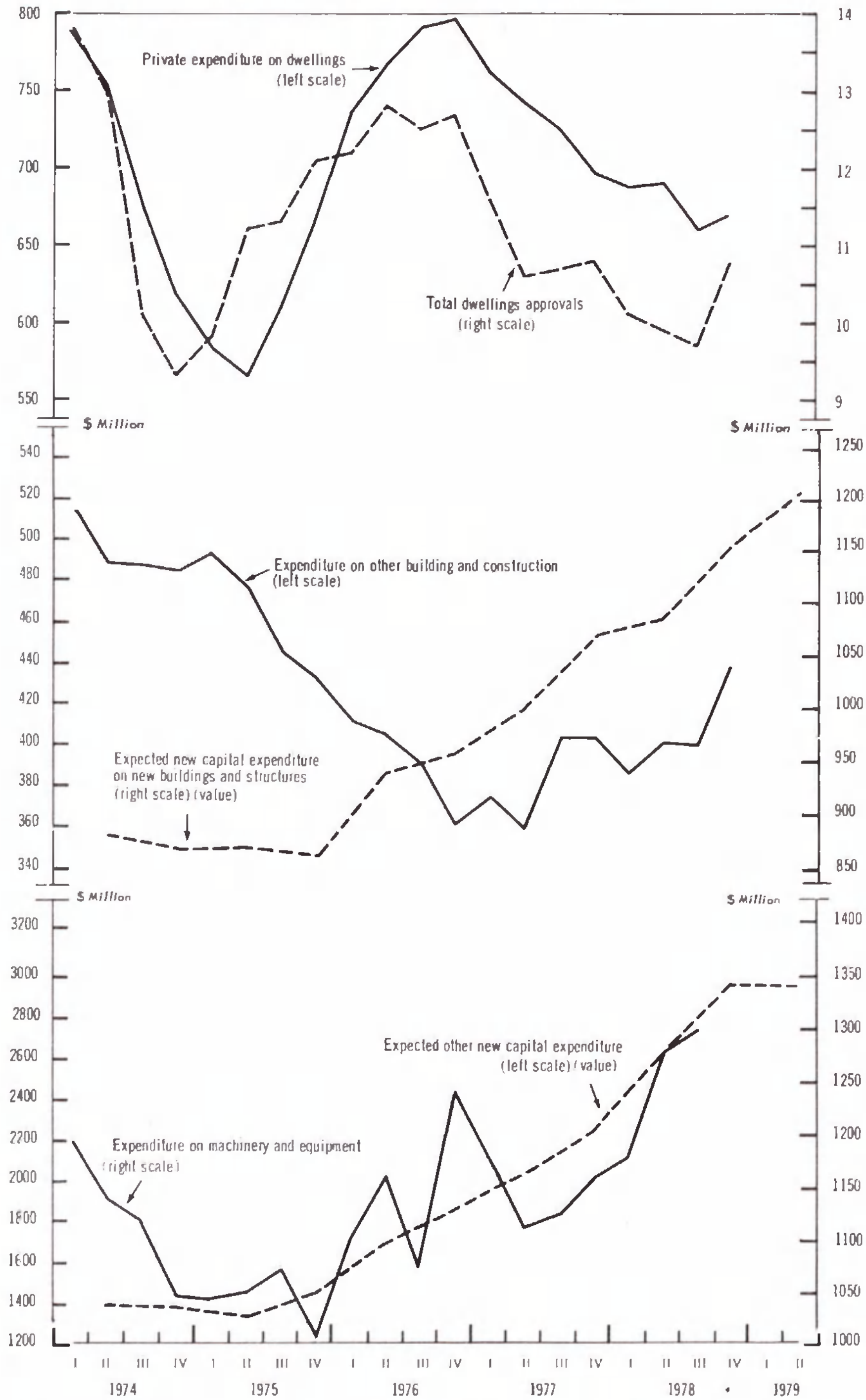
was no doubt stimulated by the recovery in output and its recent acceleration and also by an improvement in post-tax profits. Gross profitability has not markedly recovered since 1974-1975, but net profits have been increased by a number of tax concessions[4] which combined have added about 13 per cent to post-tax profits over the last two years. The pattern has also been influenced by the effect of the new investment allowance which provided a considerable incentive to bring forward any planned expansion of capacity. The allowance applied at a rate of 40 per cent to plant and equipment ordered on or after 1st January, 1976, and prior to 1st July, 1978, provided that the plant is first used prior to 1st July, 1979[5]. Since it does not apply to construction expenditures, the investment allowance also goes some way to explain the emphasis on plant and equipment which has been a feature of the present investment cycle. Much of the initial resurgence in construction activity was concentrated in the mining sector, whilst the investment cycle in manufacturing and other industries has been mainly concerned with a re-equipment programme. Such a concentration must in any case have suited manufacturers who, at the current levels of real wages and real interest rates, would be seeking an increase in capacity intensity and prompt returns in terms of increased labour productivity. How much of the investment path represents a net addition to capacity is difficult at this stage to judge but throughout most of the period under review the Australian economy and manufacturing in particular, has been operating below full capacity output and despite the rise in output levels and improved business confidence is it doubtful if they are at the point where pressure on existing capacity is sufficient to generate a marked investment response.

The development of residential construction contrasts strikingly with that of business investment. Real expenditure on new dwellings has been falling now for two years and in 1978 the volume decline amounted to 7.5 per cent. Stock adjustment by the construction industry since the previous peak in the December

4 The main concessions were the doubled depreciation allowance, the investment allowance and the trading stock valuation adjustment, offset to some degree by an increase in company tax rates in the 1977 Budget.

5 Plant not meeting these criteria attracts a 20 per cent rate.

Diagram 4 **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.

quarter of 1976[6], together with restrained monetary conditions has had an important bearing on this development. However, other influences, both secular and short-term, have also been at work. Demographic factors such as lower migration and fertility rates, slower population growth and fewer marriages have all contributed to a structural weakening in the demand for housing. In addition, a shift in the relative prices of existing compared with new dwellings has caused an apparent increase in consumer preference for older homes and a willingness to direct expenditure to alterations and additions rather than land and new buildings. There may also be considerable reluctance by many households to commit both financial reserves and future income to new dwellings at a time when savings may be needed to support current consumption. However, by the end of 1978 definite signs of an upturn in dwelling construction activity has emerged. Private dwelling commencements rose by 4.8 per cent in the December quarter and by a further 11.2 per cent in the March quarter 1979. However, for the reasons mentioned above residential construction activity is unlikely to return to the levels achieved in either the 1973 or 1976 peaks.

Following almost two years of relatively slow growth, total government expenditure on goods and services accelerated sharply from mid-1977 for three quarters but then developed erratically (Diagram 2). As in 1976 and 1977 the strength in government expenditure in 1978 reflected largely public consumption which increased by about 7.2 per cent. Public investment in contrast declined by 0.8 per cent. Although in 1978 the average rise in government expenditure was 4½ per cent there was a considerable slowdown between the two halves of the year largely in response to the relatively tight stance of the 1978-1979 Budget. The deceleration affected both consumption and investment but mainly the latter which declined at an annual rate of 6.7 per cent in the second half of last year. These aggregate changes reflect the conjunction of a number of factors operating at the various levels within the public sector—the Commonwealth Budget sector, Commonwealth non-Budget authorities and State authorities. For 1978 as a whole Commonwealth expenditure on goods and services rose by 4.2 per cent while State and local expenditure rose by 4.7 per cent; for the second half of 1978 Commonwealth expenditure rose at an annual rate of 1.3 per cent while State and local expenditure rose at an annual rate of 3.0 per cent. The slowdown in Commonwealth expenditure reflects the budgeted real decline in Commonwealth expenditure on goods and services in 1978-1979.

Sharp changes in stockbuilding have continued in the recent period, with considerable changes in both non-farm and farm stocks. After imparting a negative contribution to the growth of real GDP in both halves of 1977 and the first half of 1978, the non-farm stock cycle began an accumulation phase in the second half of 1978 and there was a sizeable contribution to growth from this item. Nevertheless, the non-farm stocks to sales ratio has continued to edge down from 74 per cent in the 1977 June quarter to 71 per cent in the 1978 December quarter. Farm stocks, which fell in the twelve months to mid-1978 reflecting largely drought conditions rebounded sharply in the second half of last year as a result of the excellent 1978-1979 rural season[7]. In total, the contribution of stockbuilding to the rise in GDP in the second half of last year was about 5¾ per cent (annual rate).

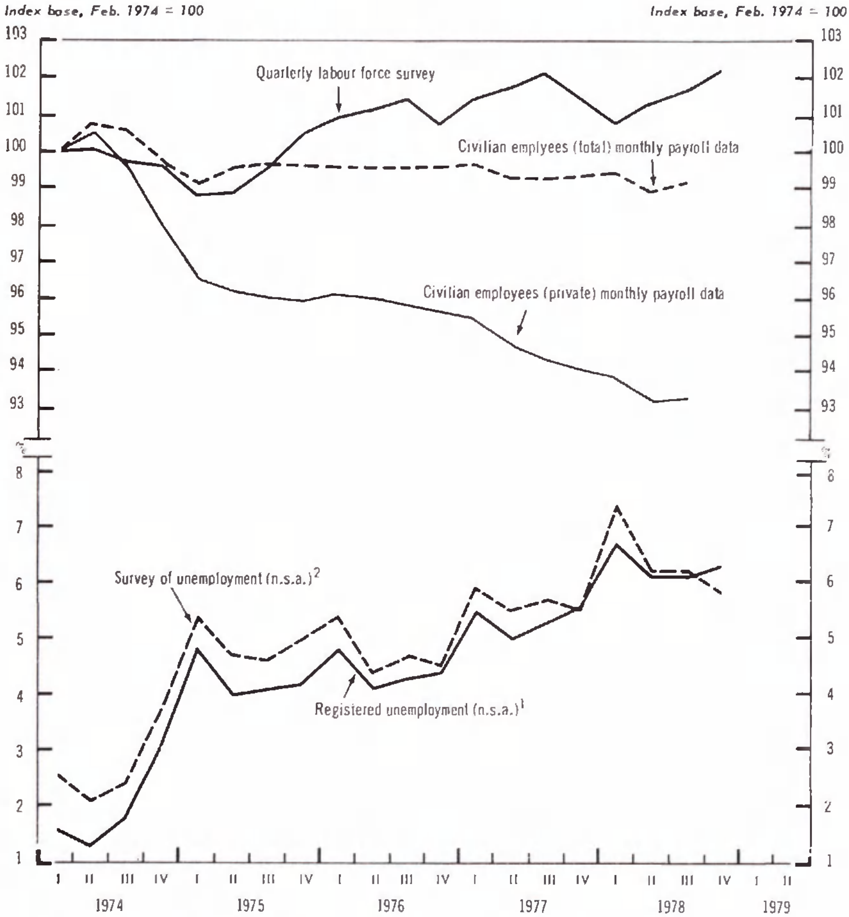
6 Private dwelling construction expanded rapidly for six consecutive quarters to the end of 1976, producing a trough to peak increase of over 40 per cent. Towards the end of the period and into 1977, large stocks of unsold new dwellings had built up. This has resulted in subdued house building activity since that time as stocks are returned to a more normal level.

7 The sharp rise in farm stocks in the second half of 1978 is a buffer response to the expansion of farm output prior to export.

The labour market

Despite the expansion in output since around mid-1977 it seems that labour market conditions[8] overall have remained depressed. According to the labour force survey the average number of persons seeking full-time and part-time work as a proportion of the total labour force rose from 4.8 per cent in 1976 to 5.7 per cent in 1977 and to 6.3 per cent in 1978; unemployment, as measured by the

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.

8 Interpretation of recent events in the labour market is particularly difficult as estimates of the labour force and employment are subject to major revision, the two main sources of information on employment are not consistent and the seasonal adjustment of unemployment is no longer available. Problems with seasonal adjustment led the Australian Statistician to suspend publication of adjusted unemployment estimates from November 1977, based on the labour force survey. There were substantial changes in the design of the survey itself—including new estimation benchmarks derived from the 1976 population census, a new sample and questionnaire and a new timing basis following the changeover to a monthly survey from February 1978.

number of persons registered for employment followed a broadly similar path. The rate of increase in unemployment certainly slowed from mid-1978 and has probably now halted. As a result, total unemployment in April 1979 at 415 900 or 6.4 per cent of the labour force was slightly higher than in April 1978 (401 000 or 6.3 per cent).

The two available series on employment suggest that for the first time since the 1974-1975 recession employment is responding with some strength to the expansion in output[9]. Although the series show divergent pictures of the longer-run trend in employment and of the timing of the quarter-to-quarter movements, it seems that employment started to rise in the second half of 1978 and continued to do so in the early months of this year, thus reversing the hesitancy evident in 1977 and the first half of 1978. Following two years of stability the monthly seasonally-adjusted series for civilian employment which is based on payroll tax returns fell by almost ½ per cent in the second quarter of 1977 and was then stable for about twelve months. However, the number of civilian wage and salary earners rose in each month in the second half of 1978 and the March quarter 1979 to be 1.2 per cent higher than in mid-1978. This improvement was largely attributable to an expansion in private sector employment, reversing a downward trend evident since 1974 (through 1977 and the first half of 1978, private civilian employment fell at an annual rate of 1¾ per cent). The alternative measure of employment, total employment, based on the quarterly labour force survey (which includes employers, self-employed and unpaid family helpers working in a family business or farm, in addition to wage and salary earners), has, broadly speaking, risen more rapidly than the number of civilian employees reflecting quite strong growth in the number of employers and self-employed (Diagram 5).

One factor moderating the rise in unemployment has been the fall in participation rates although this appears to be less important recently. Between May 1977 and November 1978 the civilian population aged fifteen years and over rose by 2.8 per cent but the workforce changed little. Consequently, participation rates have edged down, the fall being more marked for males (2.1 percentage points) than for females (1.2 points). The rate for persons aged fifteen to nineteen years declined by 2.3 percentage points which accounts for part of the reduction in the relative importance of unemployment among the young. In view of the recovery in activity and earlier experience when falls in labour force participation rates tended to mirror movements in activity, the changes in recent years are difficult to explain. One reason may be that the increasing

Table 3 **Duration of unemployment**
At August each year

	Average duration in weeks		
	Males aged 20 years and over	Females aged 20 years and over	Persons aged 15 to 19 years
1975	12.7	12.2	13.2
1976	17.5	16.1	18.5
1977	22.1	18.9	21.1
1978	27.8	27.2	23.5

Source: The Labour Force, ABS, August 1978 and unpublished revised data.

9 The coverage of the two employment series differs. The total employment series is from the population survey while the non-farm civilian wages and salary earners collection is based mainly on payroll tax returns. The former series is the broader measure. Sampling variability produces some volatility in the labour force survey series.

duration of unemployment has led to an increased number of discouraged workers. As can be seen from Table 3, the duration of unemployment, which rose steadily over the three years to November 1977, increased sharply during the following twelve months.

Wages, productivity and profits

For the fourth consecutive year the rise in wage rates and earnings decelerated through 1978, but there are some signs that a reacceleration may be taking place. The increase in male award rates[10] which on a year-to-year basis was 10½[11] per cent in the second half of 1977, declined to 9½ per cent in the first quarter of 1978 and to 6¼ per cent in the second. By August there had been a further deceleration to 4½ per cent. The deceleration largely reflects the authorities' success in reducing inflation. The reduction in the degree of indexation of wage rates for price rises given by the Arbitration Commission[12] up to February 1978, the timing of wage decisions and the move to six-montly hearings were also contributory factors. In line with the new wage fixation principles announced in September (see below) the frequency of wage case hearings was changed from four to two per year. As a consequence, no award was made between the June and December quarters. However, in December, the Arbitration Commission granted full indexation for the 4 per cent increase in the consumer price index during the six months to September. The increase in award rates can be expected to be reflected in average weekly earnings in the early part of 1979. Earnings may also be affected in the first half of 1979 by an increasing number of broadly based "work value" increases being awarded by the Commission at the industry level.

In contrast to wages and salaries, the rise in gross company profits[13] accelerated to a rate of about 11 per cent during twelve months to the first half of 1978, but slipped back to an annual rate of 5¾ per cent in the second half of 1978. While over the eighteen months to the second half of 1978 the growth rate of before-tax company profits was a little above that of wages and salaries the share of corporate profits in national income[14] did not improve; at 13¼ per cent, the share in the second half of 1978 was the same as a year earlier. On an after-tax basis, the increase in corporate profits has been somewhat stronger, entailing an increase in the share of profits in national income, reflecting mainly the double depreciation provisions, the investment allowance and the trading stock valuation adjustment.

Last year's OECD Economic Survey of Australia analysed in some detail the gap which had developed since 1972 between the growth of real wages and the growth of productivity[15]. It was pointed out that a large gap had emerged between 1972 and 1975[16], itself a reflection of the massive shift in factor shares which occurred largely as a result of the wage explosion in 1974 coupled with the rapid but slower rise in prices. Between mid-1975 and mid-1977 Secretariat

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10 Year-to-year increases granted by the Arbitration Commission.

11 The peak rate was 33½ per cent in the second half of 1974, a figure which was more than halved in the same period of 1975 and 1976.

12 Since early 1976 and until May 1978 the Commission had generally awarded only partial indexation of wages.

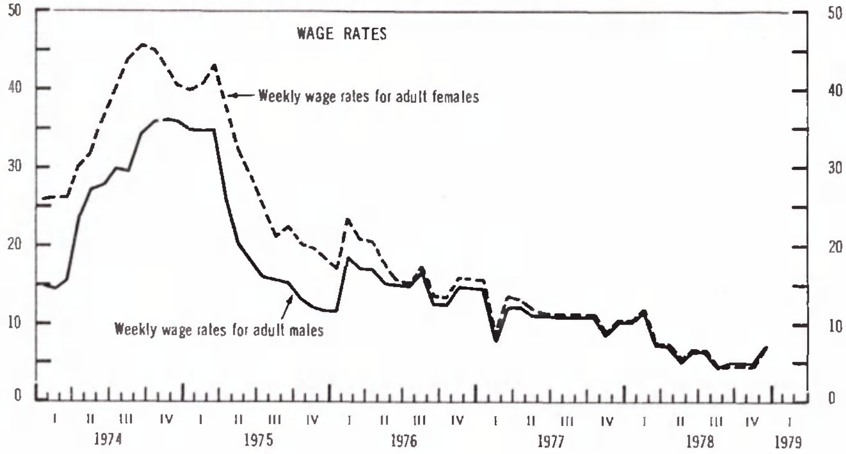
13 National accounts estimates of gross operating surplus of trading enterprise companies.

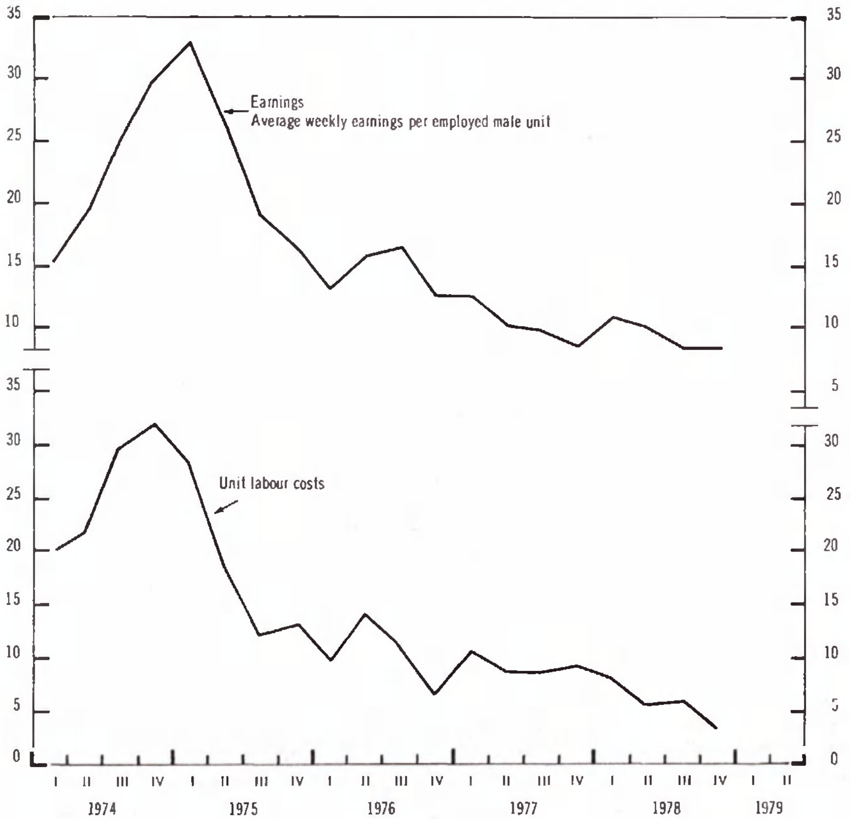
14 This is defined as the ratio of gross operating surplus of trading enterprise companies to non-farm product at factor cost.

15 See OECD Economic Survey of Australia, April 1978, pp. 18-20 and pp. 29-31.

16 The gap in Australia in 1975 was in fact the largest of any OECD country for which comparable data exists.

Diagram 6 **Wage rates, earnings and unit labour costs**
Growth rates over same period in previous year





Sources: Figures for wage rates 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.

estimates[17] suggest that average real wage costs—as measured by real wages, salaries and supplements per employee hour—rose by about 3¾ per cent compared with a rise in average labour productivity (real GDP per employee hour) of around 5 per cent, thus indicating some marginal narrowing of the gap. Since the second quarter of 1977 and up to the third quarter of 1978 the pace of adjustment may well have accelerated, due to a slower rise in real wage costs and a faster rise in productivity. But the recent decline in the real wage/productivity gap has not been matched by an increase in the before-tax factor income share of the corporate sector; this remains substantially below its long-term average. However, in spite of the existing factor share imbalance, the recent stronger trend in wage and salary earner employment, the continued high investment in plant and equipment and the upward trend in non-residential building and construction investment, all suggest that investor confidence is more buoyant.

The trends in employment, unemployment, real wage costs, productivity, factor incomes shares and productive investment discussed briefly above are all related. In particular, they suggest that although the real wage/productivity gap as defined has narrowed this reflects mainly productivity growth due to labour saving rather than lower real wages.

Prices

The increase in the consumer price index—13.5 per cent in 1976 and 12.3 per cent in 1977—slowed further to 7.9 per cent in 1978. But after decelerating from an annual rate of increase of 8.9 per cent in the second half of 1977 to 7.3 per cent in the first half of last year, the index accelerated to 8.2 per cent in the second half. The acceleration was largely due to a higher oil levy and indirect taxes announced in the August budget which after allowing for a change in recording the costs of health and personal care, accounted for about half of a percentage point of the 2.3 per cent rise in the index in the December quarter[18]. This suggest that there was little change in the underlying increase between the two halves of the year. The position seems to have been broadly maintained in the March 1979 quarter, the index rising by 1.7 per cent. In view of the 4 per cent full indexation of award wages in December, considerable rises in food—particularly meat prices—and higher crude oil prices, the outcome was somewhat better than might have been expected.

The national accounts deflators for non-farm GDP and major GNE components show similar developments to that of the consumer price index: the slowdown from the peak rate around the turn of 1974 continuing in the second half of 1977 but with little further change in the two halves of 1978[19] (Table 4). The slighly divergent movements of non-farm GDP and the major GNE components deflators between the two halves of the year reflect the improvement in the terms of trade in the second half—the rise in export prices leading to the acceleration in the

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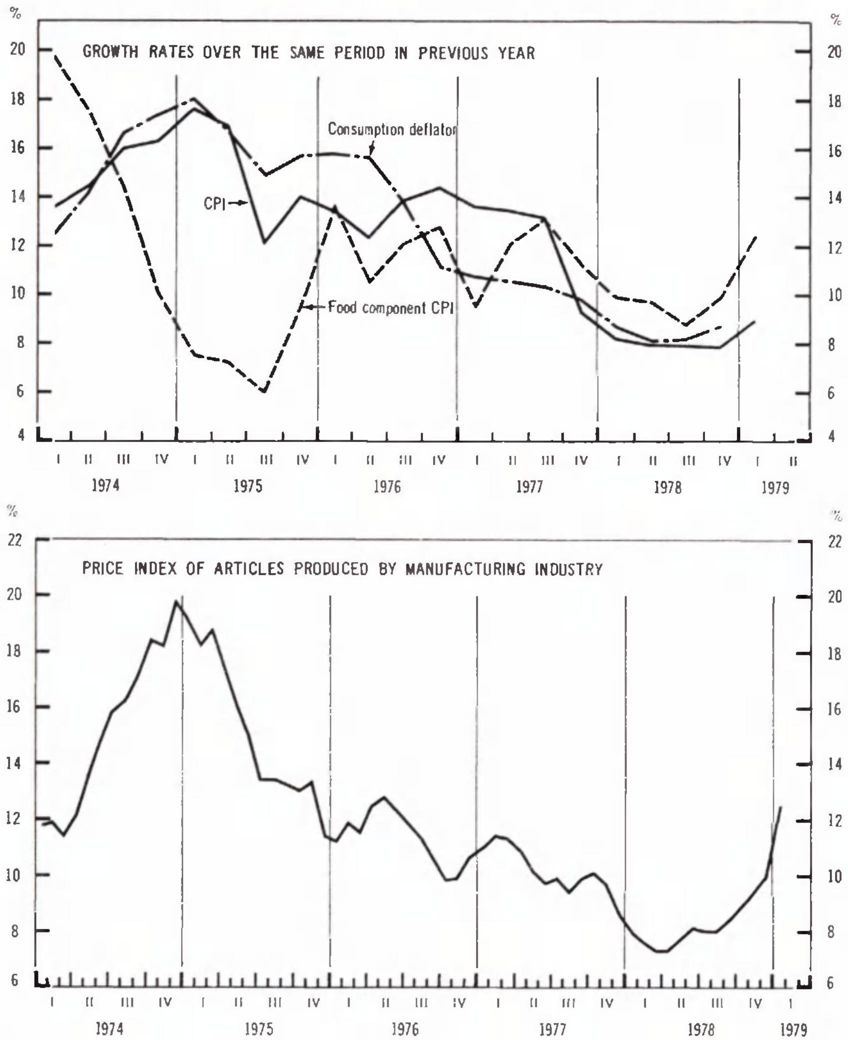
17 The estimates are largely derived by the use of the methodology set out in *Round-up of Economic Statistics*, The Treasury, September 1978. As both the labour and national income data used in assessing the changes in the gap are incomplete and subject to revision, the estimates should be considered as showing the direction of change rather than precise quantitative movements. An important difference between the estimations presented above and those in the last Survey is that the productivity estimates have not been adjusted for the terms of trade.

18 The changes in indirect taxes were estimated to have added about 1 percentage point and the increased oil levy about ¾ percentage point to the December quarter CPI. The oil levy was increased to raise the price of all Australian produced crude oil to parity with import prices.

19 The acceleration in the implicit deflators between the second half of 1976 and the first half of 1977 resulted from the effect of the November 1976 devaluation on the prices of most categories of final expenditure.

Diagram 7 **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,* ABS.

GDP deflator from 6.7 to 7.1 per cent (annual rate) and technical difficulties associated with the pricing of public sector expenditure.

At the producer level, the price index of imported materials used in manufacturing rose relatively modestly in the second half of 1977 and the two halves of 1978. In both halves of 1978 the increases in this component were lower than for manufacturing material inputs as a whole. However, despite this dampening influence, the price index of materials used in manufacturing accelerated from an annual rate of increase of 3.7 per cent in the second half of 1977 to 25.8 per cent in the second half of 1978. This was mainly due to sharp increases in the prices of food, live animal and tobacco inputs and, in the second

Table 4 **Indicators of price changes**
Percentage change from previous period annual rate

	1975		1976		1977		1978	
	I	II	I	II	I	II	I	II
Total CPI	15.2	11.0	14.7	13.6	13.4	8.9	7.2	8.5
Implicit deflator[1]								
Private final consumption	14.5	16.1	15.4	9.5	11.5	8.6	8.0	8.9
Major GNE components	16.9	14.7	15.7	9.9	11.7	8.0	7.6	7.3
Gross non-farm product	13.5	19.5	12.2	11.6	9.6	7.1	6.7	7.3
Manufacturing industry								
Materials used in	3.4	11.3	10.8	14.7	19.4	3.7	10.3	25.8
Imported materials used in	21.2	7.5	11.8	8.2	32.0	4.7	2.8	4.3
Articles produced by	13.5	12.4	11.7	9.7	11.8	7.5	7.8	9.8

1 Seasonally adjusted.
Sources: Consumer Price Index, ABS; *Quarterly Estimates of National Income and Expenditure*, ABS; *Price Indexes of Articles Produced by Manufacturing*, ABS; *Price Indexes of Materials used in Manufacturing*, ABS.

half of 1978, sharp rises in the electricity, gas and fuels component (reflecting the higher oil levy imposed in the 1978-1979 Budget), and in commodity prices reflecting international developments. As would be expected, the higher input prices were reflected in prices of manufacturing output which accelerated slightly in the first half of the year but then at a faster rate in the second half (Table 4).

Balance of payments

Recent developments in the balance of payments reflect shorter-term influences as well as structural and compositional changes which have been under way for a considerably longer time. The latter are discussed at some length in Part II below, the present section concentrating on recent events. For 1978 as a whole, the deficit on current account amounted to \$ 3.4 billion[20], an estimated 3½ per cent of GDP (above the longer-term average) and compared with the outturn of \$ 2.3 billion (2¾ per cent of GDP) recorded in 1977. After declining, in seasonally-adjusted terms, during the second half of 1977 the deficit rose through 1978 to peak in the fourth quarter at a level of around 4.5 per cent of GDP. Nevertheless, when allowance is made for special factors affecting both exports and imports there were signs of an underlying improvement in the current account position in the final months of 1978. This improvement has become clearly evident during the first four months of 1979 with a sharp reduction in the current external deficit.

The deterioration in the current external balance last year is largely explained by movements in trade volumes and despite a faster rise in export than import prices, the surplus on trade fell from \$ 894 million in 1977 to \$ 64 million. After picking up strongly (13½ per cent, seasonally adjusted annual rate) in the second half of 1977, the volume of merchandise exports declined by 12½ per cent in the first three quarters of 1978, due largely to the impact of the drought in 1977 on rural output available for export. Exports picked up strongly in the final quarter of 1978 despite the impact of industrial unrest on exports in the second half of 1978. In 1978 as a whole, export volumes may have been at

20 As in the rest of this Survey, the numbers referred to are denominated in Australian dollars unless otherwise specified.

Table 5 **Balance of payments**
$ million, not seasonally adjusted

	1976	1977	1978	1977 I	1977 II	1978 I	1978 II
Current account:							
Exports, fob	10 619	11 888	12 306	5 738	6 150	5 912	6 394
Imports, fob	−8 961	−10 995	−12 247	−5 546	−5 449	−5 718	−6 523
Trade balance	1 659	894	64	193	701	194	−130
Invisibles (net)	−2 846	−3 190	−3 435	−1 581	−1 609	−1 712	−1 723
Current balance	−1 187	−2 296	−3 370	−1 388	−908	−1 517	−1 853
Capital account:							
Government (net)	362	630	1 730	−148	778	741	989
Private capital and balancing item	541	640	1 604	1 320	−680	1 043	561
Net apparent capital inflow	902	1 271	3 333	1 173	99	1 783	1 550
Net official monetary movements	−287	−1 023	−36	−214	−809	266	−302
Change in official reserve assets, end of period[1]	+334	−40	+321	+393	−433	+346	−25
Level of reserves at end of period[1]	2 919	2 879	3 200	3 312	2 879	3 225	3 200

1 Based on market valuations.
Source: Balance of Payments, ABS.

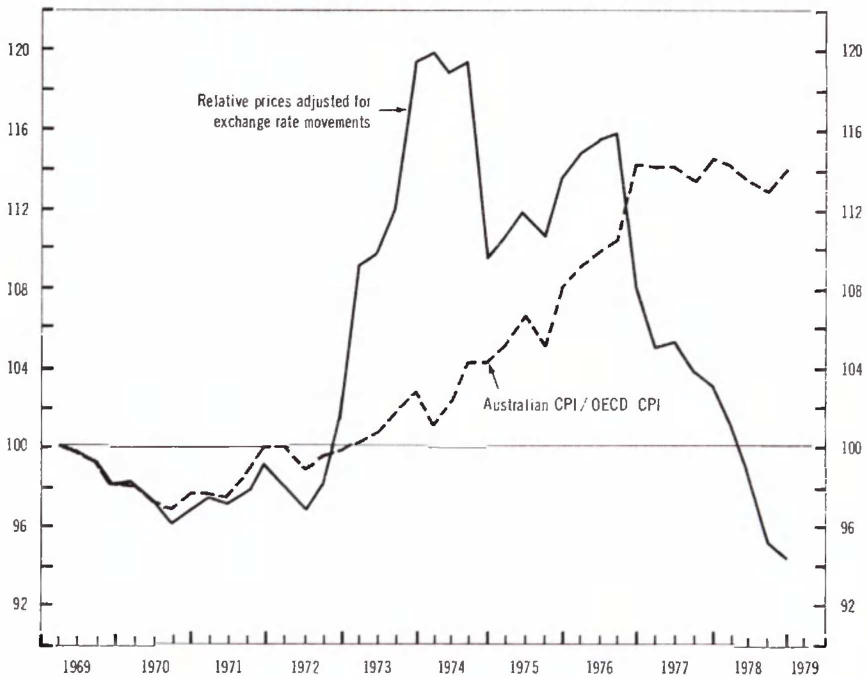
about the same level as in 1977. On a national accounts basis, exports of goods and services in constant prices declined by 1½ per cent in 1978. Supply constraints of some rural products—notably cereals—as a result of the drought in late 1977 were probably the most important influence behind the weak development of export volumes until the latter part of the year. In contrast, the volume of merchandise imports may have increased by about 4 per cent. For goods and services (volume) in national accounts terms the rise is also estimated at 4 per cent. Merchandise import volumes rose strongly (15 per cent seasonally adjusted annual rate) in the first half of last year and continued to rise in the second but at a lower rate. In part, the surge in imports probably represented a recovery from the unusually low level of the second half of 1977, but also reflected the general expansion of demand which occurred during the year and in particular the increased investment demand for plant and machinery as well as lumpy purchases of defence equipment and shipping. The value figures for the first quarter of 1979 point to a sharp decline in import volumes. The export figures have still to reflect fully the record rural production and a number of more recent price increases for Australian exports.

Australia's terms of trade strengthened during the course of 1978. Export prices had weakened considerably in the second half of 1977, but recovered strongly during 1978 to a level in the fourth quarter some 12 per cent higher than a year earlier. The corresponding figure for import prices was 7 per cent. The marked rise in export prices was mainly attributable to meats, cereals and metals and coals, the prices of which rose strongly again in January. Spot prices for a number of important Australian exports (including meat, wool and non-ferrous metals) strengthened further during the first half of 1979. On the import side, price rises for machinery and transport equipment were particularly marked during 1978.

As noted in last year's Survey[21], it is particularly difficult to assess Australia's international competitive position due to inadequate statistics. But the use of a variety of indicators (Diagram 8) such as relative consumer prices adjusted for exchange rate changes and trade-weighted and import-weighted average earnings in the main partner countries suggests that after little change in 1977 there was a considerable improvement in competitiveness in 1978 and by the end of the year the position which existed before the sharp deterioration in 1972 and 1973 had been more than restored. The overall devaluation since late 1976 and the progress made in reducing domestic inflation have been the major factors resulting in improved competitiveness.

After showing great instability in 1976 and 1977, the capital account improved substantially in 1978; in particular private capital inflow recovered. In the first half of the year private capital inflow amounted to $ 850 million compared to around $ 90 million in the second half of 1977 ; for the year as a whole the inflow was $ 1 510 million. This turnaround was probably influenced by a number of factors but the more important would include the net inflow of trade credit associated with the weakening of the balance of trade in the first half of the year, the seasonal tightening of domestic liquidity at around the same time and the firm indication by the Government of its intention to undertake substantial overseas borrowing to support the exchange rate. The weaker inflow of private capital during the second half of 1978 is believed to have been related to the growth in interest rate differentials between Australia

Diagram 8 **Index of competitiveness**
1969 QI = 100



Sources: Consumer Price Index, ABS, Canberra. OECD Secretariat.

21 See OECD Economic Survey of Australia, April 1978, p. 26.

and overseas financial markets as well as the strong growth in domestic liquidity. Total net apparent capital inflow amounted to $ 3.3 billion for the year as a whole of which government capital transactions resulted in a net inflow of $ 1 751 million. Reflecting these movements, as well as the impact of higher gold prices official reserves which had fallen by $ 670 million in 1977, rose by $ 320 million in 1978 to stand at $ 3.2 billion in December. There has since been a considerable increase in reserves which at end-May stood at $ 3.8 billion.

II MEDIUM-TERM ASPECTS OF THE BALANCE OF PAYMENTS

The overall process of adjustment and recovery which has been under way since 1974-1975 has only recently been reflected in a significant improvement in the balance of payments. Despite two sizeable devaluations in 1974 and 1976 and a smaller net devaluation since, and maintenance of a relatively tight policy stance for almost three years, the current account was slow to adjust, continuing to increase relatively rapidly until very recently. Export performance was affected by a decline in competitiveness in the mid-1970s, the downturn in world activity and supply problems more recently due to drought-affected rural output in 1977. Australia along with a number of other primary producing countries has also encountered problems of market access for a number of important rural products. The volume of imports has responded with a considerable lag to the improvement in Australia's competitive position since November 1976 partly due to special factors influencing capital imports. The net invisibles deficit has grown broadly in line with trends in GDP. While the deficit on current account was increasing, private capital inflow has been weaker than normal and since the September quarter of 1977 the capital account has been supported by an expanded programme of official borrowing.

Table 6 **Balance of payments 1967 to 1978**
Current account
$ million
June years

Years ending June	Exports	Imports	Balance	Net invisibles	Current balance	
						Per cent GDP
1967	2 916	2 837	79	−736	−657	−2.9
1968	2 931	3 159	−229	−904	−1 133	−4.7
1969	3 235	3 203	32	−1 001	−968	−3.5
1970	3 967	3 553	414	−1 109	−695	−2.3
1971	4 230	3 790	440	−1 206	−766	−2.3
1972	4 740	3 791	949	−1 264	−315	−0.8
1973	6 010	3 808	2 202	−1 459	743	+1.7
1974	6 688	5 754	934	−1 744	−810	−1.6
1975	8 490	7 652	838	−1 784	−946	−1.5
1976	9 408	7 924	1 484	−2 591	−1 107	−1.5
1977	11 399	10 345	1 054	−3 043	−1 989	−2.4
1978	12 063	11 167	896	−3 320	−2 424	−2.7

Sources: Balance of Payments, March quarter 1979. *Quarterly Estimates of National Income and Expenditure,* December quarter 1978, ABS.

Table 7 Balance of payments; Capital account 1967 to 1978
$ million
June years

Years ending June	Private capital inflow				Government total	Change in reserves
	Total	of which: Portfolio	Retained income	Other direct		
1967	403	153	115	249	−28	−132
1968	954	402	228	333	88	73
1969	980	405	249	350	70	143
1970	813	267	216	512	−185	118
1971	1 434	652	239	658	−63	742
1972	1 270	577	217	652	−60	1 544
1973	434	94	297	93	−64	1 079
1974	169	−134	420	185	−21	−384
1975	714	237	241	403	−24	−460
1976	693	200	605	−42	−128	−1 053
1977	1 593	500	672	405	153	−190
1978	929	257	609	463	1 518	−474

Source: Balance of Payments, ABS, 1976-1977.

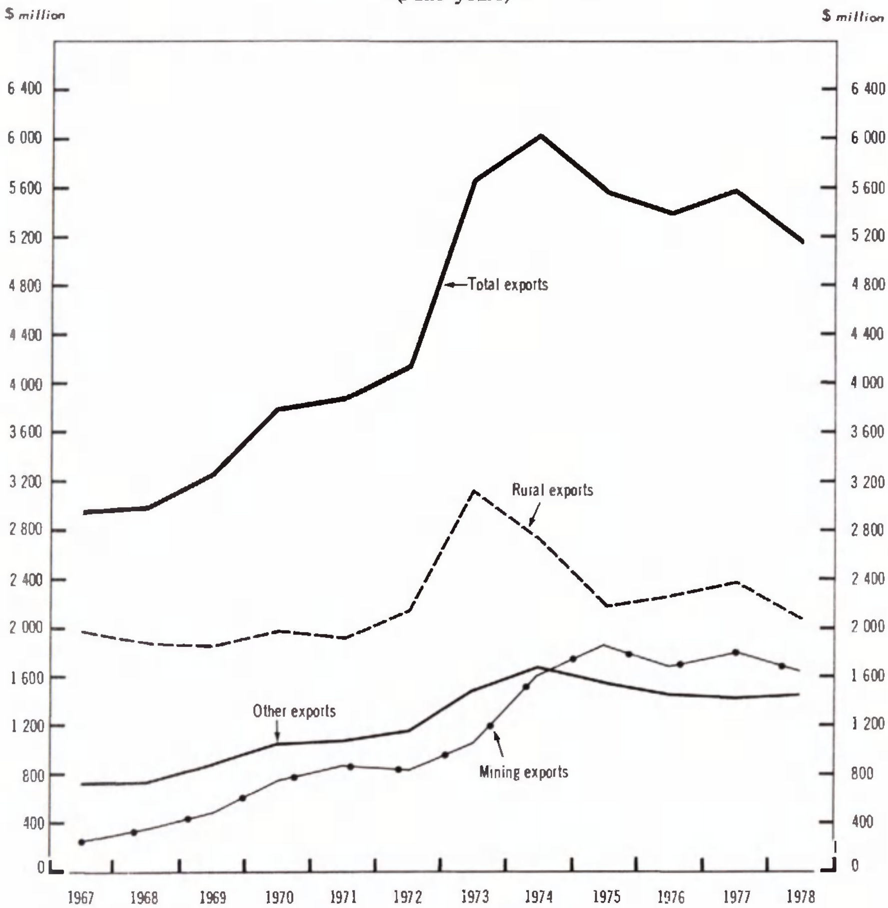
Developments 1967 to 1978

Developments in the current account have been over-whelmingly determined by the movements—both volume and price—in merchandise trade, particularly in exports. Between 1967-1968 and 1972-1973 the volumes of all Australia's main export groups grew strongly; the annual average rates of increase were 3½ per cent for rural exports, 21½ per cent for metaliferous ores and metal scrap, 19¼ per cent for coke and coal and briquettes, 14¾ per cent for metal manufactures, machinery and transport equipment and 11 per cent for other exports. In total, export volumes increased at an annual average rate of 9¼ per cent. Export volumes peaked in 1972-1973 and then fell at an average annual rate of 1½ per cent in each of the following three years. Initially, the decline appears to have been related to supply influences affecting rural exports, but the onset of the world recession and exchange rate adjustments were also important. The volume of rural exports fell in 1972-1973, the decline continuing in 1973-1974. "Other" exports declined in 1973-1974 and subsequently remained flat. The volume of mineral exports fell in 1974-1975.

The consequences of this halt to export growth were for a time masked by the commodity boom of 1972-1973 and its associated increase in export prices. Prices for rural exports rose by around 90 per cent over the two years 1971-1972 to 1973-1974. Mineral export prices rose by 40 per cent over the same period and the export price index as a whole increased by 55 per cent. However, in the following year, import prices excluding food caught up abruptly, rising by 29 per cent in 1974-1975, by 12 per cent in 1975-1976 and 17 per cent in 1976-1977. Between 1973-1974 and 1977-1978 the terms of trade worsened by around 30 per cent, exacerbating the stagnant growth in export volumes. The purchasing power of exports, that is, exports adjusted for changes in the terms of trade, grew considerably in the four years to 1973-1974 but they may have marginally fallen in the following four years.

In addition to the reversals in export trade, two factors affected balance of payments developments. First, the mid-1970s marked the end of the initial and most dramatic phase in the exploitation of Australia's domestic oil resources.

Diagram 9 **Value of exports corrected for terms of trade**
(June years)



Source: Obtained by multiplying the volume of exports by indexes of the terms of trade for each commodity group. Export price series are those given in the ABS Monthly Review, weighted with fixed 1966/67 weights. The import price index used is that given in the Reserve Bank Statistical Bulletin, excluding fuels. The "other" category in this diagram is obtained by subtraction from total exports and must be considered less reliable than the other components.

Over a span of about eight years, production of Australian crude oil rose twentyfold to a position where, in 1973-1974, total production of 2.3 million cubic meters supplied about 70 per cent of the input to Australian refineries. Fuel imports declined in inverse proportion; between 1967 and 1975 fuel imports halved. However, from 1973-1974 onwards, this process of import substitution slowed down markedly; over the last four years production has increased relatively slowly, at around 2¼ per cent per annum and in 1977 and 1978 the volume of fuel imports increased. Secondly, inflows of identified private capital have been weaker than normal. There was an excessive inflow at the start of the decade when there was an expectation of an appreciation of the exchange rate. Total inflows fell off sharply after the end of 1972 following an appreciation and other measures to curb the inflow. While there has been some recovery since 1975, a greater part has come from retained incomes rather than portfolio or

Table 8 **Actual and effective changes in export volumes**
Adjusted for changes in commodity terms of trade

	Percentage changes at annual rates		
	1966-1967 to 1969-1970	1969-1970 to 1973-1974	1973-1974 to 1977-1978
Rural exports			
Actual volumes	3.9	−3.1	8.2
Terms of trade	−3.8	11.9	−13.7
Effective volumes	0.1	8.4	−6.6
Mineral exports			
Actual volumes	37.8	15.2	3.2
Terms of trade	5.3	4.9	−2.7
Effective volumes	45.1	20.8	0.4
Other exports			
Actual volumes	16.1	8.1	3.9
Terms of trade	−2.4	3.9	−7.4
Effective volumes	13.4	12.4	−3.8
Total exports			
Actual volumes	10.7	3.8	5.6
Terms of trade	−1.8	8.2	−9.1
Effective volumes	8.9	12.3	−3.8

Sources: ABS and OECD Secretariat estimates. See footnote to diagram 9.

direct investment (Table 7). The late 1960s and early 1970s saw a strong accumulation in external reserves. From around end-1972 this gave way to a downward trend which, despite large government borrowings after mid-1977, has persisted until recently.

Adjustment since 1975

The suddenness and severity of the external crisis in 1974-1975 which reinforced internal economic problems, presented Australia with adjustment problems of considerable magnitude. The character of the external problem Australia faced in the mid-1970s differed substantially from that of earlier periods. Earlier large falls in the terms of trade had mostly been generated by falling export prices against a background of import prices which were stable or rising only slowly. In previous external crises the immediate impact on the economy, then predominantly an exporter of rural products, was a reduction in real expenditures, reinforced where necessary by fiscal measures to reduce expenditures on imports. In 1974-1975 the transmission process was greatly different. Export prices remained high and the fall in the terms of trade emerged from a rapid and large increase in import prices which was quickly transmitted to domestic prices at a time when there was already significant upward cost pressure due to the explosion of money wages which took place during 1974. The subsequent process of moderating these cost pressures and of restoring relative prices and factor shares to an appropriate position has since dominated economic policy and has been described elsewhere in this and previous Surveys. As far as balance of payments adjustment is concerned, however, the relevant point is that recent experience indicates that when a downturn in world demand is super-imposed upon a strong acceleration in domestic inflation the process of adjustment can be a prolonged one and subsumes not only the economic problems of coming to terms with a changed external world but also domestic questions of appropriate factor shares.

Another influence on the balance of payments since 1974 emerged as a legacy of the industrial growth of the previous decade. The increase in non-rural exports between 1967-1968 and 1972-1973 was led by a steady rise in exports of metaliferous ores and coal and coke which averaged volume increases of 21½ per cent and 19¼ per cent respectively per annum during this period. In turn this was closely related to the rapid development of the Japanese economy and, in particular, to its steel industry during these years. Access to the large North American and European markets was limited by a number of factors[22]. By 1972-1973 Japan accounted for 72¼ per cent of total exports of metaliferous ores and almost 90 per cent of coal and coke exports. The onset of the world recession had a severe impact on world steel production and shipbuilding, particularly in Japan where the former peaked in 1973 after having grown by 13¾ per cent per annum in the previous thirteen years. Since then production had declined at an annual rate of about 1¾ per cent. These developments have resulted in a sharp decline in demand for iron ore, which accounts for just under 30 per cent of total mineral exports, and in coking coal. Although some diversification appears to have taken place since 1972-1973 the collapse of Japanese demand for metaliferous ores and coal is the main factor behind the deceleration which has occurred in the rate of increase in these exports; the annual rate of growth of export volumes has slowed to 3.7 per cent and 7.1 per cent respectively in the past five years.

The growth in the importance of mineral exports has had important consequences beyond its own immediate impact on the balance of payments. One obvious direct connection exists between the investment programme in mining projects and the level of private capital inflows. First, although the proportion of GDP devoted to net capital expenditure[23] has been roughly constant at around 19 per cent since the beginning of the 1960s the composition of this expenditure has not. Thus, investment in the mining industry, which accounted for about 2.5 per cent of total private investment in 1963-1964 had risen to about 14 per cent in 1971-1972. This rapid expansion, an annual rate of increase of around 36 per cent (in value) was accomplished with the help of a rapid acceleration in capital inflow[24] which was clearly excessive to Australia's needs. Foreign direct investment in primary production which was running at an annual rate of about $ 100 million in the five years to 1967-1968 increased to a rate of about $ 225 million over the following quinquennium. A similar trend in portfolio investments, brought about by booming stock market conditions, particularly in mining shares, in the late 1960s and early 1970s gave a further boost to the capital account at around the same time. In the five years to 1972-1973 portfolio investment averaged $ 400 million per annum compared with a rate of about $ 150 million

22 First, owing to Australia's distance from established markets, Australian producers suffered a transport cost disadvantage relative to established suppliers. Secondly, where mineral users purchased from independent suppliers a large proportion of this trade was conducted under long-term contracts which further limited the access of Australian producers. Finally, the market for a number of mineral commodities is characterised by a high degree of vertical integration. At the same time relatively slow growth of production in these markets meant that demand for minerals was not expanding significantly in relation to the capacity of established mineral suppliers. As a result, market opportunities for independent ore producers were extremely limited.

23 Comprises gross fixed capital formation, agricultural and non-agricultural stockbuilding, and the statistical discrepancy less depreciation allowances.

24 The development of Australia's mineral industry was largely carried out by United Kingdom, United States and Canadian companies. Considering the nature of mining investment, requiring as it does very considerable injections of capital with a long gestation period, together with the relatively undeveloped state of the Australian capital market at this time it would have been extremely difficult to develop these resources from domestic savings alone.

in the previous five years. However, after 1971-1972 investment in mining fell sharply (for reasons already discussed) and the trend has been generally weak since. This has resulted in a marked slowdown in this category of foreign investment since that time (Table 7). In addition, weak stock market conditions led to a sharp reversal of the earlier trend in portfolio investment in 1973-1974 and although there has been some pick-up since then, uncertainties with regard to the exchange rate have possibly increased the volatility of the flows.

The development of mining also held indirect implications for rural exports and trade in manufactures. At the same time as minerals were guaranteeing foreign earnings and attracting foreign capital, the terms of trade for rural exports declined. Apart from three years in the mid-1970s—1973 to 1975—the terms of trade for rural exports had fallen by a total of about 25 per cent since 1966. In addition, the position of the rural industries relative to other domestic industries had fallen so that rural exports were caught between stagnant or declining export prices, rising internal costs and adverse weather conditions. Between 1967 and 1978 the terms of exchange between rural and other industries fell by 32 per cent. In the more recent period, however, the volume of farm exports and rural export prices have risen strongly and foreign exchange earnings from manufactured exports have also increased.

The other two major categories which have contributed to the slowdown in export growth over the past five years are metal manufactures, machinery and transport equipment and "other" (mainly manufactured) exports. The expansion which took place in metal manufactures, etc. in the five years to 1972-1973, an annual growth of $16\frac{1}{2}$ per cent, is biased upwards by the exceptional demand conditions of 1972-1973. Capacity constraints in the world's major materials industry caused these exports to grow by over 25 per cent in that year. Excluding 1972-1973 the annual growth rate of $11\frac{1}{2}$ per cent was about the same as the other exports group in the five years to 1972-1973. Since then, however, the annual growth rate has been −1.3 per cent (1.7 per cent excluding 1972-1973) and $5\frac{1}{4}$ per cent respectively for these two categories. The slower growth of world demand since 1973 certainly explains part of the deceleration which has occurred[25] particularly for those commodities which are relatively homogenous and traded at world market prices[26]. However, for the remainder of these exports unfavourable trends in Australia's cost and competitive position during these years were probably the main factors underlying the weaker than expected performance. Following the significant improvement in Australia's competitiveness more recently there has been a marked recovery in the rate of manufactured exports.

Between 1967 and 1972 the effective exchange rate in real terms[27] was roughly constant. Over the following two years, however, it rose by almost 23 per cent. The exchange rate was revalued twice (by 7.05 per cent in December 1972 and 5 per cent in September 1973) following the excessive strength of the external accounts in the previous years which was causing problems for domestic monetary policy. At the same time, however, cost pressures were beginning to rise sharply. Australia's prices, measured by the GDP deflator,

25 Estimated equations for the major seven's volume imports of manufactures by the Secretariat suggest an income elasticity of demand of about $2\frac{1}{4}$. Australia's main trading partners for manufactured exports had elasticities above this. On the basis of the lower estimate, an annual growth rate in manufactured exports of around $6\frac{3}{4}$ per cent might have been expected since 1972-1973 which is substantially above the actual rate of $2\frac{3}{4}$ per cent.

26 These include semi-manufactures such as iron, steel, copper, nickel, aluminium, etc.

27 The effective exchange rate was calculated on the basis of 1972 trade weights with other OECD countries (which accounted for about 73 per cent of Australia's trade in that year). The adjustment for relative inflation rates used these same weights and the GDP deflators of OECD countries relative to Australia's.

relative to the rest of OECD countries increased by 5½ per cent, as real wages quickly outstripped productivity during this period[28]. Although relative prices continued to deteriorate for a further three years, two sharp devaluations (12 per cent in September 1974 and an effective 17½ per cent late in November 1976 the latter being reduced in December by a number of small revaluations to about 12½ per cent), followed from about mid-1977 by a steady downward movement in the effective exchange rate have succeeded in bringing the real effective exchange rate index back from its 1974 peak. However, not until end-1977 had it returned to the level obtaining during 1967-1972. Furthermore, although product prices now appear to be back in line, an adjustment remains to be made in respect of domestic costs, as is evidenced by the remaining real wage/productivity gap[29]. In addition to impeding export growth the deterioration in cost and price competitiveness inevitably affected the trend of imports. In the five years to 1972-1973 total real domestic demand expanded at an annual rate of over 4½ per cent while real import growth averaged 1 per cent. Since then the increase in total real domestic demand has slowed to about 1½ per cent per annum but imports have risen annually by over 4½ per cent. Part of the explanation for this change is the sharp rise in imports in 1973-1974 when measures were taken to encourage importing following the marked strengthening in the current account associated with rapid export growth in the immediately preceding years. It also reflects the reduced dependence on imported fuels which took place between 1967-1968 and 1972-1973. However, excluding the effects which the development of Australia's energy resources has had on the relationship between domestic demand and imports it would still appear that there has been some increased import penetration in recent years. The two revaluations of the currency (in 1972 and again in 1973), the tariff reduction of 25 per cent in 1973, the unfavourable trend in Australia's relative price performance during these years and the upward shift in domestic costs, brought on by the rapid boost to real wages in 1974, have also contributed significantly to this process. The more recent improvement in the competitive position of Australian industry may still have to be fully reflected in the rate of importing relative to domestic sales. After increasing in the early 1970s the volume of exports to GDP has also remained higher in recent years but this fact has been obscured in terms of current account developments due to movements in the terms of trade.

III ECONOMIC POLICY

In 1978, the authorities continued to pursue the steady economic policy strategy on which they embarked at the end of 1975 and which has been adhered to in each budget since 1976 with considerable success. The basic objectives of policy as set out in the 1977-1978 Budget speech are to lower the underlying trend of inflation and "promote moderate and non-inflationary growth in order to create jobs and reduce unemployment", achievement of the latter being dependent on success in combating inflation through the maintenance generally

28 For a discussion of the real wage-productivity gap in Australia see Economic Survey of Australia, OECD, April 1978, pp. 18-19 and Annex 1.
29 See *Economic Outlook*, No. 24, OECD, December 1978, p. 42.

of relatively tight demand management. As regards wage policy, the federal authorities have continued to argue in wage cases before the Conciliation and Arbitration Commission for less-than-full indexation, thus entailing a real wage adjustment; until the May 1978 hearing less-than-full indexation had been granted. External policy remained broadly unchanged, the exchange rate continuing to be adjusted in a number of small steps resulting in an improvement in competitiveness but with little impact on final prices. Specific measures continued to be directed to the maintenance of employment through protection of sectors of industry considered vulnerable to external competition.

Fiscal policy

The 1978-1979 budget[30] was designed—as noted above—to follow closely the basic strategy, in place now for over three years, of reducing inflation through the maintenance of tight demand management policies. It provided for a budget deficit of $ 2.8 billion compared with an outturn of $ 3.3 billion in 1977-1978. The budgetary outturn for 1977-1978 (a deficit equal to 3.7 per cent of GDP) indicated some slippage compared with the initial estimate of 2.3 per cent and the recorded deficit of 3.3 per cent in 1976-1977. This was almost entirely due to a shortfall in receipts of $ 970 million, 4 per cent below the budget estimate and resulted mainly from lower personal income tax collections. Revenue from both PAYE taxpayers and other individuals was below what had been projected, the former due to higher than estimated refunds and the latter because of lower receipts from provisional taxpayers.

It was officially estimated that in the absence of any discretionary measures the growth of receipts in 1978-1979 would have been only about 4½ per cent (9¾ per cent in 1977-1978) while expenditure would have continued to grow sharply[31]. Accordingly, to maintain the stance of policy, a number of discretionary changes were made. These changes represented a temporary relinguishing of another important aim of policy in recent years—the reduction of personal taxes. The main measures introduced were:

i) Changes to personal income taxes which increase revenue by an estimated $ 686 million in 1978-1979, the most important of which was a temporary increase of 1½ per cent in the standard rate to 33½ per cent with effect from 1st November, 1978[32]. In addition, to this, the proportion assessable for tax of lump sums, received on retirement or termination of employment for unused annual and long-service leave was increased[33].

ii) The production levy on non-parity indigenous crude oil was raised from $ 18.90 per kilolitre (approximately $ 3 per barrel) to a rate that

30 Brought down on 15th August, 1978.

31 The low revenue increase mainly reflected the cost in 1978-1979 of measures previously introduced. For example, the changes to the personal income tax system with effect from 1st February, 1978 have an estimated full-year cost of $ 1 300, on 1977-1978 income levels, compared with an actual cost in that year of about $ 400 million. In addition to lowering average tax rates the February measures are estimated to have reduced the elasticity of the scales from 1¾ to 1½. Furthermore, non-personal income taxes, mainly on company income of 1977-1978, will be sluggish this year as growth of the base of these taxes has been moderated by the investment allowance and the trading stock valuation adjustment. Each of these reduce company tax revenue in 1978-1979 by $ 300 million ($ 225 million in 1977-1978) and $ 273 million ($ 281 million in 1977-1978) respectively.

32 From this date PAYE deductions increased by an amount designed to make deductions received over 1978-1979 broadly equivalent to the increased tax assessed on the income of 1978-1979 as a whole.

33 Details are contained in the Calendar of Main Economic Events.

will bring the cost to refineries of such oil to import parity levels. These increased duties are expected to raise revenue by $ 676 million in 1978-1979[34].

iii) Excise duties on beer, spirits and cigarettes were substantially raised. The additional revenue from these measures is estimated at $ 435 million in 1978-1979. Despite the increases in personal income tax rates, revenue from this source is expected to rise by only 6¾ per cent, compared with 9¾ per cent in 1977-1978, and total receipts by 11 per cent (9¾ per cent in 1977-1978). An assumed lower rate of increase in earnings explains part of the slowdown in receipts. In addition, however, it is estimated that the 1½ per cent increase in personal taxes and the decision (announced in the 1977-1978 budget) to index tax scales in 1978-1979 by only half the factor given by the annual indexation rules will still be more than offset by the full-year cost of the February 1978 standard rate change[35].

In view of the fairly moderate increase in receipts, the reduction in the deficit aimed for necessitated further stringency in public expenditure. There has been considerable success in this area in recent years, the rate of increase having been brought down from 22½ per cent in 1975-1976 to 11 per cent in 1977-1978. Additionally, the outturn on expenditure has been within 1 per cent of the initial estimates contained in the budgets of 1976-1977 and 1977-1978. Slowing inflation will have had some moderating influence on the growth of most categories of expenditure. In addition, however, the allocations for Education, Social Security and Welfare are budgeted to increase very moderately[36].

In the first three quarters of the 1978-1979 financial year some slippage seems to have occurred in the net budget position reflecting both faster than expected increases in expenditures and a shortfall in revenues. Expenditures had risen nearly 2 per cent above the rate estimated in the Budget for the year as a whole due to markedly higher payments for defence equipment and stores and increased public debt interest. On the revenue side, shortfalls seem to be mainly related to lower than expected receipts from provisional tax and company tax payments. With expenditures totalling $ 21.8 billion and receipts $ 16.4 billion, the Budget deficit at the end of March was $ 5.4 billion compared with $ 5.3 billion a year earlier. In the final quarter, the growth of expenditures is likely to slow down considerably while revenues will rise substantially in view of the net effect of the timing of the main tax collections, the abolition of the health insurance levy and the effects of the temporary income tax surcharge, and for the financial year as a whole, the budget deficit may be similar to the deficit in 1977-1978. For the financial year 1978-1980, the initial forward estimates on the basis of existing policy indicated that a substantial increase in the budget deficit was in prospect. Accordingly, in line with the basic policy strategy since late 1975 of maintaining tight demand management, the Treasurer announced in late May a package of expenditure and revenue measures to reduce the size of the prospective deficit[37].

34 The measures do not apply to that proportion of indigenous crude oil for which, under the arrangements announced in the 1977-1978 Budget, producers are to receive import parity prices. See, Economic Survey of Australia, OECD, April 1978, p. 33.

35 PAYE receipts are expected to rise by 7.1 per cent in 1978-1979 against 7.8 per cent in the previous year, while revenue from non-PAYE individuals, mainly on income earned in 1977-1978, when primary producers experienced a marked fall in income is estimated to increase by less than 4½ per cent.

36 The first two of these allocations are budgeted to increase by about 6.1 per cent and 7 per cent respectively.

37 For details see Calendar of Main Economic Events.

Table 9 **Budget transactions**
$ million

	1976-1977		1977-1978			1978-1979[1]	
	Actual	Percentage change on previous year	Budget estimate	Actual	Percentage change on previous year	Budget estimate	Percentage change on previous year
Receipts							
Income tax							
Individuals	11 054	19.9	12 884	12 129	9.7	12 940	6.7
Companies	2 824	11.9	2 998	3 095	9.6	3 222	4.1
Other receipts	7 505	14.9	8 557	8 245	9.9	9 895	20.0
Total	21 383	17.0	24 439	23 469	9.8	26 057	11.0
Outlays							
Net expenditure on goods and services							
Defence	1 999	18.9	2 151	2 184	9.2	2 303	5.4
Other current	2 632	10.7	3 054	2 983	13.3	3 245	8.8
Capital	521	−7.6	476	454	−12.9	345	−24.0
Transfer payments and net advances							
To States and local government	8 939	5.6	9 981	10 053	12.5	10 799	7.4
Cash benefits to persons	7 509	21.2	8 239	8 419	12.1	9 113	8.2
Other	2 137	19.3	2 534	2 531	18.4	2 906	14.8
Net advances (other than to States)	385	−51.2	221	180	−53.2	158	−12.2
Total	24 124	10.4	26 656	26 802	11.1	28 870	7.7
Surplus (+) or deficit (—)							
Domestic	−1 995		−1 347	−2 451		−1 669	
Overseas	−745		−870	−882		−1 144	
Total	−2 740		−2 217	−3 333		−2 813	
Financing transactions							
Net overseas financing, miscellaneous domestic financing plus increase in government's own holdings of debt	372			1 846			
Net domestic borrowing requirement	2 368			1 487			
of which: Banks	−250			−13			
Other private sector	1 091			1 244			
Reserve Bank	1 527			256			

1 Changes between 1977-1978 and 1978-1979 are affected by the financial arrangements consequent upon the transition of the Northern Terrirory to self-government. The items affected most are other current expenditures, capital expenditure and transfer payments to the States, the Northern Territory and local government authorities.
Sources: Budget Papers No. 1 and No. 10; *Statistical Bulletin*, Reserve Bank of Australia.

Monetary policy

Over the last three years monetary policy has been directed towards providing adequate funds for sustainable recovery in private sector activity and employment, while continuing to bear down steadily on inflation and inflationary expectations. In an environment of continued heavy deficits in the Commonwealth Budget this task has been formidable. Attention has been focused principally on the monetary aggregates, the Treasurer indicating, within a range, a projected growth of M3 seen to be consistent with the anti-inflationary objectives[38]. In both 1976-1977 and 1977-1978 actual increases in M3 fell within the specified ranges but in the current financial year M3 has been expanding at a rate substantially faster than the 6-8 per cent range indicated in the Budget. The outturn for M3 in 1977-1978 was only 8 per cent (i.e. at the bottom of the projected 8 to 10 per cent range), despite the fact that the government deficit, as a proportion of GDP, was about 1 per cent higher than initially projected. In fact, the Budget contribution to growth of the money supply was higher in 1977-1978 than in any year except 1975-1976 (Table 10). The main factor offsetting this stronger than expected increase in liquidity was a substantial deficit, over $ 1.2 billion, on private sector foreign exchange transactions compared with an almost balanced position in the previous year. Sales of government securities to the non-bank sector were also buoyant, amounting to $ 1.3 billion. This meant that the proportion of the domestic deficit[39] financed from this source remained at about half in 1977-1978.

Within-year movements in the growth rate of M3 in 1977-1978 were rather uneven (Diagram 10). After growing at a seasonally adjusted annual rate of about 6 per cent in the last six months of 1977, the pace of monetary expansion began to pick up and in the half year to June the increase was around 10 per cent (annual rate). Problems with the seasonal adjustment process on account of changes in the within-year pattern of company tax collections have reduced the reliability of the seasonally-adjusted data as a guide to short-term movements in the monetary aggregates. However, a number of factors clearly operated to counter the usual seasonal tightening in liquidity in the second half of the financial year. First, the large deficit on private sector foreign exchange transactions recorded in the early part of the year gave way to approximate balance in the second half. This followed government announcements of an expanded official borrowing programme to maintain the level of external reserves. Secondly, following strong demand for government securities in the second half of 1977 there was a considerable easing in the remainder of the financial year as investors' portfolios became well-stocked and official interest rates were lowered. Finally, the statutory reserve deposit (SRD) ratio was moved down twice in the second quarter of 1978 to stand at a historically low level of 4 per cent by June.

Since then there has been a further easing in monetary conditions. Despite the re-introduction of the August quarterly company tax instalment, which added about $ 0.6 billion to receipts during that month the federal government recorded a deficit in financial transactions of $ 2.5 billion in the three months to September. This imparted strong growth (about $ 1.2 billion) to private sector liquidity. However, a surge in non-bank demand for government securities occurred immediately after the announcement of the 1978-1979 Budget, and a moderate deficit on private sector foreign exchange transactions re-emerged partly reflecting

38 In the 1976-1977 Budget, a growth range of 10-12 per cent for M3 over that year was indicated as being appropriate. In the next Budget the projection was in the range of 8-10 per cent and in the 1978-1979 Budget the range of 6-8 per cent was suggested for the current financial year. In April the Treasurer noted that this range was no longer appropriate.

39 Comprises total deficit minus net government expenditure overseas.

Table 10 **Formation of the volume of money**
Not seasonally adjusted, $ million

	1975-76	1976-77	1977-78	1977 I	1977 II	1978 I	1978 II
Budget deficit (+) or surplus (—)	3 585	2 740	3 333	−1 622	4 120	−786	4 137
less: o/s budget transactions	712	875	972	524	433	539	569
Budget contribution to private sector LGS assets	2 873	1 864	2 361	−2 146	3 687	−1 325	3 568
Private sector foreign exchange transactions	−466	19	−1 202	314	−1 213	11	−617
Other factors net (incl. Reserve Bank accounts[1])	−372	−440	529	895	−517	1 046	−1 019
Private sector LGS assets	2 035	1 443	1 689	−937	1 957	−268	1 932
less: non-bank holdings of							
a) Notes and coins	395	360	385	31	393	−8	412
b) Government securities	1 453	1 091	1 244	471	1 116	128	394
Banking sector LGS assets	187	−8	60	−1 439	448	−388	1 126
Loans and advances	2 807	2 763	2 942	1 132	1 568	1 374	1 915
Other assets and liabilities	1 019	931	−695	296	−239	−456	129
Bank deposits	4 013	3 686	2 307	−11	1 777	530	3 170
less: Government and interbank deposits	449	581	−218	273	−254	36	−8
Add back: Notes and coins of public	395	360	385	31	393	−8	412
Change in volume of money	3 958	3 465	2 910	−259	2 425	485	3 593
(Rate of growth)	(13.7)	(10.6)	(8.1)				

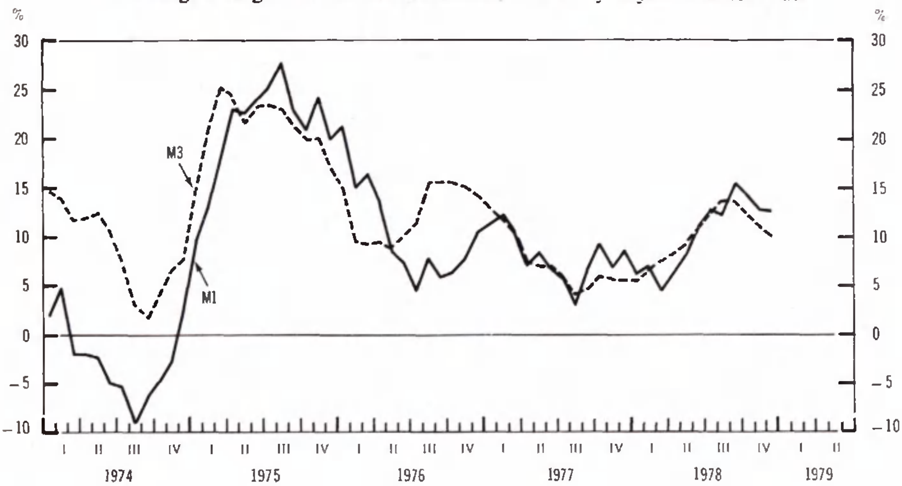
1 Includes discrepancies arising from timing differences; these can be substantial and do not only originate from Reserve Bank statistics.
Source: Budget Paper, No. 2.

seasonal factors. Both these developments mitigated the boost to private sector liquidity. Nevertheless, by September M3 was expanding at a seasonally-adjusted annual rate of 12½ per cent (Diagram 10). Towards the end of the year the rate of increase eased back as the Budget contribution to private sector liquidity was reduced, but has since accelerated again. The increase in M3 in the second half of 1978 and the first quarter of 1979 was at a rate well above the projected range of 6 to 8 per cent announced at the time of the Budget. This reflects mainly the reduced attractiveness of government paper to non-bank groups; interest rate expectations weakened in light of both adverse domestic and external price developments, the December wage case award and increases in overseas interest rates. Other factors contributing to the recent strong monetary growth have been the rapid growth in Reserve Bank advances to finance the large wheat crop and the marked contraction from around the end of 1978 in the size of the private sector's deficit on external transaction. In the light of the stronger growth in activity and faster inflation from exogenous sources, as well as the aforementioned developments, the Treasurer indicated in April that rigid adherence to the M3 range of 6 to 8 per cent was no longer practicable or desirable.

By and large, interest rates moved down between around mid-1977 and late last year, since when they have edged up. Long-term official rates were moved down sharply in the final quarter of 1977, and continued to edge down for most of 1978. By November, the bond rate stood at 8.8 per cent compared with

Diagram 10 **Volume of money**

Percentage change over six 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.

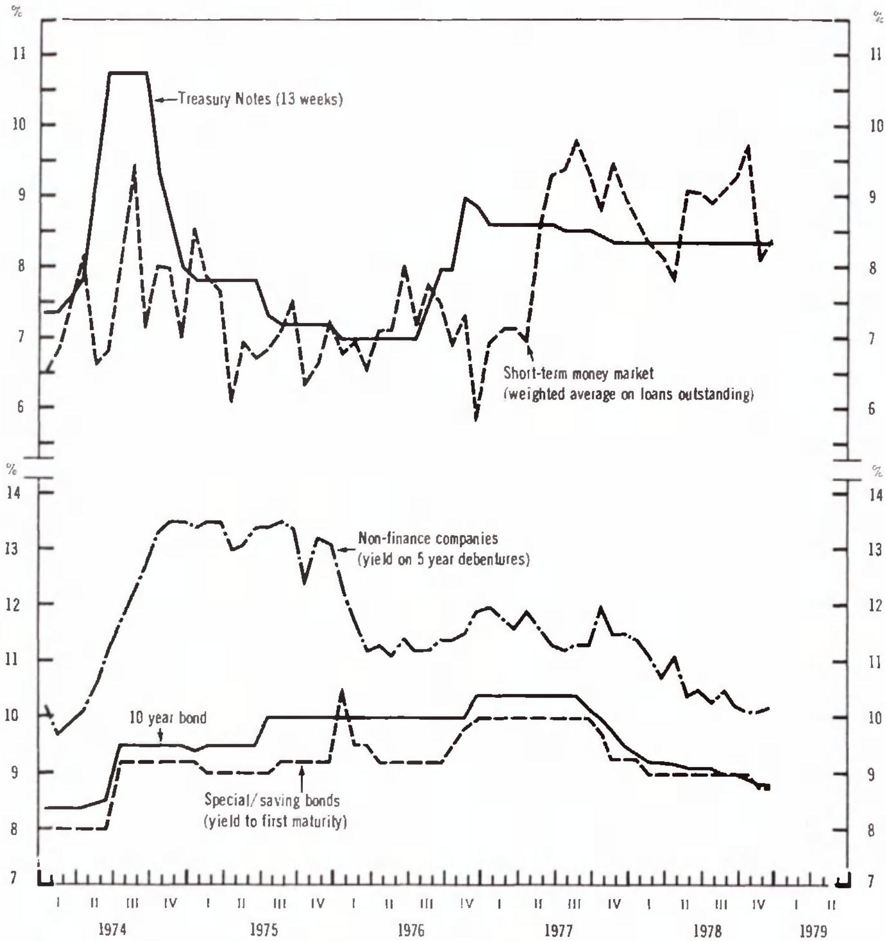
Source: Reserve Bank of Australia; *Statistical Bulletin.*

10.4 per cent in August 1977. While the Government has seen the achievement of lower interest rates as going hand in hand with progress towards reduced inflation, the events of late 1978 (described in the previous paragraph) have put a halt to further reductions for the time being. Indeed, the Government has accepted the necessity of some increase as part of the process of slowing the growth in the money supply. In early April an increase in new issue yields on Treasury notes was announced, the rate on Australian Savings Bonds was increased by ½ per cent to 9¼ per cent, the maximum individual holdings of the Savings and Special Bonds was raised by $ 50 000 to $ 150 000 and maximum rates for semi-government and local authority borrowing were raised by 0.7 per cent. Meanwhile, government bond yields have been rising in the market and in its May conversion loan the Government confirmed a long-term bond rate of 9.7 per cent. In addition, the Government arranged refinancings totalling $ 455 million of Reserve Bank advances to the Wheat Board through the domestic issue of commercial bills in private markets.

Wage determination policies

Without direct powers over national wage determination, the role of the federal authorities is mainly limited to intervention in national wage case hearings of the Arbitration Commission which, between April 1975 and June 1978, were held quarterly. Since the beginning of 1976, the present Government has consistently argued on economic grounds for the granting of less-than-full wage indexation in respect of increases in the Consumer Price Index as well as pressing for the exclusion of the price effects of government policy initiatives from the Consumer Price Index increase before it is considered for wage indexation purposes. In this way, they aimed at restoring factor shares through a reduction in real wage costs and an unwinding of inflation. For a time, these views met a

Diagram 11 **Interest rates and security yields**



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

degree of acceptance from the Commission, partial indexation being granted in all hearings between the end of 1976 and the February 1978 hearing which considered the movement in the December quarter 1977 Consumer Price Index. In the two hearings since that time, the Commission has granted full indexation.

In July 1978 the Government made their submission to the Wage Fixation Principles Inquiry[40]. The main arguments presented were that:

i) National wage cases should be held annually but if the Commission was not disposed to this, the minimum period between general wage reviews should be six months. However, wage claims based upon national productivity should only be dealt with at twelve-month intervals.

ii) It was strongly submitted that in the proposed annual national wage hearings past movements in the Consumer Price Index should not provide

40 This inquiry was initiated in May 1977 by the Arbitration Commission.

prima facie grounds for a national wage adjustment. It was argued that the prime criterion in assessing the appropriate national wage adjustment, if any, should be economic capacity. In assessing capacity the Commission should have regard to a range of economic factors including trends in prices, productivity, investment, balance of payments, output and employment. As to trends in prices, it was not sufficient to regard the Consumer Price Index as the sole relevant price indicator for the purposes of wage fixation.

iii) The Commission should avoid allowing price rises to flow into wages if doing so would negate in whole or in part the intentions of government decisions which are reflected in prices.

In September, the Commission announced the findings of the Inquiry, the principal of which was that award wages would be adjusted every six months (October and April) in relation to the previous two quarterly movements in the Consumer Price Index unless it was persuaded to the contrary by those seeking to oppose the adjustment. In other words, the prime criterion for wage adjustment was still to be past movements in prices and not capacity to pay. Wage claims based on national productivity would be heard annually, although it was stipulated that no claim would be heard before October 1979. It also rejected in general, productivity adjustment, and the form of indexation will be a flat percentage adjustment unless exceptional circumstances caused the Commission to decide otherwise.

The first half-yearly decision by the Commission was handed down in December 1978. This related to movements in prices in the six months to September 1978 and, an increase of 4 per cent, full indexation for the increase in the Consumer Price Index over this six months period was granted. In making its decision the Commission stated that it could not ignore the industrial effects and the attendant cost implications of not granting an increase. It went on to say, however, that if the trend in industrial disputation persisted, it would endanger the continuation of the existing process of indexation.

External policy

The present framework for setting the exchange rate was brought into operation at the time of the November 1976 devaluation and was discussed in last year's Survey[41]. Exchange rate policy in 1978 and the early part of this year has been consistent with the moves to flexibility made at that time. Small but frequent changes to the rate resulted in an effective trade-weighted depreciation of 7½ per cent in the year to December 1978 to bring the cumulative effective depreciation since November 1976 to about 21.5 per cent. The rate remained basically unchanged between December and May this year. At the time of last year's Survey, it was feared that the present system of frequent adjustments to the rate might lead to destabilising expectations. However, this does not appear to have been the case, a subject returned to in the conclusions. Underlying the series of downward adjustments made during 1978 was the view that while it would have been inappropriate for the Australian dollar to be linked to the United States dollar, it should not be allowed to appreciate against the United States dollar to the full extent that would have occurred if the trade-weighted basket rate for the Australian dollar had been kept constant. As a result of this the actual appreciation against the United States dollar was less than 1 per cent in the year to February 1979.

Following the announcement in September 1977 of an expanded borrowing programme of $ 1.7 billion gross in 1977-1978, the Government made a second

41 OECD Economic Survey of Australia, OECD, April 1978, pp. 39-40.

announcement in February 1978 that it would not hesitate to undertake substantial further borrowings should any supplementation of Australian international reserves be required in support of the value of the currency. As noted earlier, large official borrowings were undertaken last year. In addition, in June 1978 some modifications which may contribute to stronger capital inflow were made to the Government's foreign investment policy. As originally instituted, foreign investment in "key areas" of the economy (including new mining projects) were on the basis of at least 50 per cent Australian equity. Under the new arrangements, a minimum of 25 per cent Australian equity is required, subject to a public commitment to increase Australian equity to 51 per cent. Some procedural requirements for foreign investment have also been relaxed. Principally, proposals for foreign investment in new projects will not require government approval under the foreign investment guidelines unless the project involves an investment of $ 5 million or more.

Policies for structural adjustment

In June 1978, the OECD Council meeting at Ministerial level agreed on the general orientations for policies to facilitate the structural adjustments needed to sustain faster economic growth. In essence, it was agreed that in view of persistently high unemployment there has been a short-term case to cushion the impact of changed relative prices, cost structures and demand patterns since 1973 by the use of selective measures to maintain existing employment and productive capacity. However, continuation of such measures would lead to the economy becoming both less productive and more inflation-prone. Accordingly, a shift towards more positive adjustment policies was required which would permit as far as possible the encouragement by market forces of the gradual movement of capital and labour to their most productive uses. This section examines briefly some aspects of policies in Australia which impinge on structural adjustment.

Australia has a long history of providing assistance and protection to its domestic manufacturing industries. During the 1950s, this took mainly the form of a mixture of quantitative and tariff barriers to competing imports. By 1960, almost all the quantitative controls had been removed and the tariff was the principal means of assisting industry. In 1973, a major step towards a more liberal trade position was made with a 25 per cent across-the-board reduction in tariff rates. The move undoubtedly emerged from the strong external position of the time and the Government's desire to stimulate a significant inflow of imports and to restrain price increases. It also reflected the Government's wish to promote a more resilient and efficient manufacturing sector less reliant on government support. Over the period since 1973-1974, the overall level of assistance to industry was affected not only by the 25 per cent tariff reduction, but also by the provision since 1974 of temporary assistance mainly in the form of quantitative restrictions[42] on imports of certain manufactured goods, and the tariff changes that followed the November 1976 devaluation of the dollar. Between 1968-1969 and 1976-1977, the average nominal rate of protection for manufacturing industry fell from 24 to 15 per cent, while the average effective rate fell from 36 to 27 per cent. Since 1973-1974, while assistance for most industry groups within manufacturing has been at constant or slightly declining levels, assistance for the most protected groups has risen markedly from 1973-1974 to 1976-1977. Effective assistance for the textiles industry rose from

42 Controls have either been by import licensing or by tariff quotas which involve the application of one tariff rate to a base import quantity and a higher tariff rate to imports in excess of that base quantity.

Table 11 **Effective rates of assistance[1] for groups of manufacturing industries: 1968-1969 to 1976-1977**

$ million

Industry		Value added 1974-1975	Net subsidy equivalent 1974-1975	Average effective rate[2] (per cent)				
ASIC subdivision	Description			1968-1969	1973-1974	1974-1975	1975-1976	1976-1977
21.22	Food, beverages and tobacco	2 294	477	16	18	21	20	16
23	Textiles	301	118	43	35	39	50	51
24	Clothing and footwear	367	314	97	64	86	95	138
25	Wood, wood products and furniture	730	132	26	16	18	18	18
26	Paper and paper products, printing	750	232	52	38	31	30	30
27	Chemical, petroleum and coal products	940	238	31	25	25	26	22
28	Non-metallic mineral products	777	84	15	11	11	10	7
29	Basic metal products	1 604	261	31	22	16	16	15
31	Fabricated metal products	870	337	61	44	39	38	34
32	Transport equipment[3]	786	387	50	39	49	68	56
33	Other machinery and equipment	1 454	360	43	29	25	28	23
34	Miscellaneous manufacturing	642	168	34	24	26	26	24
	Total manufacturing	11 516	[4]	36	27	27	29	27

1 "Net" assistance provided to an activity, industry, etc., after making allowance for the effects of tariffs and other forms of protection which increase the costs of the activities concerned. The forms of assistance covered by this table are tariffs, quantitative restrictions on imports, subsidies, and special pricing schemes for sugar and petroleum products. Forms of assistance not taken into account include export subsidies, government purchasing practices and the local content scheme for motor vehicles.

2 Data for 1974-1975 to 1976-1977 are preliminary. These data are based on the pattern of production for 1974-1975 while data for earlier years are based on the pattern of production for 1971-1972.

3 The fall in the level of assistance between 1975-1976 and 1976-1977 resulted from the removal of quantitative restrictions on motor vehicles between December 1976 and July 1977.

4 Net subsidy equivalents were calculated for individual industries under ceteris paribus assumptions. As such data are aggregated, these assumptions become less valid. In particular, the net subsidy equivalent of the assistance accorded the manufacturing sector would not necessarily be the sum of the subsidy equivalent of the assistance provided to individual industries in the sector.

Source: Industries Assistance Commission, ***Annual Report 1977-1978***, page 130.

35 to 51 per cent, for clothing from 64 to 138 per cent and for transport equipment from 39 to 56 per cent. Public enquiries are held by the Industries Assistance Commission and the Temporary Assistance Authority before changes in assistance are made by the Government. The Commission has assessed, based on the limited information available, that Australia seems to have imposed measures across a broader range of manufacturers than have many other OECD countries[43]. However, it should also be recognised that Australia has, with very few exceptions, avoided forms of hidden protection such as the propping up of inefficient industry by government support or the disguising of structural employment problems by subsidising various forms of employment on the significant scale evident in some other economies.

The Government's overall policy objectives for manufacturing industry are set out in its White Paper published in May 1977[44]. Basically, the Government is concerned in the longer term with the development of a stronger, more specialised manufacturing industry with less reliance on Government assistance. The Government has also stated in its White Paper that it was proper for it to take special measures of a recognised temporary nature, to support employment and provide time for resolution of problems or the generation of new employment opportunities when economic and social disruption is threatened. The longer-term objectives of the Government were endorsed in the report of the study group on structural adjustment published in March this year[45]. There would thus seem to be a conflict between the short-term measures and the objectives of longer-term policy. While this is recognised and the temporary increase in protection has probably helped to slow down the fall in employment in the highly protected industries, there have inevitably been associated costs. Among the most important, the increase in restrictions has led directly to higher prices[46] and added to wage pressures by reducing real household purchasing power. In this sense, their effect has been to slow down the correction of factor price imbalances and run counter to the objectives of macro-economic policy. At the same time, it is important to recognise that the high import barriers overseas on exports of most interest to Australia (mostly rural products) make it more difficult to achieve the required adjustment in Australia.

IV PROSPECTS AND POLICY CONSIDERATIONS

Short-term prospects

The forecast presented in Table 12 suggests that the expansion of real output under way since around mid-1977 should accelerate in 1979 with real GDP rising by some 4 per cent. But in view of difficulties in assessing the size

43 Industries Assistance Commission, *Annual Report*, 1977-1978, p. 12.

44 White Paper on Manufacturing Industries, Canberra, 1977.

45 The Study Group was established in September 1977. Its terms of reference were to "undertake a study into the nature and extent of adjustment problems of Australian manufacturing industries, with particular reference to the most highly protected industries arising from changes in the internal and external environments, advise on the essential elements in a long-term policy to deal with these problems having regard to the implications of the likely patterns of industries growth and employment prospects, and the capacity of the economy to sustain changes in the industrial structure".

46 The Industries Assistance Commission estimated in its *Annual Report* 1976-1977, p. 19, that the effect between 1974 and 1976 was to raise consumer prices by at least 2 per cent even after allowing for full wage indexation.

of farm stocks in particular the forecast is necessarily surrounded by considerable uncertainties. On balance, the uncertainties would seem to be on the side of a slower rundown in farm stocks than implied in the forecast, in which case the rise in real GDP might be stronger. Final domestic demand is expected to rise by 3¼ per cent this year. The average rate of inflation as measured by the consumer price index may remain much the same in 1979 as in 1978. Reflecting mainly a marked rise in exports, the current external deficit is forecast to show a considerable fall, while little change is expected in the unemployment rate. The average rate of inflation as measured by the consumer price index may remain much the same in 1979 as in 1978.

The forecast is based on the maintenance of from fiscal policy as exemplified by the measures announced on 24th May[47]. That would imply that the public sector deficit in 1979-1980 would be reduced from the 1978-1979 outturn discussed in Part III. The recent correction of monetary policy is assumed to bring the growth of M3 in the second half of 1979 to close to the growth of nominal GDP. For wages, the forecast incorporates the technical assumption that the increases in award rates in the national wage cases plus any rises granted for productivity or on work-value grounds will amount to no more than full indexation

Table 12 Short-term forecasts
Per cent change in volume

	From previous year		
	1977	1978	1979
Consumption			
Private	1.5	3.7	3¼
Public	3.2	7.2	3¾
Gross fixed investment			
Private	−2.2	4.1	4¾
of which: Residential construction	−5.4	−7.5	3¾
Other construction	−1.2	6.0	7½
Machinery and equipment	−0.4	10.9	4½
Public	0.4	−0.8	−1½
Final domestic demand	1.1	3.9	3¼
Change in stockbuilding[1]	0.0	−0.3	0
Total domestic demand[2]	1.4	3.6	3¼
Exports of goods and services	2.6	−1.5	9½
Imports of goods and services	0.8	4.0	3
Change in foreign balance[1]	0.3	−0.9	1
Gross domestic product[2]	1.7	2.7	4
Consumer prices[3]	12.3	7.9	8

1 Contribution to GDP growth (percentage points).
2 Includes statistical discrepancy not separately shown.
3 Consumer price index.
Sources: Quarterly National Accounts, ABS, and Secretariat forecasts.

47 When presenting the May package, the Treasurer said that the measures did not represent the totality of the 1979-1980 Budget and in particular, "all areas of expenditure in respect of which decisions have not been announced in this statement will be the subject of further close crutiny in the final run-up to the Budget. In the course of that scrutiny, the Government will be seeking to make further significant savings."

of wages to the rise in the Consumer Price Index in 1979. It is also assumed that the effective exchange rate stays broadly unchanged.

The growth of private consumption may be weaker than last year. On the assumptions adopted personal incomes are expected to rise at a slightly slower rate than in 1978, but this is more than offset by marked increases in farm incomes, incomes of unincorporated business and dividend and interest payments. Growth of employment and hours and some wagedrift seem likely to add a little to wages above that implied by indexation of wage rates. Total household income could rise by over 12 per cent between 1978 and 1979 which after allowing for the recently announced tax changes implies an increase in disposable income of around 10½ per cent, or about 2¼ per cent in real terms. The forecast assumes that the impact on demand of the tax changes is more than offset by a reduction in the saving ratio. Reasonably high consumer expectations about future spending, the fact that the saving ratio is well above its longer-term level and the pattern of farm income receipts suggest a downward adjustment in the ratio.

Total private fixed investment is forecast to grow by around 4¾ per cent in 1979, slightly faster than in 1978 and with considerable differences in the pattern and the components. Investment in dwellings, which has fallen now for over two years, is beginning to recover. The backlog of unsold homes is now diminished, the value and number of loans for new houses has been rising, as have approvals and commencements, and there has been some increase in the price of existing houses. Business construction however is more difficult to anticipate. A strong rise towards the end of 1977 was concentrated in the mining industry; activity remained fairly flat for much of 1978 but revived strongly in the last quarter of the year. While there are insufficient indications as yet either in the expectations data or in the general relationships to be confident that this is the prelude to a strong expansion, the growth in non-residential construction is expected to be considerable and be maintained through both halves of the year. The growth of investment in plant and machinery on the other hand seems likely to be less strong than in 1978, partly because of the effects of the scheduled changes in the investment allowance and partly because of the weakening in the replacement cycle discussed in Part I above.

As noted earlier, Commonwealth government spending is running somewhat ahead of the 1978-1979 budget estimates, but in 1979 as a whole it is forecast to decelerate somewhat. In real terms total government spending is assumed to rise by about 2 per cent, to compared with 4½ per cent in 1978. A considerable volume slowdown in government current spending is built into the forecast as is a further small fall in government investment. The forecast for stock-building combines divergent movements in farm and non-farm stocks. The rate of accumulation of non-farm stocks was relatively low in 1978 and a return to a more normal level is forecast for 1979. For farm stocks the magnitudes are larger and the timing more complicated. A build-up of farm stocks in the second half of 1978, following the exceptional wheat harvest, added nearly 5 per cent per annum to the rate of growth of GDP. During 1979, substantial exports of farm products will draw on farm stocks as shipments proceed during the year, but with further farm output the run-down in farm stocks will not be as large as exports might indicate.

The prospects for exports are substantially brighter than in 1978 mainly because of exceptionally large wheat shipments. The total volume of exports may rise by around 9½ per cent. Non-farm exports are assumed to rise by 4 per cent. This partly reflects the continued slow growth of world trade, and although the prospect for some mineral exports is for a considerable rise, the growth of iron ore exports may be limited due to the weakness of the world shipbuilding industry. The volume of imports is likely to rise at a slower rate in 1979 than in 1978. The ratio of imports to final demand (excluding farm stocks) was particularly high during 1978 and contained a higher than usual content of plant and machinery, associated with private investment expenditures. The general competitive position of Australian manufacturers is better now than it has been in recent years and both this and the generally moderate rate of growth of the economy suggest a slowing down in import volumes on an annual basis. The pattern through the year is expected to be uneven; after rising by over 10 per cent (annual rate) in the second half of 1978, import volumes are assumed to fall somewhat in the first half of this year and then to rebound to rise at an annual rate of about 6 per cent in the second half. The expected movements in export and import volumes add up to a sizeable positive contribution to aggregate growth in 1979. Export prices which rose strongly in 1978 may decelerate a little this year and a 13½ per cent rise is assumed. With import prices increasing at a markedly slower rate, a further terms of trade improvement is implied in the forecast. On this basis and after allowing for an increase in the invisibles deficit, the current external deficit could narrow from $ 3.4 billion in 1978 to around $ 2¼ billion in 1979.

As far as prices and wages are concerned, the outcome will considerably hinge on the level of indexation in national wage cases and the attitude of the Arbitration Commission to the changes in indirect taxes and the higher oil levy in the 1978-1979 budget. Should the award in the April hearing grant full indexation without discounting discretionary indirect tax changes the assumption that the rise in award rates will be the equivalent of no more than full cost-of-living adjustment would be optimistic. The assumption about import and export prices may also be optimistic. However, on the assumptions adopted about wage indexation, the exchange rate and the terms of trade, little change is expected in the rate of increase of around 8 per cent in the Consumer Price Index between 1978 and 1979. The output forecasts, together with the relationship between employment and real wages discussed above, point to a continuing increase in employment of possibly over 1 per cent. This increase may be drawn mainly from the growth of the labour force and adjustments in participation rates which would leave the average rate of unemployment much the same as in 1978.

Policy considerations

The progress—albeit slow—made in reducing the imbalances which developed during the 1974-1975 recession has continued in the recent period and in a number of important respect economic performance has improved since mid-1977. The growth of output has accelerated reflecting partly a strong rise in productive investment, the average rate of inflation has been further reduced, progress has been made in adjusting real wages, international competitiveness has been strengthened, in 1978 there was an important improvement of the private capital account of the balance of payments and more recently the current external deficit has been reduced. These developments have been accompanied by improved consumer and business confidence. However, in certain respects, developments have been less than satisfactory. Progress in reducing inflation from its peak in 1975 has faltered since around mid-1978 with the rate remaining between 7 and 8 per cent. The rebuilding of profits has been slow. High unemployment has persisted despite the expansion of real output. In the more recent period, monetary conditions have been more accommodating than desirable partly as a result of the relatively rapid expansion in the farm sector, but the higher-than-planned Budget deficit up to the March quarter and interest rate policy in 1978 also contributed. It is to be noted, however, measures were announced in April and May to correct these conditions.

Reduction in the rate of inflation by steady but relatively tight demand management is seen to be essential to the correction of the imbalances which are impeding the restoration of sustainable output and employment growth. It would be a mistake, however, to judge the stubbornness of the inflation rate since around mid-1978 as a failure of the basic policy approach. Indeed, in light of the external conditions experienced over the past nine months or so, price performance has been comparatively satisfactory. Unlike the experiences of most OECD countries the movements of international commodity prices in 1978 did not have a dampening effect on inflation in Australia, both export and import prices rising considerably more than domestic output prices. In addition, the Australian authorities raised substantially the price of domestic crude oil to import parity and increased some indirect taxes.

The outlook for inflation is problematical. The forecast assumes little change between 1978 and 1979, implying an annual rate of increase of around 8 per cent in both halves of 1979. In view of the uncertainty about the future movement of wages, and with external inflationary forces likely to be stronger this year than last, there is obviously a risk that inflation will accelerate. Much will depend on the increase of nominal earnings and, hence, on the decisions of the Arbitration Commission. The award of full indexation in the next two wage cases as in December 1978 would prejudice the Government's inflation objective as would widespread and sizeable work value awards (work comparability payments) and any wage increase based on national productivity in the hearing which may occur later in 1979. After an extended period of wage moderation which helped to reduce the imbalance between real wages and productivity it would be unfortunate—in particular for employment prospects—if pressure to raise real wages through higher nominal incomes was again to develop strongly.

In the last OECD Survey of Australia it was pointed out that unemployment was not only at a post-war peak but also higher in relation to past averages than in most other countries despite the fact that during the period 1974 to 1977, real output had held up comparatively well. It was argued that there was a large non-cyclical component in unemployment which was attributable in significant part to the persistence of high rates of inflation and, in particular, the massive shift in factor shares which occurred in 1974. The changes in the output-employment relationship in 1978 add weight to this view, suggesting a substantial excess supply of labour at the existing level of real wages. Further adjustment of real wages may therefore be required if unemployment is to be reduced. Inevitably, there will be debate about the speed at which adjustment should proceed and whether the level of real wages should actually decline for a period. However, it seems essential that the need for moderation in nominal wages in relation to price rises be accepted and that any claims which are likely to add to real wages, including those which may be made at any productivity hearing, be eschewed.

As noted, the expected expansion of activity over the next twelve months may have little effect on unemployment; this raises the question whether policy settings should seek a somewhat faster rate of growth in the short term. This issue was discussed in the previous Survey and it was concluded that the circumstances in early 1978 were not propitious for a relaxation of demand management, and that in all but the very short term, the restrained stance was more likely to lead to sustainable growth and higher activity and employment levels. Since then, conditions have changed to some extent. Encouragingly, the short-term outlook for exports is much improved, and private capital inflow has strengthened. However, inflation has plateaued at a relatively high level, a real wages imbalance remains, and faster growth could undermine the improving current external position. The factors arguing against faster public sector expansion still seem to keep the balance in favour of maintaining the steady stabilisation policy approach aimed at combatting inflation.

There is a risk that more expansionary fiscal policy would after a short time, reduce the basis for sustainable recovery. The financing of an expanded budget deficit would probably entail either an acceleration of monetary growth, higher interest rates or a combination of the two. Faster monetary growth might spill over into higher prices and nominal wage claims while higher interest rates could react unfavourable on the recovery in residential construction and business fixed investment. More rapid growth of domestic demand would quickly be reflected in a larger current external deficit and in possible implications for the capital account and the exchange rate. The analysis in Part II of the Survey suggested that the balance of payments remains a potential impediment to faster growth partly because of higher import penetration but also because the vulnerability of the private capital account has not been fully removed. It is a matter of judgment what effects a higher current external deficit would have on the behaviour of foreign investors, but it could well lead to downward pressure on the exchange rate with adverse effects on domestic price and wage developments. Australia is a resource-rich country and there is every reason to expect that, over the medium term, world demand for agricultural products and minerals will lead to a restoration of strong capital inflows to finance the development of these resources. As experience in 1978 suggests, continued progress in restoring better price performance and financial stability generally could hasten the further recovery in these inflows. Accordingly, the Government's policy of pursuing its stabilisation goals while temporarily supporting the balance of payments by official foreign borrowing would seem to offer the best chance of achieving sustainable improvement in overall economic performance in the medium term.

Two further issues deserve consideration—the exchange rate regime and the question of protection—both of which were discussed in the previous OECD Survey. It was suggested that the system of frequent and small managed changes in the exchange rate ran the risk of encouraging destabilising expectations rather than preventing their build-up, but that a considered judgment would require somewhat more experience with the present arrangements. These fears have proved to be ungrounded as there is no evidence that the system adversely influenced expectations. On protection, the Survey argued that it was to be hoped that the temporary increases in protection since 1974 were quickly withdrawn. As yet, however, the authorities have not judged it appropriate to do so or to revert to the longer-term policy approach of simplifying and gradually lowering tariff levels. The Government is currently considering a report of a study group on structural adjustment which includes the issue of temporary protection. It is desirable to recognise that while the specific measures adopted may have benefited employment in the protected industries in the short run, they are in conflict with both short-term macro-economic objectives and the longer-term policy of increasing the specialisation and efficiency of manufacturing industry. The longer-run costs of protective measures are therefore considerable and it is obviously desirable that they should be replaced as soon as possible by measures encouraging structural adjustment and greater efficiency.

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Annex I

NOTE ON THE NATIONAL INCOME ACCOUNTS

The method used to seasonally adjust farm product may lead to large differences in the calendar-year aggregates for gross farm product and, to a lesser extent, GDP as between the aggregates calculated from the quarterly seasonally-adjusted series and the quarterly unadjusted series. The differences between the seasonally adjusted and the seasonally unadjusted estimates are particularly marked when there are large fluctuations in gross farm product between years. Using the seasonally-adjusted total, real gross farm product showed an increase of 7.6 per cent in 1978. Seasonally unadjusted, gross from product fell by 3.3 per cent. The corresponding figures for 1977 were a fall of 2.5 per cent and a rise of 9.3 per cent. As the Secretariat uses the seasonally-adjusted quarterly series when analysing developments in the economy there can be divergencies between the derived seasonally-adjusted half-yearly annual rates for real GDP and both the annual calendar year seasonally adjusted and unadjusted totals. A similar problem arises with total domestic demand reflecting the implications of the seasonal adjustment method for farm product on seasonally adjusted farm stock movements.

The aggregates which show the smallest differences in the calendar totals of seasonally-adjusted and unadjusted quarterly series are non-farm GDP and final domestic demand. In view of the seasonal adjustment timing pattern, the use of the unadjusted series seems to be the more technically correct. These are shown in Table 1. But problems remain with Table 12 as the Secretariat does not distinguish farm and non-farm GDP in its forecasts which are based on the seasonally-adjusted quarterly series. The forecasts for 1979 are not therefore fully consistent with historical calendar-year figures obtained from the unadjusted quarterly series.

Annex II

CALENDAR OF MAIN ECONOMIC EVENTS

1978

14th 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 1977-1978 under its on-going programme would have been raised.

1st February

Changes in personal income tax scales announced in the 1977-1978 Budget took effect.

2nd February

Changes in bank interest rates were announced following discussions between the Reserve Bank and the banking system. Savings and trading banks were to make a general reduction of 0.5 percentage points in interest rates charged on new and existing housing loans, and similar reductions in some deposit rates.

5th February

The Treasurer announced that should any additional supplementation of Australia's international reserves be required in support of the Australian dollar, the Government would not hesitate to undertake substantial further borrowings over and above the expanded programme of official borrowing overseas totalling $1 700 million in 1977-1978 which was announced in September. The Treasurer also indicated that in view of the sharp weakening of the United States dollar on foreign exchange markets over preceding months, the Government had taken the view that, while it would have been inappropriate for the value of the Australian dollar to be linked to the United States dollar, it should not allow the Australian dollar to appreciate against the United States dollar to the full extent that would have occurred had the trade-weighted basket for the Australian dollar been held constant.

10th February

A new series of Australian Savings Bonds (Series 11) was announced, carrying an interest rate of 9.0 per cent—0.25 percentage points lower than the rate offered on the previous series.

28th February

The Conciliation and Arbitration Commission granted an increase of 1.5 per cent in all federal awards up to $170 a week and a flat increase of $2.60 a week beyond this level. The increase was related to the December quarter increase in the CPI.

14th March

The Treasurer announced that the Commonwealth had commenced negotiations with the Deutsche Bank in Frankfurt for a further public note issue in Europe of about U.S.$300 million.

22nd March

The Treasurer announced the completion of negotiations for the U.S.$350 million (increased from U.S.$300 million) Eurodollar note issue. The loan, which is repayable in full on 1 April 1982, carries an annual interest rate of 8.0 per cent and was issued at par.

30th March

The Governor of the Reserve Bank announced a reduction in the SRD ratio of the major trading banks from 6.5 per cent to 5.5 per cent, effective 3 April.

20th April

It was announced that the Commonwealth had completed arrangements to raise SF. 50 million ($23.2 million) on the Swiss capital market at an interest rate of 3.75 per cent for a term of four years. The proceeds of the loan were used to refinance SF. 35 million of the Commonwealth's SF. 50 million 5.5 per cent bond issue raised in 1967, and the balance to provide capital assistance grants to the States in 1977-1978.

28th April

The Governor of the Reserve Bank announced a reduction in the Statutory Reserve Deposit ratio of the major trading banks from 5.5 to 4.0 per cent, effective 3 May.

25th May

The Treasurer announced that negotiations had been completed for a U.S.$250 million ($222 million) public bond issue by the Commonwealth on the New York capital market. The loan consisted of two tranches: US$175 million of 8.45 per cent five-year bonds priced at par and U.S.$75 million of 9.125 per cent fifteen-year bonds priced at 99.625 per cent.

30th May

It was announced that negotiations had been completed for a Gld. 300 million ($117 million) syndicated bank borrowing by the Commonwealth in the Netherlands. The borrowing, carrying an interest rate of 7.625 per cent was for a term of ten years.

7th June

The Conciliation and Arbitration Commission granted an increase of 1.3 per cent in all federal awards. The increase was based on the March quarter increase in the CPI.

8th June

The Treasurer announced details of the Government's review of foreign investment policy in Australia. The main changes were:

— proposals for foreign investment in new projects will not require Government approval under the foreign investment guidelines unless the project involves an investment of $5 million or more (this does not apply to investment in the financial sector and uranium);
— in the case of investments coming within the scope of the Foreign Takeovers Act, the Government will not normally seek to intervene if the assets of the company being taken over are less than $2 million, unless there are special circumstances or the business is in the financial sector or some other area where special considerations apply;
— individual real estate acquisitions of less than $250 000 will no longer require approval; and
— consideration will be given, through a detailed legal study, to the repeal of Section 26 of the Foreign Takeovers Act.

The Treasurer also announced modifications to provide a framework for the naturalisation of foreign-owned companies over a period of time. In addition a number of decisions were made to streamline the exchange control procedures impinging on capital inflow, including the suspension as from 9 June of the embargo on overseas borrowings for periods of less than six months.

13th June

The Minister for Special Trade Representations announced that he had formally advised GATT that, subject to full reciprocity and appropriate safeguards, Australia was now prepared to adopt the formula approach to industrial tariff cutting in the MTN. The Minister stated that this meant an offer by Australia to reduce tariffs on industrial goods by 40 per cent overall.

23rd June

Details were announced of new guidelines to be adopted by the loan council for consideration by it of proposals for special additions to the normal annual semi-Government borrowing programmes and for overseas borrowing by statutory authorities.

27th July

The conclusion of negotiations for a SF 400 million ($95 million) syndicated bank loan by the Commonwealth was announced. The loan carried an interest rate of 4.0 per cent.

7th August

The Treasurer announced terms for the August Commonwealth cash and conversion loan opening on 14 August. Four securities were issued:

— 8.8 per cent, September 1980;
— 9.0 per cent, October 1983;
— 9.0 per cent, October 1988 and
— 9.0 per cent, February, 1997.

All securities were issued at par. The yields to be offered represented reductions, on the then present market yield, of 0.05 percentage points on the 1980 stock and 0.1 percentage points on the 1983, 1988 and 1997 stocks.

The Treasurer also announced that a new series of Australian Savings Bonds—Series 12—which would go on sale from 8 August, Series 2 will carry an interest rate of 9.0 per cent, the same as Series 11, with a lower interest rate of 6.5 per cent to apply to amounts redeemed before the first interest payment date and that a reduction had been effected in the yield on 26-week Treasury Notes of 0.044 percentage points to 8.705 per cent from 8 August.

15th August

The Treasurer presented the 1978-1979 Budget. The main features were:

— an increase in outlays of 7.7 per cent (to $28 870 million) in 1978-1979, compared with an increase of 11.1 per cent in 1977-1978;
— an increase in receipts of 11.0 per cent (to $26 057 million) in 1978-1979, compared with an increase of 9.8 per cent in 1977-1978;
— a deficit of $2 813 million, $521 million less than the actual 1977-1978 Budget deficit, and a domestic deficit of $1 669 million, $782 million less;
— a temporary increase, for 1978-1979 only, in the standard rate of personal income tax of 1.5 per cent to 33.5 per cent, with corresponding increases to 47.5 per cent and 61.5 per cent at higher levels of income;
— increases in the excise on beer, potable spirits and tobacco;
— the abolition of the health insurance levy and, associated with that, the abolition of compulsory health insurance;
— a reduction in the rate of sales tax on motor cars and station wagons from 27½ per cent to the general rate of 15 per cent;
— a change in the pricing policy for all Australian-produced crude oil under which crude oil was to be priced to refineries at import parity levels, while an increase in the crude oil levy took up the difference between that price and the average price received by crude oil producers under the existing formula for moving their price towards import parity;
— an extension of the 1976 decision to tax a wide range of social welfare payments; and
— termination of income tax deductions for home loan interest and rebates for overseas dependants.

24th August

The final details of the cash loan which closed on 21 August were announced: cash subscriptions to the loan were a record $780 million with subscriptions from the non-bank sector totalling $575 million or 74 per cent of the total.

25th August

The Treasurer announced the completion of negotiations of a Gld. 300 million direct bank borrowing by the Commonwealth in the Netherlands. The borrowing carried an interest rate of 8.25 per cent per annum.

29th August

The Treasurer announced the promulgation of an amendment to the Banking (Savings Banks) Regulations. The amendment reduces from 45 per cent to 40 per cent the proportion of depositors' balances required to be held by savings banks subject to the Banking Act in certain prescribed assets, mainly liquid assets and public securities. This amendment, effective immediately, was foreshadowed by the Treasurer in the Budget Speech on 15 August, 1978.

6th September

The Treasurer announced that negotiations with Deutsche Bank for a Deutschemark public bond issue of DM 250 million ($110 million) and a direct bank loan of DM 50 million ($22 million) had been completed. The public bond issue would have a period to maturity of ten years and carry a coupon rate of 6.0 per cent and an issue price of par.

14th September

The President of the Conciliation and Arbitration Commission announced the findings of the Commission's inquiry into wage fixation principles. The main features were:

— the Commission will adjust its award wages and salaries every six months in relation to the last two quarterly movements of the six-State capital's CPI unless it is persuaded to the contrary by those seeking to oppose the adjustment;
— the form of indexation will be a flat percentage adjustment unless the Commission decides otherwise in the light of exceptional circumstances;
— each year the Commission will consider what increases in total wages or changes in conditions of employment should be awarded nationally on account of productivity. No hearing under this principle will commence before October 1979.

18th October

The Minister for Business and Consumer Affairs announced a number of modifications to the price monitoring capacity of the Prices Justification Tribunal, including:

— notification of price increases will in future be limited to companies into which the Tribunal has held a public inquiry, and then only for up to 12 months after the inquiry at the discretion of the Tribunal. The Minister will be able to extend this period;
— the Minister's approval will be required before the Tribunal can proceed to a public inquiry;
— the price freeze provisions of the Act will be modified to allow the Tribunal to approve interim price increases where appropriate during the course of a public inquiry; and
— the Minister will have power to issue general direction to the Tribunal regarding matters to which it should give special consideration.

18th October

The Treasurer announced that negotiations in Japan for a Y40 billion ($187 million approximately) institutional loan had been concluded.

23rd October

The completion of negotiations in Japan for further loan of Y40 billion ($187 million approximately) were announced. The loan will mature in 1998 and be repaid in eleven semi-annual instalments commencing in 1993, to provide an average life of 17.5 years. It carried an interest rate of 7.6 per cent per annum.

31st October

A new series of Australian Savings Bonds—Series 13—was announced, carrying an interest rate of 8.75 per cent. New maximum interest rates for borrowings by local semi-government authorities, involving reductions of 0.2 percentage points on previous rates and a reduced yield on 26-week Treasury Notes to 8.618 per cent as from 1 November were also announced.

22nd November

The completion of negotiations for the Commonwealth's third Yen bond issue in the Tokyo capital market were announced. The loan of Y50 billion ($227 million approximately) was arranged in two tranches, comprising [Y30 billion ($136 million approximately), 5-year, 5.6 per cent bonds and Y20 billion ($91 million approximately)], 10 year, 6.5 per cent bonds. The 5 year tranche is repayable in full at maturity. Repayments of principal of the 10 year tranche will commence in 1984, giving an average life of 9 years.

12th December

The Conciliation and Arbitration Commission granted an increase of 4.0 per cent in all federal awards payable from 12 December 1978. The increase was related to the increase in the CPI for the half-year to September 1978.

14th December

The Prime Minister announced that he had written to State Premiers asking them to prevent wage increases outside indexation guidelines and to achieve the maximum possible consistency in increases in wages and related benefits granted by State wages boards and industrial tribunals.

29th December

The Minister for National Development announced that the price of Australian crude oil would rise by an average of 8.96 per cent from 1 January, 1979.

1979

11th January

It was announced that the Statutory Reserve Deposit ratio of the major trading banks was being raised from 3.5 per cent to 4.5 per cent, effective 16 January, 1979. The move would require banks to lodge approximately an additional $195 million in their Statutory Reserve Deposit accounts with the Reserve Bank.

18th January

The Treasurer announced the establishment of a committee to inquire into the Australian financial system. In its terms of reference the committee is asked:

i) To inquire into and report on the structure and methods of operation of the Australian financial system;
ii) To inquire into and report on the regulation and control of the system;
iii) To make recommendations for the improvement of the structure and operations of the financial system and its regulation and control.

25th January

The Treasurer announced that the Commonwealth had completed a Gld. 300 million ($132 million) syndicated bank loan. The borrowing carried an interest rate of 9.25 per cent per annum for its 10 year term.

29th January

Changes were announced in the conditions which apply to exchange control authorities for direct investment overseas by Australian residents. The main change was that with some exceptions and subject to certain reporting procedures, earnings from such investments may be retained overseas for the financing of growth in working capital and for firmly planned future expansion without specific prior exchange control authority.

1st February

Increased yields on Commonwealth securities were announced (previous yields in brackets):

May 1980 bonds	8.65 per cent (8.6 per cent)
July 1982 bonds	8.9 per cent (8.8 per cent)
February 1989 bonds	9.0 per cent (8.8 per cent)

21st February

The Reserve Bank of Australia announced an increase in SRD ratios from 4.5 per cent to 5.5 per cent effective from 2 March, requiring banks to lodge approximately an additional $200 million with the Reserve Bank.

22nd February

The completion of arrangements for two new Swiss franc loans each of approximately $132 million was announced. One, a bank loan carrying an interest rate of 3.25 per cent, matures in 1984. The other, a private placement, matures in 1986 and carries an interest rate of 3.125 per cent.

25th February

Wool prices reach a five-year high with an indicator price at 343 cents/kg (clean).

6th March

The Crawford Report on structural adjustment was released. The report contained a number of recommendations designed to promote the development of a more export-oriented manufacturing sector including:

— further assistance under the export incentive grants scheme;
— increased government assistance for industrial research and development;
— a gradual reduction of tariff protection.

2nd April

Federal and State Governments agreed to change arrangements for issuing new Commonwealth securities. The system of regular Commonwealth bond issues is to be replaced by a "tap" issue system and Treasury notes are to be sold by a periodic tender, replacing the system of continuous issue at pre-determined prices.

17th April

Yields on new issue Treasury notes are increased from 8.353 per cent to 9.023 per cent (13 week notes) and from 8.616 per cent to 9.296 per cent (26 week notes).

22nd April

The Treasurer announced a package aimed at moderating money supply growth. The major elements were:

— a 0.5 per cent increase in interest rates on the new series of Australia savings bonds to 9.25 per cent and an increase in the maximum holding from $100 000 to $150 000;
— the issue of further commercial bills by the Australian Wheat Board (up to $300 million), the proceeds to be paid to the Reserve Bank of Australia to decrease the Board's overdraft with the bank;
— an immediate 0.7 per cent increase on interest rates on semi- and local government securities.

24th May

The Treasurer announced a package of fiscal measures aimed at limiting the budget deficit in 1979-1980 and beyond. The major revenue items in the package were:

i) The extension, until 30th November 1979 or such earlier date as may be proclaimed, of existing PAYE income tax deductions. This meant that the reduction in personal income tax that was to take effect on 1st July 1979 will not occur. Adjustments were to be made in respect of:

a) The 1.5 cent in the dollar income tax surcharge introduced as a temporary measure in the 1978-1979 budget. The surcharge was imposed at an effective rate of 2.57 cents in the dollar for PAYE purposes from 1 November 1978 in order to collect the full year's revenue by 30 June 1979. The effective surcharge of 2.57 cents has been continued.

b) The resumption of full indexation of income tax scales. The indexation factor which would have been applied was 6.5 per cent derived from the CPI movement in the year to March 1979 (7.9 per cent) less the price effects of the December quarter 1976 devaluation (0.2 per cent), the net effects of changes in indirect taxes in the previous two budgets (1.0 per cent), and the effects of import parity pricing of local oil production (0.2 per cent).

As a consequence of the decision, additional tax at the rate of approximately $110 million per month will be collected from PAYE deductions.

Personal income tax rates and indexation arrangements for 1979-1980 will be announced in the budget to be presented on 21 August 1979.

ii) The restriction of taxation deferments or reductions due to "paper" losses carried forward and claimed against incomes earned in later years.

iii) An increase, as from 1st July 1979, in the import parity oil levy by an amount equal to the increase in the import-parity price over the first six months of the year. This measure will provide a self-adjusting mechanism for setting the levy on "import-parity" oil so that the public revenue—rather than producers—secures the gains from future price increases.

iv) Continuation of the coal export levy beyond the planned expiry of 30th June 1979. This levy will add about $100 million to revenue in 1979-1980.

v) Termination of the trading stock valuation adjustment, giving a revenue effect of around $300 million as from the 1980-1981 fiscal year.

vi) The imposition of a 2 per cent ad valorum customs duty on most goods previously imported duty free. This measure to yield about $73 million in 1979-1980. (This revenue estimate reflects a decision subsequent to 24 May to exempt goods covered by the Florence agreement.)

The Treasurer also announced a number of expenditure-cutting decisions in the following areas:

— Health
— Assistance to primary industry
— Transport
— Home savings grant
— Export expansion grants

and foreshadowed the announcement of decisions in respect of education expenditure.

STATISTICAL ANNEX

Table A Gross domestic product

$ million, current prices

Year ended 30th June	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
EXPENDITURE										
1 Private consumption	16 580	18 234	20 118	22 329	24 976	29 465	35 617	42 408	48 388	54 224
Durables	2 049	2 300	2 494	2 763	3 102	3 913	4 785	5 671	6 219	6 513
Other	14 531	15 934	17 624	19 566	21 874	25 552	30 832	36 737	42 169	47 711
2 Government current expenditure	3 331	3 643	4 202	4 756	5 425	6 765	9 172	11 367	13 273	15 019
3 Gross fixed capital formation	7 262	7 918	8 774	9 628	10 161	11 755	14 191	16 923	19 131	20 866
Private	4 730	5 162	5 839	6 331	6 685	7 772	8 542	10 247	12 019	13 053
Public enterprises	1 367	1 515	1 561	1 783	1 805	2 073	2 882	3 287	3 673	4 165
General government	1 165	1 241	1 374	1 514	1 671	1 910	2 767	3 389	3 439	3 648
4 Change in stocks	698	449	496	55	−287	1 252	873	49	1 008	−386
5 Exports of goods and services	3 895	4 733	5 044	5 596	6 937	7 762	9 937	10 908	13 096	13 956
6 Imports of goods and services	4 268	4 759	5 092	5 216	5 347	7 671	10 016	10 466	13 282	14 473
7 Statistical discrepancy	−162	67	−33	241	673	1 706	1 479	974	1 603	1 477
8 GROSS DOMESTIC PRODUCT AT PURCHASERS' VALUES	27 336	30 285	33 509	37 389	42 538	51 034	61 253	72 163	83 216	90 681
ORIGIN										
1 Agriculture, hunting, forestry and fishing	2 404	2 169	2 054	2 365	3 097	4 190	3 636	3 654	4 143	
2 Manufacturing	6 327	6 962	7 607	8 115	8 956	10 504	12 232	13 701	15 516	
3 Other industry	3 460	4 108	4 602	5 226	5 812	6 755	8 534	9 909	11 402	
4 Services	12 406	14 023	15 938	17 986	20 430	24 265	30 228	36 367	42 380	
5 Indirect taxes less subsidies	2 739	3 023	3 308	3 697	4 243	5 320	6 623	8 532	9 775	10 379
6 GROSS DOMESTIC PRODUCT AT PURCHASERS' VALUES	27 336	30 285	33 509	37 389	42 538	51 034	61 253	72 163	83 216	90 681

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

Table B Gross domestic product

$ million, average 1974-1975 prices

Year ended 30th June	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
EXPENDITURE										
1 Private consumption	27 082	28 611	29 803	31 054	32 771	34 559	35 617	36 703	37 596	38 580
Durables	2 973	3 267	3 421	3 593	3 888	4 555	4 785	5 034	5 072	4 923
Other	24 109	25 344	26 382	27 461	28 883	30 004	30 832	31 669	32 524	33 657
2 Government current expenditure	7 008	7 252	7 571	7 652	7 875	8 399	9 172	9 875	10 383	10 902
3 Gross fixed capital formation	12 658	13 296	14 020	14 349	14 231	14 508	14 191	14 623	14 649	14 711
4 Change in stocks	1 419	788	460	−105	−528	1 498	873	70	820	−512
5 Exports of goods and services	6 979	8 111	8 901	9 453	9 616	9 098	9 937	10 126	10 951	11 348
6 Imports of goods and services	7 380	7 956	7 841	7 551	7 651	9 846	10 016	9 388	10 488	10 054
7 Statistical discrepancy	−271	123	−39	360	933	2 089	1 479	885	1 276	1 078
8 GROSS DOMESTIC PRODUCT AT PURCHASERS' VALUES	47 495	50 225	52 875	55 212	57 247	60 305	61 253	62 894	65 187	66 053

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	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
Compensation of employees	14 237	15 992	18 340	20 496	22 904	28 078	36 027	41 445	46 880	51 567
Wages and salaries	..	..	..	..	..	..	..	..	..	..
Supplements to wages and salaries	..	..	..	..	..	..	..	..	..	..
Income from property and entrepreneurship	5 482	5 707	6 077	7 001	8 460	10 541	11 350	12 916	15 875	17 983
Income from independent traders	..	..	..	..	..	..	..	..	..	..
Interest, rents and dividends	..	..	..	..	..	..	..	..	..	..
Current transfers from Government	1 470	1 671	1 858	2 174	2 703	3 325	4 620	6 450	7 700	8 245
Third party insurance transfers	51	61	66	80	90	119	182	192	259	248
Current transfers from the rest of the world	185	203	202	251	260	275	355	359	276	409
INCOME	21 425	23 634	26 543	30 002	34 417	42 338	52 534	61 362	70 990	78 452
less: Direct taxes paid on income	2 377	2 855	3 175	3 765	4 084	5 485	7 709	9 213	11 046	12 122
Consumer debt interest	180	201	235	259	320	463	677	730	899	1 066
Other direct taxes, fees, fines, etc.	368	391	408	440	488	560	559	681	772	835
Current transfers to the rest of the world	92	114	134	172	217	261	266	313	290	367
DISPOSABLE INCOME	18 408	20 073	22 591	25 366	29 308	35 569	43 323	50 425	57 983	64 062
Consumption expenditure	16 580	18 234	20 118	22 329	24 329	29 476	35 617	42 408	48 388	54 224
Food	3 342	3 570	3 819	4 144	4 569	5 393	6 213	7 104	8 176	9 279
Clothing	1 553	1 667	1 814	1 987	2 224	2 698	3 135	3 520	3 911	4 337
Rent	2 042	2 314	2 680	3 053	3 469	4 038	4 889	6 014	7 409	8 924
Other	9 643	10 683	11 805	13 145	14 067	17 347	21 380	25 770	28 892	31 684
SAVING[1]	1 828	1 839	2 473	3 037	4 979	6 093	7 706	8 017	9 595	9 838
(Per cent of disposable income)	9.9	9.2	10.9	12.0	17.0	17.1	17.8	15.9	16.5	15.4

1 Obtained as the difference between disposable income and consumption expenditure.
Sources: Australian submission to the OECD and Australian National Accounts.

Table D **Labour market**

Calendar year averages	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
	Thousand persons									
Civilian employment: Total[1]	5 187.6	5 387.5	5 516.6	5 601.3	5 765.0	5 891.1	5 866.4	5 946.0	6 000.0	5 997.2[7]
In manufacturing[2]	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	1 128.0
Unemployment[3]	96.1	90.6	107.3	150.1	136.2	161.6	302.5	298.0	358.0	402.1[7]
Unfilled vacancies[4]	44.3	50.9	40.8	32.4	64.0	62.0	30.1	24.2	22.0	19.5
	Per cent									
Unemployment	1.8	1.6	1.9	2.6	2.3	2.7	4.9	4.7	5.6	6.3[7]
Participation rate: Male	83.1	83.2	82.8	82.7	82.3	81.7	81.1	80.6	80.1	78.9[7]
Female	38.5	39.8	40.4	40.6	41.8	42.8	43.6	43.6	44.2	43.8[7]
	Hours									
Average weekly hours paid for[5, 6]:										
All industries	43.6	43.5	43.2	42.9 42.0	42.3	41.3	40.6	40.7	41.3	40.6
Manufacturing	44.1	44.0	43.5	43.2 43.1	43.6	42.2	41.3	41.3	41.4	41.6

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.

7 From February.

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

Table E **Prices and wages**

Year ended 30th June	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
	1966-1967 = 100								*1974-1975 = 100*		
Implied GDP deflator, total	102.8	106.2	111.0	116.9	125.0	136.1	155.9	183.4	114.7	127.7	137.3
Private consumption	103.2	106.2	110.1	116.6	123.9	130.6	145.3	169.1	115.5	128.7	140.5
Gross fixed capital formation	102.8	106.5	111.2	118.0	126.0	134.1	150.3	184.9	115.7	130.6	141.8
Consumer prices: Total	103.3	106.0	109.4	114.6	122.4	129.8	146.6	171.1	113.0	128.6	140.9
Food	104.7	105.8	108.1	112.4	116.8	125.7	149.5	164.0	109.9	122.7	136.1
Non-food	102.7	106.1	110.0	115.6	124.9	131.6	145.4	173.7	114.1	130.6	142.5
Foreign trade prices[1]: Exports	96.6	98.4	100.3	98.2	102.4	121.6	142.1	171.3	107.7	119.6	123.0
Imports	100.2	100.1	101.2	105.2	110.2	108.4	119.6	154.5	111.5	126.6	144.0
Terms of trade	96.4	98.3	99.1	93.3	92.9	112.2	118.8	110.9	96.6	94.5	85.4
	Dollars										
Hourly wage rates[2]											
All activities[3]	1.14	1.22	1.28	1.39	1.54	1.69	2.01	2.62	3.01	3.41	3.72
of which: Manufacturing	1.12	1.19	1.25	1.34	1.50	1.64	1.94	2.52	2.87	3.25	3.53
Hourly earnings[4]											
All industries[5]	1.59	1.70	1.84	2.08	2.24	2.72	3.59	4.05	4.44	5.11	5.46
Mining and quarrying	1.97	2.13	2.32	2.68	2.88	3.28	4.43	5.30	6.07	6.84	7.45
Manufacturing	1.57	1.66	1.79	2.04	2.21	2.58	3.44	3.82	4.33	4.79	5.11
Building and construction	1.72	1.80	2.02	2.26	2.42	2.66	3.55	3.97	4.82	4.98	5.30

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			
	1975	1976	1977	1978	1975	1976	1977	1978
Current receipts	18 777	22 837	26 782	29 256	14 487	17 509	20 558	22 541
Direct taxes on income	10 141	11 813	13 946	15 312	10 141	11 813	13 946	15 312
Households	7 797	9 308	11 143	12 240	7 797	9 308	11 143	12 240
Corporations	2 344	2 505	2 803	3 072	2 344	2 505	2 803	3 072
Indirect taxes	6 948	8 848	10 078	10 831	3 878	5 009	5 648	6 010
Income from property and entrepreneurship	1 101	1 495	1 987	2 278	334	552	812	1 039
Compulsory fees, fines, etc.	587	681	772	835	134	136	152	180
Current disbursements	15 784	20 010	23 849	27 090	12 465	16 534	19 238	22 171
Goods and services	9 172	11 367	13 273	15 019	3 533	4 054	4 560	5 166
Subsidies	325	316	303	452	284	271	246	380
Interest on public debt	1 307	1 489	2 061	2 419	108	117	419	565
Current transfers to domestic sectors	4 621	6 451	7 799	8 747	8 180	11 704	13 600	15 607
Current transfers to the rest of the world	360	388	414	453	360	388	414	453
Saving	2 993	2 827	2 933	2 166	2 022	975	1 320	370
Capital transfers	—	—	—	—	−1 414	−1 567	−1 546	−1 517
Finance of gross accumulation	2 993	2 827	2 933	2 166	608	−592	−226	−1 147
Investment expenditure	2 767	3 389	3 439	3 646	376	513	455	406
Net lending	226	−562	−506	−1 480	232	−1 105	−681	−1 553

1 Combined Australian, State and Local Sectors.
Sources: Australian submission to the OECD; ABS, "National Income and Expenditure 1977-1978".

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

Year ended 30th June	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
Current account										
Exports, fob	3 235	3 967	4 230	4 740	6 010	6 688	8 490	9 408	11 399	12 069
Imports, fob	3 203	3 553	3 790	3 791	3 808	5 754	7 652	7 924	10 345	11 179
Trade balance	32	414	440	949	2 202	934	838	1 484	1 054	891
Invisibles, net	−995	−1 106	−1 207	−1 260	−1 468	−1 744	−1 784	−2 592	−3 043	−3 321
CURRENT BALANCE	−963	−692	−767	−311	734	−810	−946	−1 108	−1 989	−2 431
Capital account										
Government	70	−185	−63	−60	−64	−22	−34	−129	153	1 518
Trade credit n.e.i.[1]	27	−48	−42	−45	59	−56	−70	106		
Other private capital	946	901	1 506	1 384	324	379	803	558	1 347	371
Balancing item[2]	68	60	−36	506	−4	87	−221	−448		
APPARENT CAPITAL BALANCE	1 111	728	1 365	1 785	315	388	478	87	1 499	1 889
Official monetary movements										
Change in official reserve assets	143	118	742	1 544	1 079	−384	−460	−1 053	−190	−474
Allocation of SDR	—	−75	−64	−63	—	—	—	—	—	—
Other transactions[3]	6	−7	−81	−8	−9	−50	−4	32	−301	−68
Net official monetary movements	148	37	598	1 474	1 071	−435	−464	−1 020	−491	−542
CHANGES IN MARKET VALUE OF OFFICIAL RESERVE ASSETS[4]										
(*a*) Gold[5]	1	10	−14	6	−13	−10	28	511	198	278
(*b*) Currency assets	187	16	741	1 404	539	−634	−41	−865	19	−456
(*c*) IMF gold tranche	−45	13	−31	−37	−6	6	7	−1	19	5
(*d*) Special Drawings Rights	—	79	67	63	−9	−50	−61	−52	−10	86
Total	143	118	763	1 436	511	−688	−67	−407	226	−87

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		
	1975	1976	1977	1975	1976	1977
SITC sections:						
Food and live animals	3.4	3.8	4.8	34.7	31.9	30.8
Beverages and tobacco	1.1	0.9	1.1	0.2	0.2	0.2
Crude materials, inedible, except fuels	4.5	4.8	4.3	26.1	29.2	28.1
Mineral fuels, lubricants and related materials	9.8	9.6	10.1	11.7	12.5	13.5
Animal and vegetable oils and fats	0.5	0.5	0.6	0.7	0.7	0.8
Chemicals	8.5	9.1	9.0	6.0	6.9	7.1
Manufactured goods classified chiefly by material	17.3	18.6	17.8	12.6	11.1	11.8
Machinery and transport equipment	40.7	38.0	38.1	5.9	4.5	4.4
Miscellaneous manufactured articles	12.3	13.3	13.2	1.4	1.2	1.3
Commodities and transactions not classified according to kind[1]	2.0	1.3	1.0	0.7	1.8	2.0
Total (merchandise and non-merchandise)	100.0	100.0	100.0	100.0	100.0	100.0
OECD countries	78.4	77.1	75.9	64.5	68.7	66.5
North America	22.8	23.3	23.4	13.1	11.8	11.5
Japan	17.6	21.0	19.5	29.2	33.7	33.2
EEC	29.5	24.9	25.3	14.6	15.7	14.7
Other	8.5	7.9	7.7	7.6	7.5	7.1
Non-OECD countries	20.9	22.3	23.7	34.7	30.6	32.8
Sino-Soviet area[2]	1.3	1.4	1.5	6.9	7.3	7.7
Other developed countries	0.6	0.4	0.5	1.0	0.7	0.5
Developing countries	19.0	20.5	21.7	26.8	22.6	24.6
Unspecified	0.7	0.6	0.4	0.8	0.7	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-1977	Thousands	14 073	7 520	9 830	23 316	5 089	4 740	53 084	61 400
Inhabitants per sq. km	»	Number	2	90	322	2	118	16	96	247
Net average annual increase	Mid-1967 to Mid-1977	%	1.8	0.3	0.3	1.3	0.5	0.3	0.7	0.4
EMPLOYMENT Total civilian	1977	Thousands	6 000	2 988	3 711	9 754	2 414	2 101	20 884	24 488
of which: Agriculture, forestry, fishing	»	% of total	6.6	11.8	3.3	5.7	9.1	12.9	9.6	6.8
Industry[4]	»	»	32.5	40.6	37.9	28.9	30.4	34.8	37.7	45.3
Other	»	»	60.9	47.6	58.8	65.4	60.5	52.3	52.7	47.9
GROSS DOMESTIC PRODUCT at market prices	1977	US $ billion[11]	95.8	48.0	79.2	200.3	46.0	30.2	380.7	516.2
Average annual volume growth[6]	1972 to 1977	%	3.3	3.6	3.2	4.2	2.5	2.4	3.3	2.3
Per capita	1977	US $[11]	6 810	6 380	8 060	8 590	9 040	6 360	7 170	8 410
GROSS FIXED CAPITAL FORMATION	1977	% of GDP	23.1	27.2	21.2	22.7	23.3	26.7	22.6	20.9
of which: Transport, machinery and equipment	»	»	7.4[19]	10.6	6.4	7.6	7.4	10.3	..	8.3
Residential construction	»	»	4.6[19]	..	7.1	6.0	7.7	6.9	7.5	5.9
Average annual volume growth[6]	1972 to 1977	%	1.0	2.1	2.9	4.5	–0.3	–0.2	1.5	–1.1
NATIONAL SAVINGS RATIO[12]	1977	% of GNP	18.3	24.6	21.7	21.3	18.8	27.2	23.4	24.2
GENERAL GOVERNMENT										
Current expenditure on goods and services	1977	% of GDP	16.3	17.3	17.3	20.3	24.3	20.4	14.9	20.0
Current transfer payments	»	»	9.6	20.6	22.0	12.4	15.8	14.5	24.8	19.5
Current revenue	»	»	25.9	43.0	41.8	36.4	45.5	43.5	42.2	43.5
NET OFFICIAL DEVELOPMENT ASSISTANCE	1977	% of GNP	0.5	0.2	0.5	0.5	0.6	0.2	0.6	0.3
INDICATORS OF LIVING STANDARDS										
Private consumption per capita	1977	US $[11]	4 000	3 660	5 000	4 870	5 080	3 250	4 450	4 690
Passenger cars, per 1 000 inhabitants	1976	Number	366	243	279	388[20]	265	218	300	308
Telephones, per 1 000 inhabitants	»	»	395	303	300	596	494	409	293	343
Television sets, per 1 000 inhabitants	1975	»	274	247[16]	255	411	308	306	268	306
Doctors, per 1 000 inhabitants	»	»	1.4[13]	2.1	1.9	1.7	1.6	1.4	1.5	2.0
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	14.3	20.5	14.6	15.0[16]	10.6	10.2[16]	12.6	15.7
WAGES AND PRICES	Average annual increase									
Hourly earnings in industry[18]	1972 to 1977	%	16.9	11.9	15.4	12.5	16.4	16.7	15.7	8.7
Consumer prices	»	%	13.1	7.7	9.7	8.9	10.8	14.5	10.3	5.7
FOREIGN TRADE										
Exports of goods, fob	1977	US $ million[11]	13 260	9 792	37 488[7]	41 556	10 068	7 680	63 516	117 936
As percentage of GDP	»	%	13.9	20.5	47.2	21.1	23.3	25.7	16.7	22.9
Average annual volume increase	1972 to 1977	%	2.7	6.0	4.8	3.7	3.5	2.8	6.3	6.7
Imports of goods, cif	1977	US $ million[11]	12 240	14 208	40 248[7]	39 540	13 260	7 620	70 488	100 704
As percentage of GDP	»	%	12.8	29.7	50.7	20.1	30.7	25.5	18.5	19.6
Average annual volume increase	1972 to 1977	%	5.9	7.3	5.8	5.4	4.3	1.5	5.5	5.5
TOTAL OFFICIAL RESERVES	End-1977	US $ million	2 384	4 244	5 761[7]	4 608	1 671	570	10 194	39 737
As percentage of imports of goods	In 1977	%	19.5	29.9	14.3[7]	11.7	12.6	7.5	14.5	39.5

	Greece	Iceland	Ireland	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway
POPULATION	9 268	221	3 180	56 446[2]	113 860	355	13 853	3 128	4 043
Inhabitants per sq. km	70	2	45	187	302	137	410	12	12
Net average annual increase	0.6	1.1	0.9	0.7	1.3	0.6	1.0	1.4	0.7
EMPLOYMENT Total civilian	(3 167)	98[14]	1 022	19 847	53 420	147	4 555	1 215	1 824
of which: Agriculture, forestry, fishing	(28.4)	14.2	23.1	15.9	11.9	5.9	6.3	11.6	9.0
Industry[4]	(30.3)	37.9	30.3	38.6	35.4	45.1	33.2	34.6	32.3
Other	(41.3)	47.9	46.6	45.5	52.7	49.0	60.5	53.8	58.7
GROSS DOMESTIC PRODUCT at market prices	26.2	1.9	9.4	196.1	691.2	2.8	106.4	14.2	35.6
Average annual volume growth[6]	3.8	3.5	3.2	3.0	4.5	1.5	3.0	1.9	4.7
Per capita	2 830	8 680	2 940	3 470	6 070	7 700	7 680	4 550	8 800
GROSS FIXED CAPITAL FORMATION	23.0[8]	27.3	24.7	19.8	29.9	25.8	21.1	22.7[9]	36.6
of which: Transport, machinery and equipment	8.4	7.6	14.7	8.5	13.8	8.6[20]	8.6	..	13.3
Residential construction	7.1	5.8	14.0	5.5	6.9	7.6[20]	5.8	..	4.9
Average annual volume growth[6]	–1.4	4.9	1.8	–0.2	4.4	0.3	0.9	..	8.1
NATIONAL SAVINGS RATIO[12]	19.9	27.1	17.0	22.1	32.2	38.3[14]	23.5	23.6	23.2
GENERAL GOVERNMENT									
Current expenditure on goods and services	15.9	11.2	18.6	14.0	19.1	15.4	18.3	18.7	18.7
Current transfer payments	11.6	..	13.3	22.7	9.2	28.7[14]	30.9	..	24.6
Current revenue	29.4	..	35.6	37.7	24.5	52.8[14]	54.0	..	51.2
NET OFFICIAL DEVELOPMENT ASSISTANCE	..	..	..	0.1	0.2	..	0.9	0.4	0.8
INDICATORS OF LIVING STANDARDS									
Private consumption per capita	1 890	5 200	1 900	2 220	3 510	4 760	4 480	2 590[9]	4 940
Passenger cars, per 1 000 inhabitants	55	298	175	283	163	367	273	383	253
Telephones, per 1 000 inhabitants	238	411	150	271	426	442	391	515	366
Television sets, per 1 000 inhabitants	126	234	192	213[16]	235	257[16]	259[16]	259	255
Doctors, per 1 000 inhabitants	2.0	1.6[10]	1.2	2.1	1.2	1.1	1.6	1.3	1.7
Access to higher education[15]	..	..	..	31.0	34.3[16]	..	21.1[16]	..	40.3[16]
Infant mortality[17]	24.1	11.1	18.4	20.7	10.1	14.8	10.6	16.0	10.5[16]
WAGES AND PRICES									
Hourly earnings in industry[18]	23.2	33.6	20.0	24.4	16.4	..	12.0	13.2	15.0
Consumer prices	16.1	34.7	16.1	16.5	12.9	8.6	8.7	13.0	9.4
FOREIGN TRADE									
Exports of goods, fob	2 724	516	4 392	45 036	80 496	—	43 680	3 219	8 712
As percentage of GDP	10.6	27.2	47.7	23.0	11.7	—	41.1	22.4	24.5
Average annual volume increase	11.3	..	9.0	6.1	10.5	—	5.4	2.9	4.9
Imports of goods, cif	6 780	612	5 388	47 556	70 809	—	45 600	3 379	12 876
As percentage of GDP	26.3	32.2	58.6	24.3	10.3	—	42.9	23.5	36.2
Average annual volume increase	5.1	..	6.3	1.4	3.8	—	3.8	1.8	8.1
TOTAL OFFICIAL RESERVES	1 020	100	2 372	11 629	22 848	—	8 065	445	2 200
As percentage of imports of goods	15.0	16.3	44.0	24.5	32.3	—	17.7	13.2	17.1

	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia[1]
POPULATION	9 773	36 672	8 255	6 327	42 135	55 919	216 817	21 775
Inhabitants per sq. km	106	73	20	153	54	229	23	85
Net average annual increase	0.7	1.1	0.5	0.4	2.5	0.2	0.9	0.9
EMPLOYMENT Total civilian	3 781	12 462	4 099	2 817	14 151	24 550	90 546	9 234[3]
of which: Agriculture, forestry, fishing	32.5	20.7	6.1	8.5	55.8	2.7	3.6	42.6
Industry[4]	33.1	37.4	34.3	42.7	13.6	40.0	(28.9)	21.2
Other	34.4	41.9	59.6	48.8	30.6	57.3	(67.5)	36.2
GROSS DOMESTIC PRODUCT at market prices	16.3	115.6	78.3	60.6	44.8	244.3	1 878.8	33.9[5]
Average annual volume growth[6]	3.8	3.7	1.3	–0.5	7.2	1.8	2.6	5.7
Per capita	1 670	3 150	9 480	9 580	1 170	4 370	8 670	1 560
GROSS FIXED CAPITAL FORMATION	20.4	21.5	20.5	20.7	25.8	18.1	17.5	34.3
of which: Transport, machinery and equipment	5.5[14]	8.9[14]	8.5	6.9	..	9.0	7.3	..
Residential construction	2.8[14]	..	4.2	..	3.7	3.3	4.8	..
Average annual volume growth[6]	–1.6[21]	3.7	–0.4	–5.0	10.3	–0.6	0.3	7.1
NATIONAL SAVINGS RATIO[12]	11.0	20.2	16.7	26.5	17.2	20.3	17.7	35.2
GENERAL GOVERNMENT								
Current expenditure on goods and services	14.0	10.3	28.5	12.9	14.5	20.8	18.4	17.4
Current transfer payments	15.8[14]	12.7	24.4	15.3	9.2	13.9	11.6	..
Current revenue	28.3[14]	26.7	60.9	34.3	21.6	40.0	32.0	43.1
NET OFFICIAL DEVELOPMENT ASSISTANCE	..	..	1.0	0.2	..	0.4	0.2	..
INDICATORS OF LIVING STANDARDS								
Private consumption per capita	1 260	2 180	5 140	6 100	810	2 580	5 600	849
Passenger cars, per 1 000 inhabitants	107	148	350	281[20]	11	255	505	80
Telephones, per 1 000 inhabitants	119	237	689	634	28	394	721	66
Television sets, per 1 000 inhabitants	65	184	352	273	12[16]	320	571[16]	159
Doctors, per 1 000 inhabitants	1.3	1.8[14]	1.7	1.8	0.6	1.3	1.6	1.4
Access to higher education[15]	(9.8)[10]	29.3[10]	(31.1)[13]	..	..	21.8[16]	43.2	..
Infant mortality[17]	37.9[16]	18.9	8.3	10.7	..	16.0	16.1	39.7
WAGES AND PRICES								
Hourly earnings in industry[18]	17.5	23.2	11.7	5.8	27.5	16.5	8.1	..
Consumer prices	21.1	16.6	9.6	5.6	30.0	16.3	7.7	18.6
FOREIGN TRADE								
Exports of goods, fob	2 028	10 223	19 080	17 544	1 753	57 516	120 168	5 254
As percentage of GDP	11.9	8.8	24.3	28.7	3.9	23.5	6.4	16.2
Average annual volume increase	1.8	8.6	1.6	5.9	1.8	6.7	6.4	2.9
Imports of goods, cif	4 956	17 835	20 112	17 904	5 796	63 696	147 852	9 634
As percentage of GDP	29.2	15.4	25.7	29.3	12.9	26.1	7.8	29.7
Average annual volume increase	3.4	3.8	3.6	1.5	8.7	3.1	4.5	7.2
TOTAL OFFICIAL RESERVES	1 377	6 590	3 668	13 830	630	21 057	19 390	2 600
As percentage of imports of goods	27.8	36.9	18.2	77.2	10.9	33.1	13.1	26.9

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.
7 Including Luxembourg.
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 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 Private.
20 1975.
21 1971 to 1976.

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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