OECD
ECONOMIC SURVEYS
1981-1982

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

AUSTRALIA

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

JANUARY 1982

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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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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BASIC STATISTICS OF AUSTRALIA

THE LAND

Area (1 000 sq. km)	7 682.3	Urban population, 30.6.1980, % of total (cities over 100 000)	70
Agricultural area, 1980, % of total	64.6	Population of major cities, 30.6.1980 (1 000):	
		Sydney	3 232
		Melbourne	2 760
		Brisbane	1 029
		Adelaide	934
		Perth	902

THE PEOPLE

Population, 31.12.1980 (1 000)	14 727	Civilian employment, August 1981 (1 000)	6 356
No. of inhabitants per sq. km	1.9	*of* which: Agriculture	414
Natural increase, 1980 (1 000)	117	Industry[1]	1 801
Net migration, 1980 (1 000)	93	Other activities	4 141

PARLIAMENT AND GOVERNMENT

Composition of Parliament following latest elections:

Party	Senate	House of Representatives
Australian Democrats	5	–
Australian Labor Party	27	51
Independent	1	–
Liberal Party of Australia	28	54
National Country Party	3	20
Total	64	125

Present Government: Liberal-National Country Party
Next general elections for House of Representatives: at the latest January 1984

PRODUCTION[2]

Gross Domestic Product, 1981 ($A million)	130 030	Gross fixed capital formation, 1981: Percentage of GDP	23.9

THE PUBLIC SECTOR % OF GDP IN 1981[2]

Expenditure on goods and services[3]	24.5	Current revenue	32.6
Current transfers	9.0	*of which:* Direct taxes	17.8

FOREIGN TRADE

Exports		Imports	
Main exports in 1980, % of total:		Main imports in 1980, % of total:	
Food and live animals	33.5	Machinery and transport equipment	36.3
Crude materials, inedible, except fuels	29.6	Manufactured goods	17.7
Manufactured goods	11.9	Miscellaneous manufactured goods	12.2
Machinery and transport equipment	5.4	Chemicals	9.1

THE CURRENCY

Monetary unit: Australian dollar	
Currency unit per US dollar, average of daily figures:	
Year 1980	0.8776
November 1981	0.8726

1 Excluding electricity, gas and water.
2 Fiscal year ended 30th June.
3 Current and capital expenditure. Including public enterprises.
Note An international comparison of certain basic statistics is given in an annex table.

The annual review of Australia
by the OECD Economic and Development Review Committee
took place on 27th November 1981.

INTRODUCTION

Influenced by strongly rising private fixed investment, mainly associated with large resource projects, the economy expanded rapidly in the eighteen months to mid-1981 – the period reviewed in this Survey. The upswing was broadly based: most components of demand have been buoyant, employment has continued to rise rapidly and unemployment has fallen for the first time for several years. The continued reduction of the public sector net borrowing requirement has facilitated the growth of the private sector, a principal objective of the Government's medium-term policy approach. However, the implementation of policy has been uneven. In particular there have been slippages in monetary policy for about three years and these help to explain why progress in reducing inflation had faltered despite the dampening effect on prices of a sizeable appreciation of the exchange rate. With increasing wage pressures and a continuing high level of industrial disputes, the indexation system of wage fixation was abandoned in July 1981.

The Budget deficit in the current fiscal year is projected to be further reduced by about 1 percentage point of GDP to a position of approximate balance. Monetary policy has also been tightened and interest rate policy is being used more flexibly, indicating a firmer anti-inflationary stance than in 1980/81, the reduction of inflationary expectations being another objective of macro-economic policy. The outlook for prices will depend crucially on the movements in wages and salaries and present trends may make it difficult to achieve a reduction in the underlying rate of inflation of some 10 per cent in the near future. While real GDP is expected to rise at a rate of about 3 per cent during 1982 and employment seems likely to continue rising significantly, unemployment may remain close to the present rate. On the assumption of unchanged exchange rates, the terms of trade should remain broadly stable but as the real foreign balance may not improve until late 1982, the current external deficit could rise from 3 per cent of GDP in 1980 to about 5 per cent in 1981 and 1982.

The main developments in the economy since early 1980 are reviewed in Part I of the present Survey while Part II discusses some aspects of the resource developments now under way. Economic policies are described in Part III and the Survey concludes with an assessment of short-term economic prospects and a discussion of the main policy considerations in Part IV.

I. RECENT DEVELOPMENTS

Demand and output

The development of aggregate output in recent years has been considerably influenced by sharp fluctuations in the rural sector associated with climatic variations as reflected mainly in the size of the wheat crop. A record level of wheat production was

Table 1. **Demand and output**
Percentage changes, volume[1]

	From previous year[3]			From previous half-year seasonally adjusted annual rate				
	1979	1980	1980/81	1979 I	1979 II	1980 I	1980 II	1981 I
Consumption								
Private	2.3	3.2	3.2	1.2	2.6	3.1	3.5	2.6
Public	1.0	3.7	4.2	−2.5	3.3	3.3	5.0	3.5
Gross fixed investment	1.4	4.2	11.2	3.8	−6.6	3.1	18.4	5.8
of which:								
Public	−3.0	−3.2	−0.9	−0.4	−5.6	−3.5	0.6	−1.6
Private								
Total	4.1	8.4	17.7	6.2	−7.1	6.8	28.4	9.4
Dwellings	10.3	11.5	10.6	15.7	10.7	3.9	28.5	−13.1
Other construction	−2.2	12.9	29.9	−4.5	−12.5	23.6	19.1	61.2
Machinery and equipment	2.6	5.0	18.3	4.9	−15.0	3.6	31.7	9.0
Final domestic demand	1.9	3.5	5.1	1.1	0.6	3.1	6.9	3.5
Change in stockbuilding[2]	1.7	−1.6	−0.2	−3.4	0.1	−2.7	3.6	−4.8
of which:								
Private non-farm[2]	0.7	0.2	−0.3	−0.5	3.0	−2.5	2.8	−4.2
Farm and miscellaneous[2]	0.9	−1.8	0.1	−2.9	−2.9	−0.2	0.8	−0.6
Statistical discrepancy[2]	−0.8	0.5	1.1	1.7	−3.2	2.3	−1.1	4.1
Total domestic demand	2.7	2.3	6.0	−0.7	−2.5	2.6	9.6	2.6
Exports of goods and services	13.8	1.2	−7.7	17.9	19.3	2.7	−16.0	0.6
Imports of goods and services	2.5	4.3	9.0	1.9	−4.9	5.9	10.6	9.0
Change in foreign balance[2]	1.9	−0.5	−2.9	2.5	4.1	−0.4	−4.8	−1.4
Gross domestic product	4.6	1.8	2.9	1.8	1.5	2.1	4.3	1.2
of which:								
Farm	35.1	−22.8	−12.3	−6.6	−13.8	−0.4	−19.7	−4.7
Non-farm	2.6	3.8	4.0	2.5	2.7	2.3	6.1	1.6

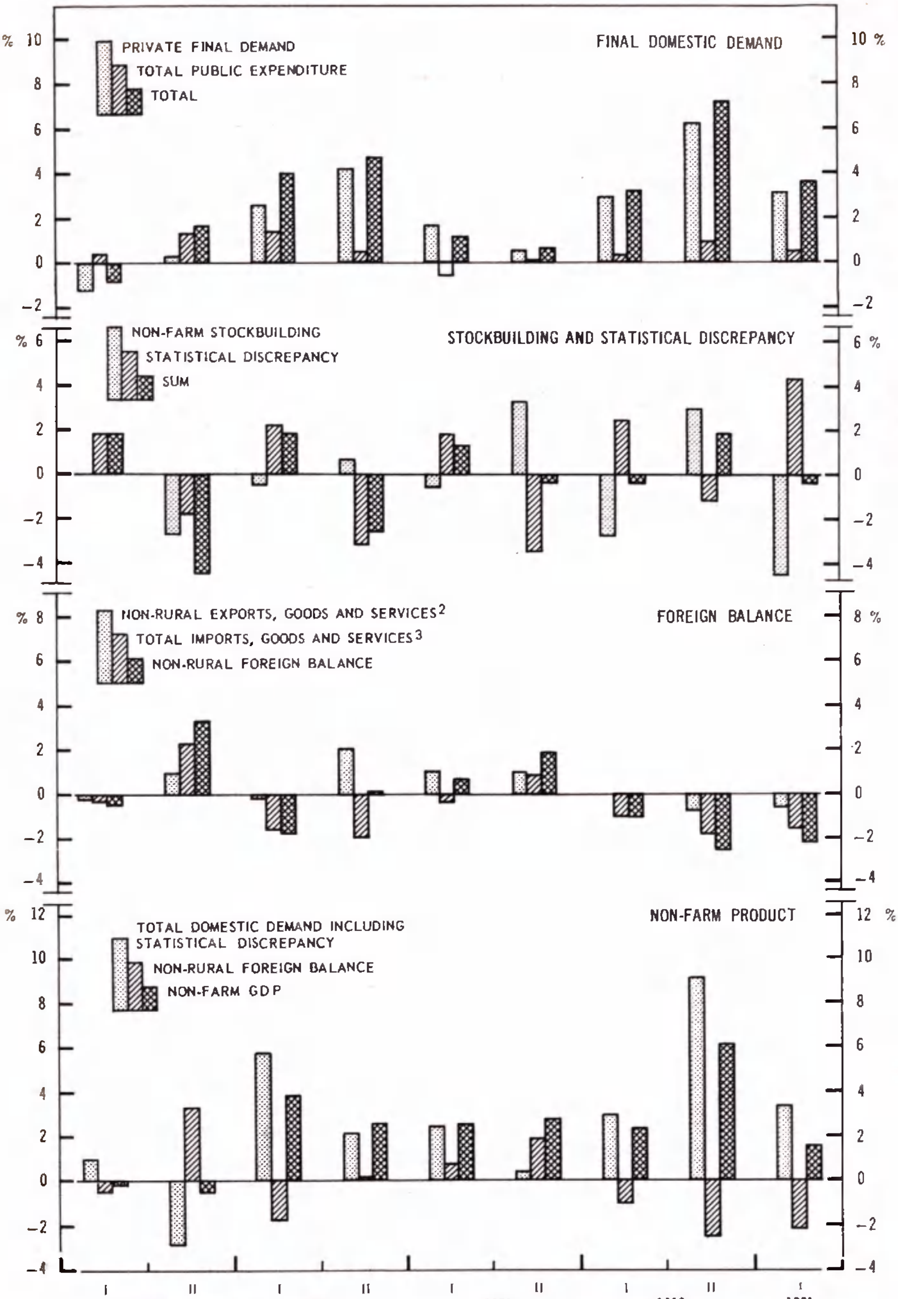
1. Volume data measured at 1974/75 prices.
2. Contribution to GDP growth (percentage points).
3. Published annual national accounts estimates are compiled for years ended 30th June. The calendar year estimates have been obtained by summing original quarterly figures.

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

the major factor in real farm GDP expanding by about one-third in fiscal 1978/79[1], wheat output declined in the following year and fell sharply in 1980/81 as a consequence of the drought. Real farm output fell accordingly, thus dampening the rise in total GDP. Real non-farm GDP, the more relevant measure of underlying developments in the economy, has been more stable, growing by about 2½ per cent (seasonally adjusted annual rate) in each half year from mid-1978 to mid-1980; a marked acceleration in the second half of 1980 raised the growth rate through 1980/81 to 4 per cent[2].

1. The Australian fiscal year runs from 1st July to 30th June.
2. Based on seasonally-adjusted data. On unadjusted data growth between the first halves of 1980 and 1981 was 3 per cent.

Diagram 1 **Sources of GDP growth, non-farm sector**
Percentage points, seasonally adjusted, half-years at annual rates[1]



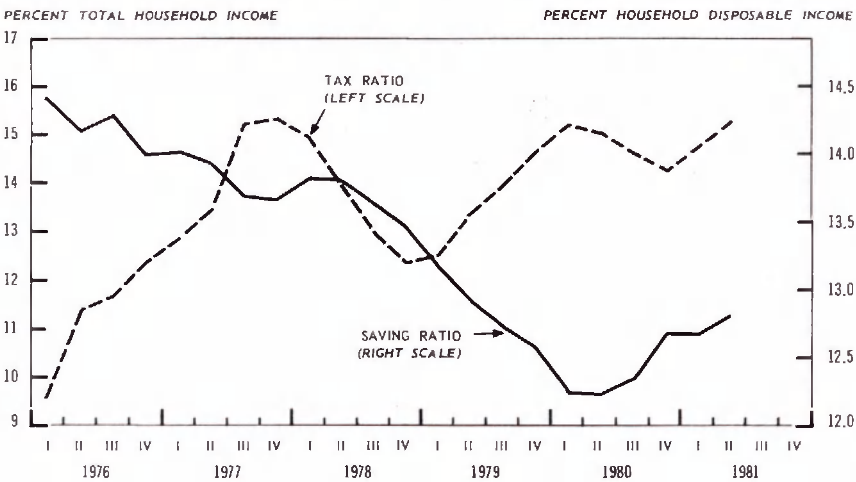
1 Since expenditure components cannot all be allocated between the farm and non-farm sectors, these contributions are generally approximate. This reflects in the incomplete additivity of the final panel.
2 Excluding merchandise exports of rural origin.
3 Increase in imports has a negative sign.
Sources: Quarterly Estimates of National Income and Expenditure, ABS; *Exports and Imports of Merchandise at constant prices*, ABS.

Within the relatively stable development of non-farm output over recent years, there have been substantial differences in the composition of demand growth[3] both as between its domestic and foreign components and in the degree to which imports have absorbed fluctuations in demand (Diagram 1). Since early 1980, as during 1978, final domestic demand has expanded strongly with business investment providing much of the impetus[4]. Both these periods of buoyant domestic demand coincided with decline in non-rural export volumes[5]; diversion of supplies to the domestic market may have contributed to this pattern. Imports grew more strongly than final domestic demand thereby dampening the output impact, though in the expansion of 1980/81 it appears that non-farm inventories may have helped to meet the faster growth in demand.

The components of demand

The relatively stable pattern of private consumption growth identified in last year's Survey as one of the main features of the Australian economy in 1978 and 1979 has continued (Table 1) despite marked half-yearly fluctuations in the growth of real disposable income emanating mainly from the uneven development of nominal income and its components and from the impact of fiscal measures (Table 2). Changes in the saving ratio have largely offset the variations in real incomes. The farm sector's response to the exceptional volatility of its income flow in recent years has been an important influence on savings but it seems that short-run movements in savings may

Diagram 2 **Household behaviour**
4-quarter moving averages; non-farm sector[1]



1 Non-farm series are derived by deducting income of farm unincorporated enterprises and taxes paid by other individuals from the national accounts aggregates and are thus merely approximations, indicating trends rather than the levels.
Source: Quarterly Estimates of National Income and Expenditure, ABS.

3. Assessment of the demand determinants of output changes is exceptionally difficult because of relatively large changes over time in seasonal adjustment factors and the magnitude of the swings in non-farm stockbuilding and the statistical discrepancy; these latter items have recently had a tendency to be offsetting for half years.
4. The strength of business investment from mid-1978 to early-1979 and its subsequent decline were affected by changes in fiscal incentives.
5. There was some overlap in the second half of 1978.

Table 2. **Household income and expenditure**
Percentage changes, seasonally adjusted annual rates

	From previous year (not seasonally adjusted)			From previous half year				
	1979	1980	1980/81	1979 I	1979 II	1980 I	1980 II	1981 I
Farm income	109.7	−15.7	−17.0	31.1	20.3	−9.1	−5.8	−41.2
Wages and salaries	9.7	14.3	15.5	11.4	10.1	13.4	16.7	15.3
Other non-farm income	10.1	10.7	12.6	15.0	3.4	12.2	15.7	8.8
Government transfers	10.4	11.2	13.0	9.1	4.3	12.0	18.1	7.4
Total household income[1]	13.1	11.6	13.0	12.8	8.8	12.0	15.5	10.3
Taxes	12.9	14.0	15.9	17.3	16.8	11.1	17.5	24.2
Disposable income[1]	13.2	11.2	12.3	11.9	7.5	12.2	14.8	7.7
Consumption	12.0	13.1	12.3	11.1	12.5	13.6	12.3	11.4
Savings	21.1	−0.9	12.3	17.0	−20.6	2.6	35.0	−16.4
Memorandum items:								
Consumption deflator	9.5	9.6	8.9	9.7	9.6	10.2	8.4	8.6
Real household income	3.2	1.8	3.8	2.7	−0.8	1.7	6.5	1.6
Real taxes	2.9	3.9	6.5	6.8	6.6	0.9	8.3	14.4
Real disposable income	3.4	1.4	3.1	1.9	−2.0	1.8	5.9	−0.8
Real consumption	2.3	3.2	3.2	1.2	2.6	3.1	3.5	2.8
Real savings	10.7	−10.0	3.1	6.6	−27.7	−7.0	24.7	−23.0
Tax ratio (per cent household income)	15.8	16.1	16.9	15.7	16.3	16.2	16.4	17.4
Saving ratio (per cent disposable income)	14.1	12.6	11.8	14.1	12.2	11.6	12.6	11.1

1. Aggregates take account of minor components not shown separately.
Source: Quarterly Estimates of National Income and Expenditure, ABS.

have also been influenced by changes in the level of income taxation[6] (Diagram 3). In 1980/81 the longer-term decline in the non-farm saving ratio, evident since 1975, was reversed, the ratio rising to 11.3 per cent, partly as a reaction to the steep fall (2 points) during 1979/80 when real incomes were flat. But it also reflected the strong rise in real disposable income, the strongest in any year since 1974/75, except 1978/79 when farm incomes almost doubled. Notable features of the recent development of private consumption have been the rapid increase of expenditure on durable goods (household durables and motor cars) and the slower growth of expenditures on non-durables other than food and rent[7]. Durables consumption rose sharply at the beginning of 1980 and, with incomes accelerating, strengthened further in the second half of the year notwithstanding a considerable rise in interest rates. The volume rise in the year to March 1981 (over 7 per cent) was the largest since 1974. Retail sales were buoyant in the September quarter.

6. Both discretionary changes and fiscal drag. Secretariat estimates of the quarterly evolution of the approximate tax and saving ratios for the non-farm sector, while subject to difficulties of seasonal adjustment, indicate that the complementarity of the two was even more pronounced over time-spans shorter than those illustrated in Diagram 2.

7. Rising oil prices may have contributed to the slower growth in consumption of non-durables which includes consumption of petrol and travel-related expenditures.

Table 3. **Capital expenditure in mining and manufacturing**
Percentage changes in value from previous half-year, seasonally adjusted annual rates

	1978 I	1978 II	1979 I	1979 II	1980 I	1980 II	1981 I
Mining, total	35.2	65.0	12.9	−31.9	50.2	68.5	99.0
of which:							
Construction	33.2	52.0	−17.7	−13.9	59.8	84.9	204.8
Equipment	39.3	76.6	45.1	−43.0	43.5	53.9	21.8
Manufacturing, total	26.6	11.5	11.2	−10.0	31.2	59.7	30.5
of which:							
Construction	23.4	−6.0	13.8	18.3	63.0	81.5	24.0
Equipment	25.1	17.8	8.3	−13.2	22.4	56.5	30.6
of which:							
Basic metal products	13.1	29.4	39.0	27.8	171.3	120.1	95.1
Resource-based[1]	20.1	50.1	13.3	−8.7	70.8	79.1	71.3
Other	29.2	−1.5	10.3	−10.7	14.2	48.9	7.3
Resource-based industries							
Mining and basic metals	29.4	56.2	18.3	−19.7	82.0	86.2	97.5
All resource-based[1]	26.9	58.1	14.0	−21.5	63.4	70.6	83.3
Memorandum items:							
Total survey	26.3	26.6	18.2	−8.9	27.9	40.5	34.0
Excluding resource-based[1]	26.2	19.3	19.4	−5.3	19.6	32.1	19.1

1. Resource-based is defined as basic metals, chemicals, etc. (included in manufacturing), mining and electricity, gas and water.
Source: New fixed capital expenditure by private enterprises in selected industries, ABS.

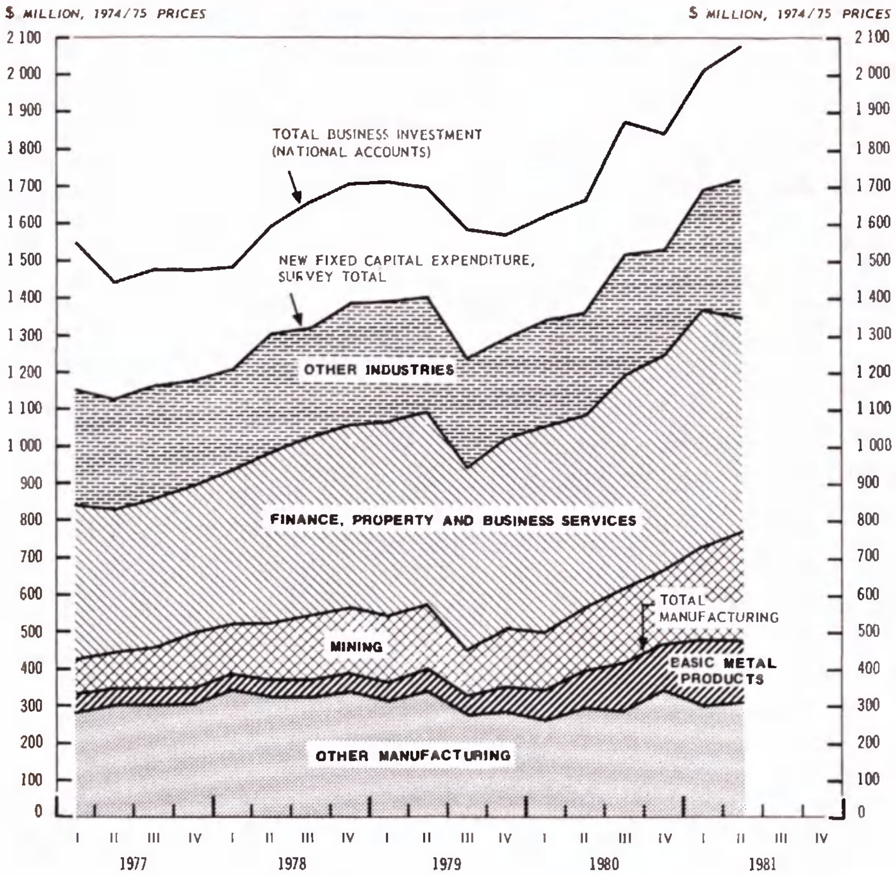
The outstanding feature of domestic demand over the past eighteen months has been the buoyancy of fixed investment whose volume rose by over 21 per cent during during the year ending June 1981. The upsurge in investment was sufficient to almost restore the business investment/GDP relativity of the 1960s and early-1970s (12 per cent). The outcome was dominated by the early phase of rapid expansion in the mining and mineral-processing sectors which, as discussed in Part II below, is expected to impart a major stimulus to demand over the medium term. The increase in the value of new fixed capital expenditure in the mining and the basic metals sectors was almost 80 per cent in fiscal 1980/81[8].

While it is difficult to ascertain the underlying trend of investment-spending because of the scale of the changes in incentives[9], it appears that there has been a genuine pick-up in enterprise investment other than mining and manufacturing. Manufacturing investment outside the basic metals sector also grew very strongly in 1980/81 but that followed an equally sharp real decline in 1979/80 reflecting the reaction to changing investment allowance provisions and the strong growth over the previous few years. Over the past five years, growth in manufacturing investment out-

8. Published sectoral data do not capture the full magnitude of industrial investment, some of which is, because of leasing arrangements, attributed to the financial area. However, the changes are likely to give a reasonable indication of sectoral trends.

9. A new investment allowance on plant and equipment came into effect on 1 January 1976 with a high (40 per cent) initial rate that applied to plant ordered between that date and 30 June 1978 and used by 30 June 1979. This high initial rate appears to have brought some investment activity forward, leading to an artificial weakness of business investment in the second half of 1979, possibly extending into the first half of 1980.

Diagram 3 **Business investment**
1974/75 prices, seasonally adjusted[1]



1 Survey data deflated by the national accounts implicit deflatoir for business investment.
Sources: New Fixed Capital Expenditure by Private Enterprises in Selected Industries, ABS; *Quarterly Estimates of National Income and Expenditure,* ABS.

side the basic metals sectors has averaged around 16 per cent in current price terms. Expectations data for 1981/82 tend to confirm the picture given by recent trends, of strong expansion in the resources area (a value rise of over 50 per cent relative to 1980/81[10] is expected in mining and base metal products), sluggishness in the remainder of the industrial sector (7 per cent) but relative buoyancy in commercial activity (almost 21 per cent). This recent pattern of investment would seem to be consistent with the structural adjustments required over the medium term as a consequence of the development of Australia's mineral resources.

The strong recovery of private dwelling investment, which started in about mid-1978, continued in 1980, with 1979 and 1980 together showing an increase of 23 per

10. The comparison is between expectations (as of April/May) for both years; actual outlays generally exceed expectations, so that an expected/actual comparison could be misleading. The July/August survey suggested an increase in the value of total fixed business investment of 32 per cent in 1981/82.

cent in volume[11]. However, changes in the method of collection of source statistics have introduced some uncertainty into the recent quarterly pattern of the national accounts statistics[12] which have been extremely irregular since mid-1980. The most recent source statistics which include revisions not yet reflected in the national accounts suggest that there has been a decline in housing commencements in the first half of 1981 and possibly some slight easing in the level of work done and dwelling investment. Financial conditions had been tightening for more than a year[13] but speculative activity[14] and investment appear to have helped sustain some buoyancy. Housing approvals have continued to show gains relative to a year ago.

Movements in stockbuilding have differed markedly between the farm and non-farm sectors. Farm stocks have been declining continuously for two years, reflecting at first the unwinding of large carry-over wheat stocks and the sharp reduction in the wheat crop. Non-farm inventories[15], on the other hand, have behaved erratically, both over time and as between the manufacturing and distribution sectors. The interpretation of these developments is further complicated by the wide variation in the growth of domestic demand. The modest rise in stocks in the first half of 1980 was probably a reaction to the sharp build-up in stock levels in the second half of 1979[16], coupled with the effects of the strengthening in demand; factory production never rose above the level of late 1979 in this period while stocks at the distribution stage were unchanged. But stocks in distributive trades rose strongly in the second half of 1980 despite a rapid increase in domestic demand, a continued stagnation of factory production and rising interest rates. The consequential rise in the stock/sales ratio seems, however, to have been followed by a rundown in stocks in the first half of 1981[17].

The growth in total public expenditure on goods and services, which, in line with the progressive tightening of the Commonwealth Budget, had decelerated in real terms for a number of years (in 1979/80 there was even a slight decline), picked up (by over 2½ per cent) in 1980/81. However, in contrast to earlier periods when the growth in outlays by State and local authorities far outstripped those at the Federal level, 1980/81 saw a sharp rise in the Federal government's current expenditures (9.3 per cent in real terms) while the growth of consumption of other public authorities was more than halved (from about 4 per cent to 1.6 per cent). The rise in Federal expenditure, however, stemmed partly from the delivery of warships[18], while the trend in non-Federal spending reflected slower growth of Federal transfers and rising pressures for capital investment, outlays on which were somewhat stronger than in preceding years.

11. The national accounts data for 1980/81 on which this figure is partly based are likely to be revised, especially in respect of intra-year developments, by reason of the introduction from the September quarter 1980 of a new collection system for building activity statistics.

12. Implied, but not published separately.

13. The number of loans to individuals approved by the major lending institutions, both for all dwellings and for the construction or purchase of new dwellings, reached a seasonally-adjusted peak in the second quarter of 1980 and has been in decline since then.

14. Commencements of new dwellings other than houses rose by over 60 per cent between 1978 and 1980 and completions advanced almost 30 per cent last year.

15. Included are bulk sugar stocks which appear to have contributed significantly to the modest growth in inventories in the first half of 1980, due to the disposal of special stocks held under the International Sugar Agreement.

16. It was suggested in last year's Survey that this accumulation was partly involuntary: weak domestic demand and the sharp rise in factory production in the third quarter (ANZ Bank index, seasonally adjusted) tend to confirm this view.

17. A relatively small change in the seasonal pattern of inventories could, it should be noted, give rise to the pattern of compensatory intra-year changes in stocks which has been observed over the past two years.

18. National accounts are on a deliveries basis. On a payments basis, Commonwealth current expenditures rose 4.3 per cent in real terms.

Labour market developments[19]

The strengthening in the labour market which started at the end of 1978 – employment grew by 3.4 per cent in the twelve months to the September 1980 quarter – has continued, although at a slower rate (Diagram 4). In the three months to August 1981, total employment was 1.9 per cent (121 600) higher than a year earlier compared with 3.3 per cent in the previous twelve months. Within this overall increase, there were considerable changes in the structure of employment growth; the increase in female employment slowed markedly (from 6.1 per cent to 1.7 per cent) so that male employment, which quickened somewhat, accounted for most of the increase. This change in pattern was a consequence of a significant shift in the sectoral composition of employment growth. Employment in mining, metal products and construction industries (predominantly male-employers) rose by 3.9 per cent[20] which represented some 28 600 persons or more than one-quarter of the aggregate increase

Table 4. **Labour market developments, 1978/1981**
Civilian labour force, thousands, unless otherwise specified

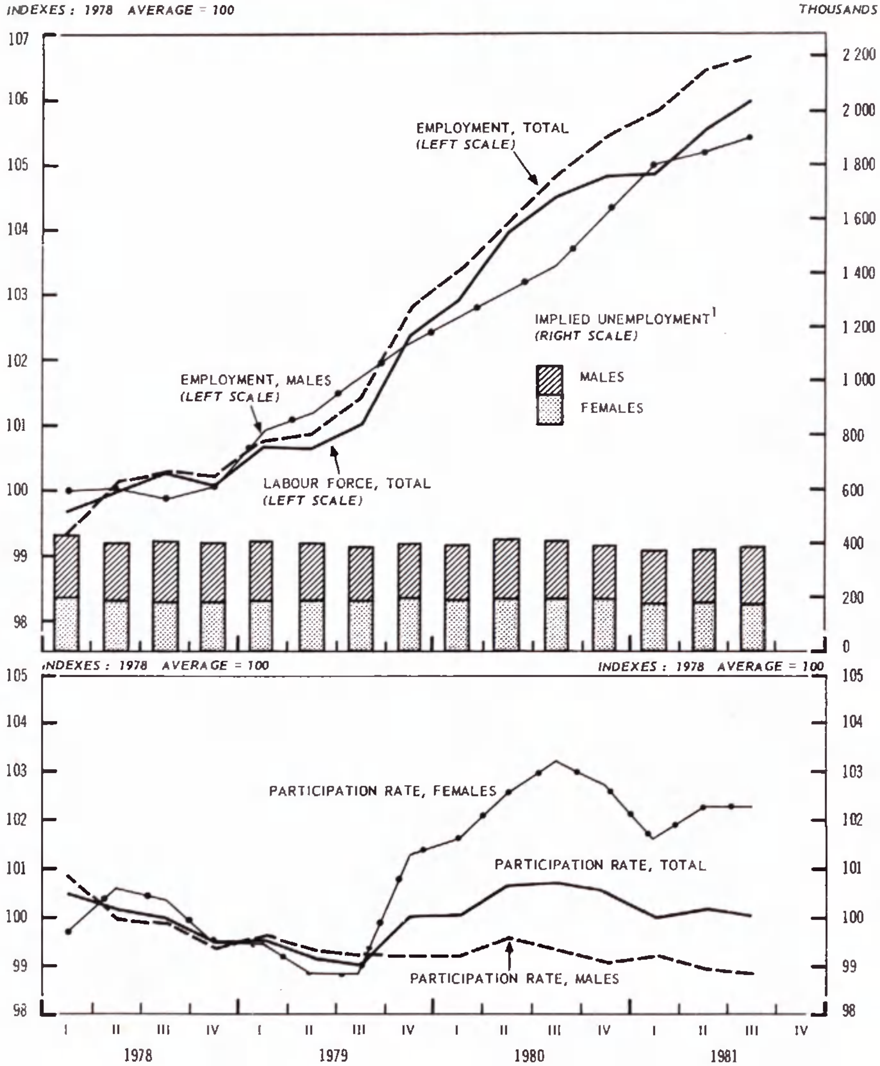
	Level August 1978	Change on year earlier			Percentage change Aug. 1981 / Aug. 1978
		August 1979	August 1980	August 1981	
Employment, total	5 969.6	+71.9	+205.2	+109.6	+6.5
Selected categories:					
Male	3 832.3	+72.2	+66.4	+74.4	+5.6
Female	2 137.2	−0.3	+138.9	+35.2	+8.1
All full-time	5 018.1	+66.1	+140.5	+83.8	+5.8
15-19 year olds	630.8	−13.1	+33.2	+1.1	+3.4
Government[1]	1 500.4	+15.8	+17.8	+11.4	+3.0
Manufacturing	1 185.3	+35.5	+12.8	−2.7	+3.8
of which:					
Metal products	197.0	+8.0	+1.0	+25.7	+17.6
Mining and construction	564.5	−16.3	+19.4	+2.9	+1.1
Community services	919.0	+21.4	+67.4	+14.2	+11.2
Labour force, total	6 365.3	+50.0	+223.7	+94.4	+5.8
Selected categories:					
Male	4 053.8	+46.9	+79.3	+65.0	+4.7
Female, all	2 311.5	+3.1	+144.4	+29.4	+7.7
Married females	1 434.9	−14.1	+61.3	+8.4	+3.9
15-19 year olds	758.4	−10.9	+34.2	−24.0	−0.1
Unemployment, total	395.7	−21.9	+18.5	−15.2	−4.7
Selected categories:					
Male	221.5	−25.4	+13.0	−9.4	−9.8
Female	174.2	+3.5	+5.5	−5.8	+1.8
Full-time[2]	332.6	−19.7	+19.7	−11.7	−3.5
15-19 year olds	127.6	+2.1	+1.0	−25.1	−17.2

1. Civilian employees; not directly comparable with labour force survey data. Figures relate to July.
2. Unemployed persons seeking full-time employment.
Source: The Labour Force, ABS.

19. All data quoted are seasonally unadjusted from the monthly sample survey which is now the sole source of labour market data; publication of the civilian employment series (based on payroll tax returns) was suspended in April 1980 while, since early in 1981, the Commonwealth Employment Service (CES) data on unemployment and vacancies have also been withdrawn.

20. Sectoral data relate to the months of February, May, August and November, these being available only at three-month intervals.

Diagram 4 **Employment and labour force trends**
Seasonally adjusted (months of February, May, August, November)



1 Difference between labour force and employment.
Source: The Labour Force, ABS.

in the year to August 1981. This growth was largely due to the onset of the resource developments. In contrast, employment growth in the female-dominated community services sector slowed dramatically, influenced by increasing constraints on growth in public expenditure. In line with the broad trend evident throughout the 1970s, part-time employment continued to grow at a higher rate than full-time employment. Although the rise in part-time employment contributed only one-quarter of the overall rise in employment in the year to the three months to August 1981, the proportion of the employed labour force working part time edged up from 16.1 to 16.3 per cent.

Despite the slower growth in employment since the three months to May 1981, unemployment declined significantly over the year to the three months to August 1981. The average number of persons looking for full-time work during the period was 23 200 (7.0 per cent) below the level in the corresponding period of the previous year, total unemployment (full-time plus part-time) fell by 27 200 and the average unemployment rate fell from 5.9 per cent to 5.4 per cent[21]. An important reason for this was the drop in participation rates since the three months to August 1980. Prior to this, participation had been on a distinct upward trend since 1979 – the lagged response to improving employment prospects (Diagram 4). The change related exclusively to the female labour force; male participation continued to fall in line with the long-run trend. Notwithstanding the recent decline, female participation is still well above the rate recorded in 1979.

As in other OECD Member countries, Australia had relatively high youth unemployment during the 1970s. However, youth unemployment fell significantly by 18 100 over the year to the three months to August 1981 when 14.7 per cent of the 15-19 year-old labour force were looking for full-time work. Youth participation strengthened markedly in 1980 following a significant improvement in employment prospects. For example, the number of 15-19 year-olds in employment rose by nearly 6 per cent over the year to the three months to August 1980, despite a slight fall in the teenage population over the same period. The decline in the youth labour force of 1.6 per cent in the following twelve months reflects not only a general easing in labour market conditions in recent months but also a partial return of youth participation to a rate consistent with that of the mid-to late-1970s. Together with a further decline in the youth population, this fall in participation has been important in the fall in youth unemployment over the past year.

Prices, costs and factor incomes

Inflationary trends over the two years to mid-1981 have reflected diverse trends in domestic and external influences. Externally-generated price increases, both from imports and exports, peaked (year-to-year terms) in late 1979 or early 1980 and have subsequently decelerated appreciably. The main reasons have been the weakening of food prices and the levelling-out of oil costs after the sharp 1979 rises, but these were supported by an easing of global inflationary pressures and, for Australia, by the more-or-less simultaneous strengthening of the trade-weighted exchange rate. Domestic influences, principally labour costs, which decelerated almost continuously from their peak growth rates of 1974/75 until mid-1979[22] have since gathered considerable momentum. Given the impact of the slower rise in oil and food prices, the rates of increase in final prices (first 5 items in Table 5) have eased discernibly as compared with their recent peaks, generally in the first half of 1980. However, the underlying rate of inflation, as measured by the "adjusted" consumer price index[23], has accelerated since early 1980, after having been relatively stable for four years at about 8 per cent per annum (Diagram 5).

In the September quarter of 1980, the annual rise in male award wages exceeded that of the Consumer Price Index for the first time in a little over two years. In the

21. The most recent data available in the October 1981 Survey indicate a further easing in labour market conditions and unemployment is now only slightly below that in the October 1980 Survey.

22. The broader indicator of domestic inflation, the implicit deflator of gross non-farm product, suggests a somewhat earlier turning point – in the latter part of 1978. Wage cost trends are considered more fully below.

23. Excluding food, petrol, health services and indirect tax changes introduced in the 1977/1978 Budget.

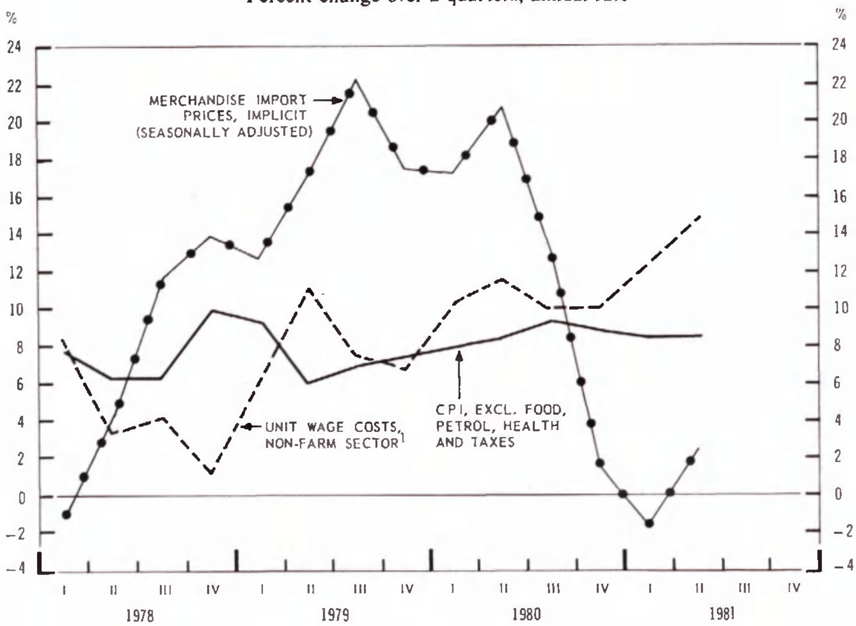
Table 5. **Recent trends in costs and prices**
Percentage changes from previous period; annual rates

	1978 II	1979 I	1979 II	1980 I	1980 II	1981 I
Consumer price index	8.5	8.6	10.7	10.6	8.9	9.4
of which: Food	12.4	14.7	13.9	13.5	9.8	8.4
Private consumption deflator[1]	9.3	9.7	9.6	10.2	8.4	8.6
Final domestic demand deflator[1]	8.1	9.5	9.5	11.3	10.2	8.8
Manufacturing output price	9.8	16.7	15.8	15.0	10.6	8.2
Export price index	11.2	25.8	20.4	18.6	1.8	2.9
Import prices[2]	12.8	15.0	19.8	19.0	6.9	0.4
Import prices, excluding fuels[3]	10.6	18.4	18.9	14.9	2.2	−1.8[5]
Home-produced materials[4]	36.9	52.2	22.9	18.3	7.2	2.0
Non-farm product deflator[1]	7.2	8.7	8.2	12.4	9.6	11.3
Award wage rates (male)	5.3	9.3	7.0	11.8	10.6	10.9

1. National accounts implicit deflators, seasonally adjusted.
2. Implicit deflator, merchandise trade, seasonally adjusted.
3. Reserve Bank of Australia price index.
4. Home-produced materials for use in manufacturing industry.
5. January/April 1981 over July/October 1980.

Sources: Consumer Price Index, ABS; *Quarterly Estimates of National Income and Expenditure,* ABS; *Monthly Summary of Statistics,* ABS; *Export Price Index,* ABS; *Exports and Imports of Merchandise at Constant Prices,* ABS.

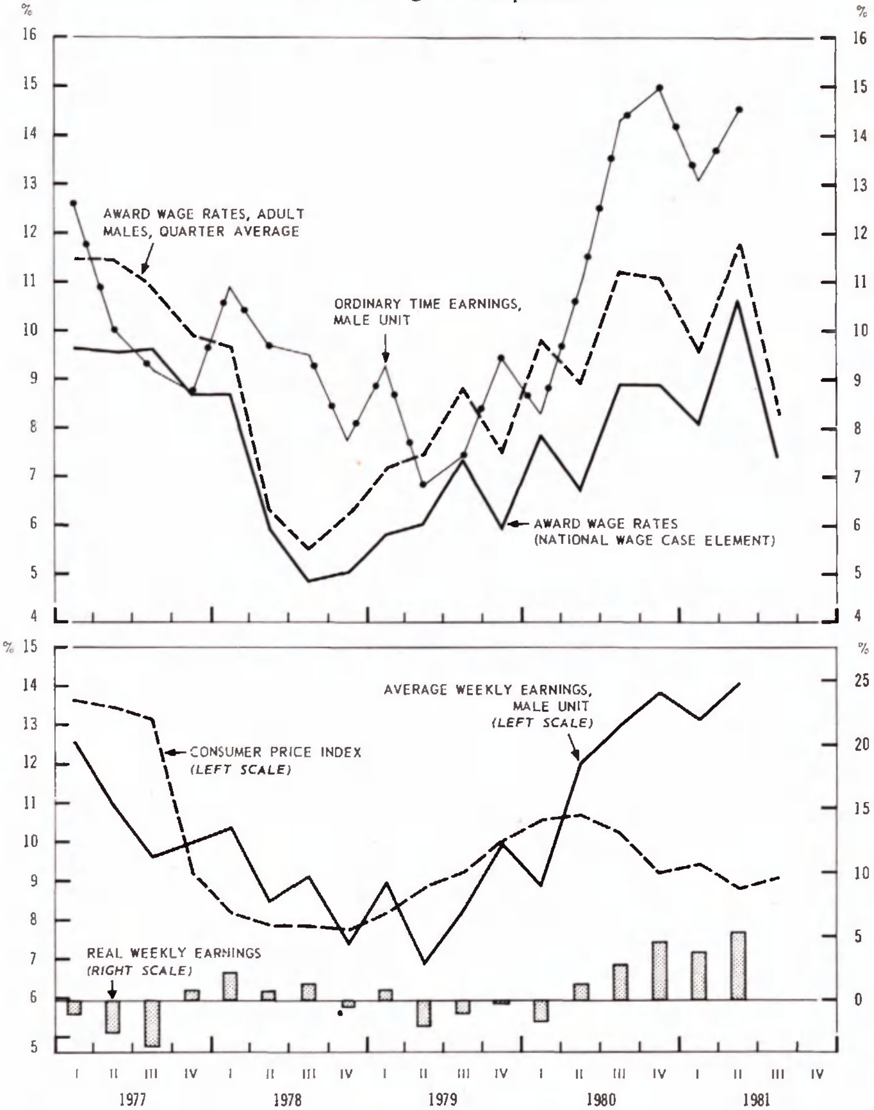
Diagram 5 **Domestic and external sources of inflation**
Percent change over 2 quarters, annual rate



1 Estimated by dividing non-farm wages, salaries and supplements by real non-farm output; both series seasonally adjusted.

Sources: Exports and Imports of Merchandise at constant prices, ABS; *Quarterly Estimates of National Income and Expenditure,* ABS; direct communication from Treasury.

Diagram 6 **National wage cases, award wages and earnings**
Percent changes over 4 quarters



Sources: Wage Rates, ABS; *Consumer Prices Index,* ABS.

December quarter, real wage rates rose by 1.8 per cent, the largest increase for several years reflecting the two central features of wage determination during the two years to the middle of 1981; firstly, the institutional lag associated with half-yearly indexation[24] meant that wage rates at that time reflected the large Consumer Price Index increases in the year to the June quarter of 1980 and, secondly, the spread of work-value awards

24. The system of half-yearly indexation (subject to discounting) announced in September 1978 remained virtually intact until the abandonment of indexation itself in July of this year (see section on wages policy below for further details).

which, by October 1980, had added over 2 percentage points[25] to the National Wage Case indexation adjustments to bring the overall annual rise in wage rates to 11.6 per cent. This was the peak growth rate for award wages; as the deceleration of consumer prices through 1980 and 1981 fed through the indexation system, the year-to-year rise slackened to 8.2 per cent by July 1981.

Since mid-1980, the significance of award wage rates for the evolution of earnings has, however, diminished considerably against the background of a sustained improvement in the labour market and buoyant demand. Faced with significant award wage increases in "work value" cases outside indexation, the Conciliation and Arbitration Commission changed its wage fixing principles by considerably tightening the grounds on which award increases for changes in work value could be achieved. Subsequently greater union attention was focused on over-award payments as a means of increasing total earnings. Whereas in the first half of 1980, growth in ordinary time earnings was only slightly ahead of that in wage rates (12.5 per cent, annual rate, compared with 11.1 per cent for male awards), this gap widened to over 6 percentage points in the second half of the year and though earnings eased a little in the first half of 1981, they continued to grow slightly faster than award rates. The extent of "earnings drift" is difficult to assess because of differences in coverage and timing between the various wage indicators, but an indication is provided by the fact that in 1980/81 the average rise in ordinary-time earnings was 3½ percentage points faster than that in male award rates, whereas the cumulative divergence over the previous three years was only 2½ per cent. The acceleration in the growth of nominal wage incomes, although partly absorbed by increased productivity[26], led to a marked quickening in the growth of labour costs and thus in the domestic component of inflation: non-farm nominal unit wage costs which in 1978/79 rose only 5 per cent, picked up to 8½ per cent in 1979/80 and accelerated to about 11 per cent in 1980/81. Prices, as measured by the implicit price deflator of gross non-farm product, rose by 11 per cent in 1980/81, compared with nearly 9½ per cent in 1979/80 and nearly 7½ per cent in 1978/79. Consequently, the process of removing the factor share imbalance (the real wage/productivity gap) which had progressed steadily over the preceding five years (following the emergence of these problems in the wage explosion of 1974/75) was halted. This did not preclude, however, a significant rise in corporate profits and an increase in their share of national output in 1980/81, although at the expense of the unincorporated enterprise sector.

External trade and payments

The marked strengthening of the current external account in 1979/80 was abruptly reversed in the following twelve months, the deficit rising by $3.4 billion[27] to $5.6 billion (4¼ per cent of GDP). The turnaround in the capital account was larger — the net apparent capital inflow totalled $6.7 billion compared with $1.9 billion in the previous year. Accordingly, the overall balance (as measured by net official monetary movements) moved from a deficit of $0.3 billion in 1979/80 to its first surplus

25. The "work-value" round in which virtually all wage and salary earners received increases of the order of 5 per cent, began in 1978, but most of the flow-on occurred late in 1979 and through the course of 1980 and was virtually complete by mid-1981. The year-to-year rate of growth in male award wages peaked at around 13 per cent in May and June 1981. However, this was largely due to a change in the timing of National Wage Cases, which saw three decisions handed down in the year to June 1981. The previous peak, 11.6 per cent, occurred in October 1980. By August 1981, the year-to-year growth rate was down to 8.2 per cent.

26. Productivity, as measured by per capita output in the non-farm sector, grew at an average annual rate of about 1¼ per cent over the three years to mid-1981.

27. Unless otherwise stated $ signs throughout the Survey refer to Australian dollars.

Table 6. **Balance of payments**

$ million, current prices

	1978 I	1978 II	1979 I	1979 II	1980 I	1980 II	1981 I
Seasonally adjusted							
Exports, fob	5 948	6 394	7 665	8 935	9 631	9 385	9 468
Imports, fob	5 750	6 495	7 012	7 503	8 331	9 330	9 876
Balance of trade	+198	−101	+652	+1 431	+1 301	+55	−407
Services credits	1 026	1 174	1 269	1 467	1 587	1 652	1 771
Services debits	1 969	2 142	2 253	2 418	2 671	2 778	2 881
Net services	−943	−968	−984	−951	−1 084	−1 126	−1 110
Transfers and property income, credits	406	418	448	457	594	617	656
Transfers and property income, debits	1 410	1 563	1 733	1 949	2 003	2 172	2 143
Net transfers and property income	−1 004	−1 145	−1 285	−1 492	−1 409	−1 555	−1 487
Net invisibles	−1 947	−2 113	−2 269	−2 443	−2 492	−2 681	−2 597
Current balance	−1 749	−2 214	−1 617	−1 013	−1 191	−2 626	−3 005
Not seasonally adjusted							
Government capital	786	975	378	32	−98	7	−2
Private capital and non-official monetary inflow	730	805	1 063	518	1 390	1 979	2 989
Total identified capital inflow	1 516	1 780	1 441	550	1 292	1 985	2 985
Balancing item	504	123	349	−360	410	602	1 155
Net apparent capital inflow	2 020	1 903	1 790	190	1 701	2 587	4 140
Current balance	−1 754	−2 206	−1 611	−986	−1 207	−2 587	−2 992
Net official monetary flow	+266	−302	+178	−794	+494	+1	+1 147

Source: Balance of Payments, ABS.

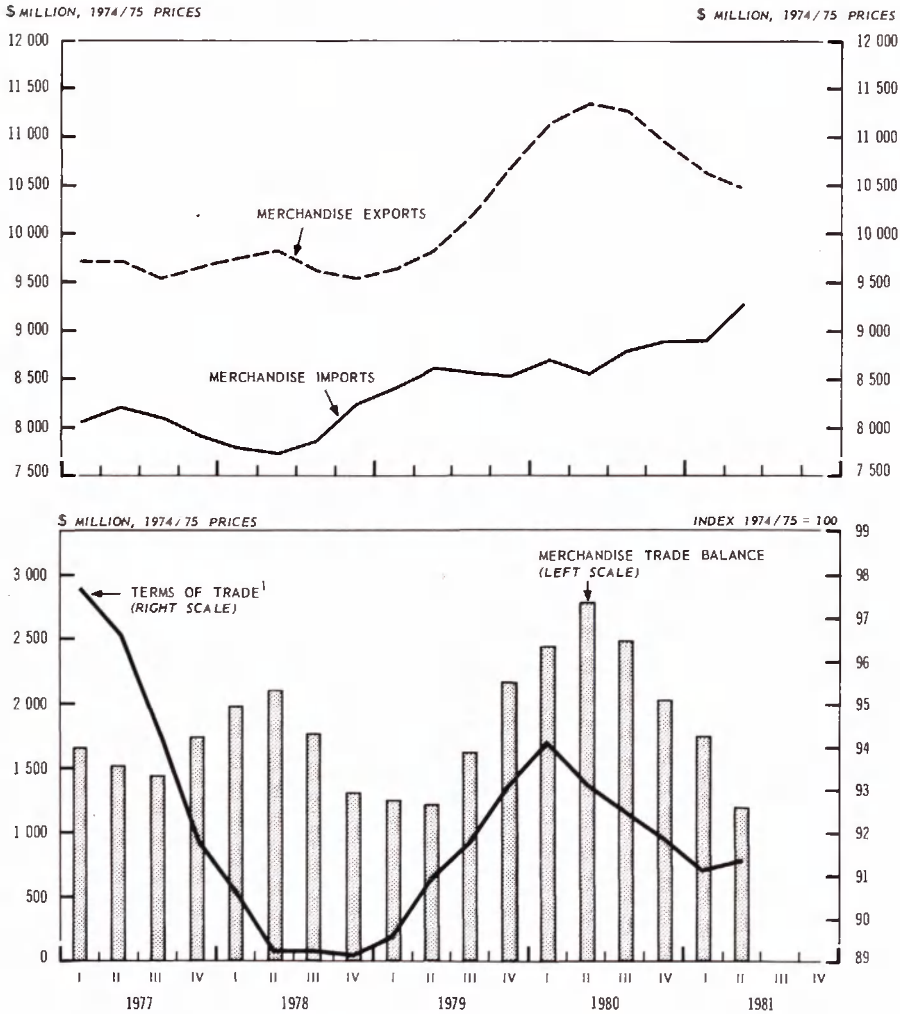
($1.1 billion) for eight years. However, a downward valuation adjustment, largely in respect of gold stocks which had been substantially upvalued during the previous year, left official external reserves unaltered.

The deterioration in the current external balance in 1980/81 resulted almost entirely from a $3 billion swing in visible trade. This development was virtually inevitable given the concurrence of exceptional factors which buoyed up export volumes and prices in 1979/80, but it was compounded by a weakening of external markets for non-rural exports and by the effects of drought on farm output. Export values (f.o.b. balance of payments basis) after rising by 32 per cent in 1979/80, increased by less than 2 per cent in the following twelve months, implying a sharp fall in export volumes[28]. In contrast, import volumes picked up strongly after falling a little in

28. The deceleration in both exports and imports (prices and values) was influenced by the strengthening of the exchange rate: the trade-weighted index rose 4.8 per cent on average in 1980/81 as against a 1 per cent increase in the previous year.

1979/80 (Table 7)[29]. But reflecting mainly the moderation of import prices particularly of oil since the beginning of 1980 the value of imports rose by about 17 per cent, much the same rate as in the previous year. Despite the marked fluctuations in import and export prices, the terms of trade in recent years have been relatively stable (Diagram 7).

Diagram 7 **Trade volumes and terms of trade**
Moving annual totals



1 Terms of trade = Ratio of export price index to implicit price of imports.
Source: Exports and Imports of Merchandise at constant prices, ABS.

29. Both imports and domestic demand were, of course, affected by a further special factor, namely the erratic pattern of investment in plant and equipment induced by the phasing-down of the investment allowance.

Table 7. **Merchandise trade**
Percentage changes from previous fiscal year[1]

	1977/78 Current prices, $ million	1978/79			1979/80			1980/81		
		Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
Exports										
Meat	1 119	4.4	46.5	53.0	−21.7	29.1	1.0	−3.2	−5.0	−8.1
Cereals	1 350	−28.8	22.3	−13.0	99.5	23.4	146.1	−30.6	16.0	−19.5
Sugar, etc.	548	−24.6	12.3	−15.3	21.5	24.1	50.9	12.8	48.1	66.9
Wool	1 289	15.0	7.5	23.7	−7.3	18.1	9.5	5.8	4.8	11.0
Other rural	654	8.3	9.3	18.2	10.4	15.7	27.9	−4.7	11.5	6.5
Total rural	4 960	−10.7	29.1	15.3	28.1	10.0	40.9	−12.4	14.4	0.2
Metal ores	2 330	0.3	6.1	6.4	7.1	22.2	30.9	−7.1	9.4	1.7
Coal	1 489	−0.6	3.6	2.9	10.1	0.0	10.1	8.2	8.5	17.5
Metals, machinery, equipment, etc.	1 688	17.7	9.9	29.3	6.4	23.9	31.8	−6.2	3.0	−3.4
Other non-rural	1 586	21.9	12.1	36.6	0.2	26.4	26.7	−2.3	5.9	3.5
Total non-rural	7 093	10.0	7.1	17.9	5.7	19.5	26.3	−3.3	6.8	3.3
Total merchandise	12 053	0.0	16.9	16.8	15.4	14.6	32.2	−7.7	10.5	1.9
Imports										
Metals, machinery and transport equipment	4 686	17.7	16.6	37.2	−8.1	10.4	1.5	17.4	5.6	24.0
Total merchandise	11 084	11.4	10.5	23.1	−0.6	18.4	17.6	8.4	8.0	17.1

1. Volumes at 1974/75 prices; prices are implicit deflators.
Source: Exports and Imports of Merchandise at Constant Prices, ABS.

The main trends in merchandise trade in recent years are shown in Table 7; some of the more important factors bearing on these developments have been:

i) The change in the wheat crop from record levels in 1978/79 and 1979/80 (18.1 and 16.2 million tonnes respectively) to the drought-affected total of 10.8 million tonnes in 1980/81; the effect on export volumes of the initial lift came through with a lag, and the downturn, from mid-1980, coincided with a distinct deceleration of prices.

ii) A reversal from early 1980 of the earlier rapid growth of beef export prices, related to US market conditions; volumes began to weaken at much the same time but the drought boosted disposals temporarily in the final months of the year.

iii) The spectacular rise in world sugar prices to their peak in late 1980; Australian export prices were more subdued, but volumes benefited from a release of special stocks in early 1980, growth subsequently being maintained in 1980/81 by good yields.

iv) Buoyant external demand for steaming coal, resulting in significant price and volume growth.

v) Weak world metal demand which, for metal ores, led to a volume decline and a sharp deceleration in unit values in 1980/81 and, for refined metals, substantial falls in both volumes (about 15 per cent) and prices.

vi) The contrasting pattern of investment spending over the two years to mid-1981 as reflected in imports of metals, machinery and transport equipment.

Excluding undistributed income, net apparent private capital inflow[30] in 1980/81 amounted to over $5 billion, compared with $1¼ billion in 1979/80. Detailed data on foreign investment in enterprises in Australia throws little light on the nature of this inflow other than to indicate a significant rise (of almost $0.9 billion) in direct investment largely in the form of equity. The remainder of the growth in the inflow represented residual enterprise borrowing (up $1.6 billion) and the balancing item (up $1.7 billion). It is probable that much of this inflow was associated with the upsurge in investment[31], notably in the resources area and with the rise in imports it induced, while its implications for the future development of the Australian economy may also have prompted some speculative inflows of a longer-term nature. Moreover, interest rate relativities[32] insofar as they reflected domestic financial conditions and concerns, were probably a factor. It is notable that the second half of 1980/81, when tax payments were expected to put pressure on domestic liquidity, saw both a sustained high level of inflow and a relative (and absolute) rise in Australian interest rates (Diagram 8).

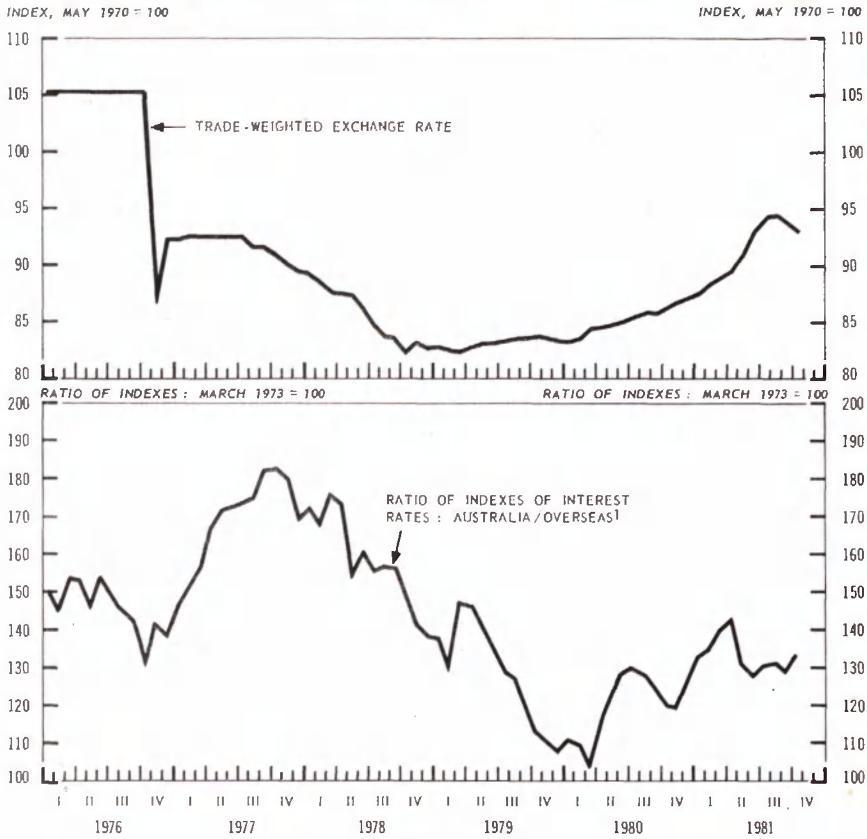
Since the beginning of the 1981/82 fiscal year, the current account deficit of the balance of payments has further: widened in the four months ended October 1981 it amounted to $3.2 billion (not seasonally adjusted) compared with $2.0 billion a year earlier. This development reflected both strong growth in imports, which rose by over 16 per cent (value, balance of payments basis) year-on-year, though this embodied

30. "Private" excludes government and marketing authorities but includes public enterprises whose borrowing amounted to $0.4 billion in 1980/81.

31. Sectoral data for foreign investment is of only limited value but it does show a substantial rise in both 1979/80 and 1980/81 for primary industry (including mining) and last year in manufacturing. It may, however, be that "other industries" which registered the largest absolute increase also includes part of these investments, particularly given the use of leasing.

32. Exchange rate expectations are a relevant parameter here. The steady appreciation of the Australian dollar through the first half of this year may for a time have created expectations of further gains.

Diagram 8 **Exchange rate and comparative interest rates**



1 Indexes relate to a range of money market activities; overseas data relates to relevant major countries.

Sources: Reserve Bank of Australia Bulletin; Syntec.

some exceptional items[33]. and stagnant exports, due to declines in wheat and sugar deliveries. However, capital inflows, while below the record levels of the June quarter, continued to be buoyant, the net apparent inflow in the first four months of the fiscal year ($ 1.9 billion) being at much the same level as in the corresponding period of 1980.

II. RESOURCE DEVELOPMENTS AND MEDIUM-TERM ECONOMIC POLICY

Australia is currently undergoing a strong expansion in the exploitation of her vast reserves of mineral and energy resources. This development, which contributed to a surge in the volume of non-dwelling investment of over 20 per cent in 1980/81, is expected to provide a sizeable stimulus to activity throughout the decade. The magnitude

33. Deliveries of large items of mobile equipment (including civilian and military aircraft) accounted for almost one-third of the increase between the September quarters of 1980 and 1981.

and extent of these developments seem likely to be similar to the last major phase of resource development in the late 1960s which was concentrated in coal and metallic ores[34]. The current expansion is based more broadly on energy production and on energy-intensive mineral processing and production – being prompted by the enormous rises in the real price of energy in the 1970s – and will give rise to substantial benefits for the Australian economy, the extent of which will be influenced largely by the policy reactions. Major resource developments during the last decade in some other Member countries and the associated adjustments in their economies posed difficult and in some cases still unresolved problems for economic management. This section of the Survey assesses the possible size of the resource expansion, examines the impact it may have on the Australian economy and then, drawing on experiences in other countries, discusses some of the main policy implications over the medium term if the benefits of the developments are to be maximised.

The size of the resources expansion

Estimates of the amount of capital expenditure likely to be incurred in major resource development projects over the next few years must be largely illustrative, even for those projects for which funds have been committed or construction has already commenced. The most comprehensive list of new resource projects is that produced at six-monthly intervals since the end of 1979 by the Department of Industry and Commerce (DIC). The most recent survey of June 1981 itemised 366 projects, totalling some $35.5 billion, which are "committed" or at the stage of "final feasibility" studies[35]. The list is a *stock* of those projects which are *potential* investments over a period of years. But there is little indication either of the number of projects which are likely to materialise or of the time pattern of the *flow* of investments. The limited information that is available on timing would suggest a peaking of investment in about 1983. Such a view should, however, be treated with caution. Experience suggests that slippages will occur, some projects being deferred to later years, and that other projects will emerge or pass from the "possible" list to being "committed", so that the peaking of investment may well be pushed out to the middle of the 1980s. Many of the projects also have long gestation and construction periods which would suggest a rather flatter profile to the investments than is implied in the present schedules. The actual scale and timing will be affected by future international and domestic economic conditions.

Despite these inevitable uncertainties about the speed and extent of the resource investments, it is clear that major developments have already taken place and will continue. The June 1981 schedule gives an estimate of expenditure incurred during the period May 1980 to April 1981 of $3.3 billion, a sum equal to about 2½ per cent of GDP. Although less than implied by past schedules, this nevertheless represents a substantial commitment of funds. The December 1980 schedule had noted that "approximately 70 per cent of projects previously identified have proceeded in the time scales

34. For a discussion of the importance of the minerals sector in the Australian economy, in terms of its share of GDP and its contribution to exports, as well as the pattern of the previous phase of mining investment, see OECD Economic Survey of Australia, June 1980, pp. 24-32.

35. The categorisation of the projects, which also includes "preliminary studies" and "possible", is necessarily fairly arbitrary depending on information supplied by companies, industry associations and government sources. It is stated that the schedule "is not intended to provide precise forecasts of capital expenditure by category of investment", but offers an "indication of the direction investment is taking or may take in Australia". It is certainly not fully exhaustive and generally excludes those projects with a value less than $5 million. Furthermore, there may well be problems of double-counting or mutual exclusivity as firms plan for more projects than they finally envisage initiating and carrying through. The exact price basis on which the companies give cost projections is also a little unclear although in principle the estimates are given in terms of dollars at constant prices for the year preceding the survey.

specified". Given the uncertainties, a "realisation factor" of, say, two-thirds might be appropriate, suggesting that the projects currently identified in the schedule might yield additional capital expenditure of some $24 billion (beyond what has already taken place) over the 1980s.

An attempt has been made by the Secretariat in Table 8 to illustrate the orders of magnitude involved and to suggest a possible profile of this intended investment. As noted above, the timing of the projects is particularly uncertain, especially as there are bound to be delays and slippages even in those projects which are likely to be realised eventually. Furthermore, the early peaking in investment indicated in the table almost certainly represents an artificial tailing-off inherent in this sort of exercise. No account can be taken of those new projects which may arise in future years so that the estimates become increasingly unreliable and are almost certainly biased downwards the further out the projections are taken. In addition, there will be substantial investments over the next few years in infrastructure projects associated with resource developments provided by public utilities. The stock of infrastructure projects identified in the "committed" category in a survey published in March 1981 amounted to $9 billion, about two-thirds of this being in electricity projects[36]. Again there is some uncertainty as to how many of these projects will go ahead. A substantial expansion of power generating capacity is under way and in prospect, partly to meet normal growth in demand but partly to support planned resource-based manufacturing developments. Additional investment in coal-loading, port and road and rail transport facilities is also under way.

The breakdown of the $35.5 billion stock of planned projects in the June 1981 Survey is indicated in Table 9. Over half of the projected expenditure is for coal, oil

Table 8. **An illustrative profile of resource investment and exports in the 1980s**[1]

Estimates of order of magnitude only

Fiscal years	80/81	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90
Investment[2]										
($ billion, 1979/80 prices)	3.2	4.0	4.4	3.2	2.0	1.5	1.3	1.1	1.0	1.0
As per cent of GDP	2.7	3.3	3.5	2.5	1.5	1.1	0.9	0.8	0.7	0.7
Exports										
($ billion, 1979/80 prices)	—	—	0.5	1.0	1.6	2.3	3.0	3.7	4.5	5.4
As per cent of GDP	—	—	0.4	0.8	1.2	1.7	2.1	2.6	3.1	3.6

1. These numbers are intended to illustrate possible orders of magnitude only and should not be interpreted as a forecast or as being more precise than the statements in the text. The investment numbers are based on the Department of Industry and Commerce's schedule of *Major Manufacturing and Mining Investment Projects,* with an approximate estimate by the Secretariat of the time profile and a realisation factor of about two-thirds. The export numbers are based on estimates of the Department of Trade and Resources. These estimates by the Secretariat do not represent the view of the Australian authorities as to the likely outcome of resource investment and export receipts over the 1980s.
2. Mining plus resource-based manufacturing investment.

36. Department of Industry and Commerce, *Major public and private infrastructure projects; March 1981 survey,* Canberra, March 1981. Some of the projects listed in this Survey may have been affected by the Premiers' Conference and Loan Council decisions of June 1981 which had the effect of trimming back some of the plans for infrastructure investment. As well as the $9 billion identified in the "committed" category, a similar amount is involved in the projects listed as "under investigation". The infrastructure development will be financed from the States' own resources, their "normal" Loan Council borrowing programme and, in respect of some projects, the infrastructure borrowing programme. Total Loan Council approvals under the latter programme for the years 1978/79 to 1981/82 have amounted to $2 159.6 million.

and gas. When account is also taken of the energy-intensity of some of the production processes involved in the other projects, especially in the smelting area, the importance of recent changes in world energy markets becomes clear. Although many of the projects are founded on Australia's rich endowment of mineral resources, it is the country's wealth of energy resources which has been instrumental in the surge in resource developments. Even though there has been some reappraisal of projects following the weakening of real energy prices during 1981, the large rises in energy prices over the last decade have made the exploitation of the enormous reserves of steaming coal for electricity generation increasingly attractive. The country is about 70 per cent self-sufficient in oil, and the natural gas reserves in the North-West shelf (for which long-term export contracts are being negotiated) are far beyond domestic needs. The energy-bias of the developments is reflected in the geographical distribution of the projects, nearly 80 per cent of which are located in Western Australia, Queensland and New South Wales[37]. The most important change in the schedule in the year to June 1981 has been the "demotion" of the Rundle shale oil project from the "final feasibility" to the "preliminary studies" category.

Table 9. **Projected cost of resource projects**[1]

	Cost ($ billion)	Share of total (%)
Coal	10.4	30
Oil and gas	8.3	23
Aluminium, etc.	4.0	11
Iron ore	3.3	9
Other base metals	3.2	9
Other projects[2]	6.3	18
Total	35.5	100

1. Taken from June 1981 DIC survey (op. cit.). The figures give the estimated cost of the stock of projects currently listed as committed or in the final feasibility stage; however, as emphasised in the text, not all these projects are expected to be realised.
2. Includes uranium, chemicals, petroleum and coal products, paper and transport equipment.

The viability of the projects, and hence their likely size and pace of development, will be dependent on several interconnected factors, of which the most important will be future energy prices, world industrial demand, and the exchange rate. In the last few years the world industrial recession has reduced the demand for iron ore and other metal ores and Australian metal exports have consequently suffered. In the short term, increases in production will be influenced in part by the recovery prospects of the industrialised countries. But the prospective developments, being heavily energy-intensive, are likely to be affected to a greater extent by the views taken about future energy prices. The recent comparative stability of world oil prices may cause some reassessment of projects, particularly in the liquefaction and syncrudes area, but significant oil, gas and coal developments seem likely to go ahead. Prospects for some

37. The bulk of the $25 billion of mining projects specified in the June 1981 survey is scheduled to take place in Western Australia (40 per cent of the total) and Queensland (24 per cent), with the majority of the $ 10½ billion manufacturing projects located in New South Wales (34 per cent) and Queensland (25 per cent) with smaller amounts (15 per cent each) in Victoria and Western Australia.

new aluminium smelting developments have been dampened by the depression in world demand and recent increases in domestic electricity prices but a considerable expansion of total productive capacity is nevertheless under way. Insofar as the prospective energy-based resource developments have contributed to the rise in the exchange rate over the last year, they have reduced the expected profitability of exporting (including resource developments themselves) and import competing activities and, therefore, have probably displaced some potential investment in those areas. Other relevant factors include the higher level of interest rates, the fractious industrial relations climate and environmental and aboriginal land rights issues. Rising interest rates both in Australia and other major capital markets have no doubt affected the viability of some less profitable projects in the normal market process of sorting out investment priorities. Industrial disruption and high labour costs can seriously inflate capital development costs of new projects and threaten potential supply contracts which underpin many new resource developments, particularly for mineral exports. Delays have already been experienced in some projects on account of the last-mentioned factors and further delays cannot be ruled out. Assessing the overall importance of these factors, including the Statistician's evidence from surveys of business investment expectations[38], is extremely difficult, but it is apparent that the construction phase of new resource developments has had, and will continue to have, an important influence on the economy. Recent world developments, however, have probably led to some "spreading out" of resource-based investment plans.

Partly overlapping the construction phase but mostly following it, a substantial increase in exports is expected, the potential output having a high export content. There are several estimates of the likely pattern of export receipts through the next decade; one estimate indicates a steady build-up as from 1982, rising to $5½ billion (at constant 1979/80 prices) by the end of the decade[39]. This would represent an increase in total exports of about one-quarter. These estimates, which must be regarded as even more tentative than the investment figures, especially as regards timing, are presented in Table 8.

The main contribution is expected to come from coal and aluminium. Exports of natural gas and uranium, though significant in the longer term, are likely to be relatively unimportant until the later 1980s. Coal export receipts, which presently represent about 10 per cent of total exports, may double by 1985, to about 15 per cent of the total, the expansion being derived mainly from steaming coal exports. The prospects for aluminium are more dependent on developments in the world economy, which have led to reappraisal of some smelter projects currently in prospect. It seems likely, however, that Australia could account for 5 to 10 per cent of world production by 1985 compared with around 2 per cent at present. With a large proportion of output being exported, aluminium exports may rise from only around one-half per cent of total exports at present to more than 5 per cent by 1985. While the flow of investment is likely to peak and tail off in the second half of the 1980s, exports are likely to continue increasing beyond the present decade.

The impact on the economy

The effects on the economy of resources development can be considered as occurring in two phases — the investment and export phase. Although both essentially

38. Both the six-month ahead and the longer-term investment expectations surveys indicate continued strength with investment in new building and structures rising much more rapidly than investment in other new capital equipment. For details see Part I above.

39. Department of Trade and Resources, *Resource investment in prospect and the balance of payment*, Internal Research Memorandum, December 1980. Higher estimates exist; see J. Hunter and J. Wood, *Impact of resource development on Australia's balance of payments in the 1980s and policy implications*, ANZAAS Congress, May 1981.

involve an expansion of aggregate demand and both have implications for the exchange rate, there are important differences in the time pattern and initial sectoral impact. Perhaps the most obvious distinction is that the earlier investment phase adds to productive capacity in the resource sector by drawing on the output of other sectors whereas in the latter phase there is additional output in the resource sector itself which is largely for direct consumption abroad. In both phases, policy responses will have an important influence on the nature of the impact of resources development, a subject taken up in the next section.

During the investment phase, the main effects will be on aggregate demand, directly through the capital expenditure involved and indirectly via associated multiplier effects. To a considerable extent economic trends over the last eighteen months already reflect the stimulus to demand from resource investments. Associated with this have been, first, the increasing wage and other inflationary pressures discussed in other parts of the Survey and secondly, the impact on imports and the balance of payments. Although a degree of slack exists, the investment upswing has put pressure on areas where the degree of unused resources is limited, particularly skilled labour. The higher wages necessary to attract labour into the resources sector have started to flow on to other sectors with implications for the overall outlook for inflation. There is also a risk that inflationary pressures may strengthen owing to the direct competition for other resources as well as labour. In addition, the higher national income and employment associated with the net increment to investment are likely to generate additional real demand which in turn could result in faster inflation. The experience in Norway during the main period of North Sea oil development provides a good illustration of the inflationary risks involved. The net effect on activity and hence employment during the investment phase over the next few years will therefore be determined not only by the policy response to overall demand pressures in relation to domestic capacity limitations but also by the extent to which the economy adjusts to accommodate growth in resource-based activities relative to non-resource activities.

Increased aggregate demand, coupled with the high import content of much of the plant and equipment expenditures, will increase imports and expand the current external deficit. This expanded current deficit should, provided the investment climate remains attractive, be covered by an increased surplus on the private external capital account. Foreign capital inflow in combination with an increased current account deficit can make an important contribution to providing the finance and ultimately the resources to expand industrial capacity and to minimise the inflationary pressures normally associated with rapid expansion. In effect, the addition to productive capacity and hence higher employment and living standards has to be financed to a substantial extent from abroad, or accelerating inflation becomes more difficult to avoid. In 1980/81, a large part of the surge in investment and the associated current account deficit was in fact financed by capital inflow which was at the extremely high level of $6¾ billion.

While a high and steady rate of direct capital inflows is essential to the construction phase, as long as domestic savings are insufficient, the magnitude and potential volatility of other types of inflows makes it more difficult to control the growth of the money supply and generally restrain the expansion of the non-resource private sector. Given the need to achieve a reallocation of real resources within the economy and at the same time to seek moderation in the growth of domestic demand and inflation, in part by attracting a flow of both finance and imports from abroad, the authorities are faced with a difficult balance in the settings of fiscal and monetary policies which will be influenced by fluctuations in external capital flows. Thus, while the demand impact is not only large but also well defined in the immediate future, there are uncertainties about the ability of policy coupled with external events to cope with the inflationary push.

As the construction phase tapers off and output and exports from the new projects rise, effects on the economy are also likely to alter. Employment in the construction sector may begin to fall and mining employment to rise. Employment in these two sectors is a relatively small proportion of total employment, however, and the aggregate trend will depend, inter alia, on how well the economy accommodates resource developments. Given the overall stimulus to incomes, demand and production, the potential exists for further significant increases in aggregate employment in addition to those of the last two years. But the more important effect is expected on the balance of payments. The rise in the trade deficit during the construction phase should tend to reverse later in the decade as sizeable export receipts build up and imports associated with the projects slow down. Reflecting higher domestic incomes, other imports will increase but, overall, the trade balance should improve and tend to move into surplus. The improvement in the trade account will be offset to some extent in the current account by remitted profits, dividends and interests payments. On the capital account, capital inflow directly associated with the projects will slow down. The net result is likely to be a strengthening in the balance of payments. But the expected improvement in the balance of payments will also be influenced by adjustments in other parts of the economy related partly to potential changes in the exchange rate and competitiveness.

There will be different pressures on the exchange rate and although there is a common presumption that the real exchange rate will appreciate[40], it is not certain that it will necessarily do so.

i) The probable slowdown noted above in capital inflows as the investment surge peaks together with increasing service payments may offset incipient upward pressures on the exchange rate from the improvement in the trade account.

ii) Imports will be stimulated by rising real incomes and any loss of competitiveness engendered by an early appreciation both reflecting the inevitable change of relative prices between the domestic sectors and the new trading sector.

iii) Any upward pressures on the nominal exchange rate will be moderated if the resource developments induce a faster rise in domestic costs than in competitor countries.

On balance, the pressures on the real exchange rate are likely to be upwards over the next decade though any movement could be less marked than might be suggested by developments in the resources sector taken by itself.

Experience in the Netherlands, Norway and the United Kingdom suggests that exchange rate changes can anticipate some of the potential improvements in the trade account. Anticipatory appreciation of this sort effectively transfers real income from tradeables producers to the rest of the community, allowing it, in turn, to enjoy real income benefits before additional exports materialise. This tendency was particularly marked in the United Kingdom. In association with recent large capital inflows, it may also have occurred in Australia, the exchange rate appreciating by about 10 per cent

40. This view stems originally from an article by R.G. Gregory who attempted to give "tariff equivalents" of the effects of changes in the mining sector on the traditional export sectors: see "Some Implications of the Growth of the Mineral Sector", *Australian Journal of Agricultural Economics,* August 1976. Gregory's analysis omitted, however, to take account of offsetting pressures on the exchange rate. For one account of these see R.H. Snape, "Effects of mineral developments on the economy", *Australian Journal of Agricultural Economics,* December 1977. Gregory acknowledged the feedback links in a footnote in his original article (*op. cit.* page 76), and he has elaborated on this since, but the conclusions of the original article made no mention of likely offsetting changes.

between mid-1980 and mid-1981 and, by easing domestic inflation, contributing substantially to the 4 per cent rise in real incomes in 1980/81. The effect of this if it contionues will be to reduce the competitiveness of the tradeables, including resources, sector[41]. The latter adverse effect may not be sizeable as there are benefits to the non-resources tradeables sector which arise not only from the supply of materials and equipment to the resources projects, but also from the reduction of input costs[42]. The only clearcut case of decline in output in response to an exchange rate appreciation is the agricultural sector whose demand on the domestic market is relatively inelastic but whose prices are largely set with reference to world markets[43]. To the extent that there is appreciation, however, output and employment in the non-resource tradeable goods sectors are likely to be relatively adverse affected. There is also a danger that when increased real output and income from increased exports do eventually materialise groups in the community will seek a further increase in real incomes despite already having anticipated the gains at the expense of tradeables producers.

While it is impossible to quantify the impact on the economy of the export phase, the increased income will be substantial and come on top of the benefits generated by the enlargement in productive capacity during the construction phase. The expected change in relative prices, given appropriate policies, can also be expected to lead to structural adjustments tending to switch resources into more efficient industries. The growth of a more efficient and competitive manufacturing sector would seem to be particularly important if the resource development results in the economy becoming more open to fluctuations in world prices than at present. The extent to which the high incomes are reflected in activity and employment will also depend on the success in controlling inflation as well as the share of the benefits flowing to the domestic sectors. It is inevitable that major adjustments in the economy must occur if Australia is to gain the maximum benefits from the exploitation of the large energy and mineral resources. In these respects, economic policy will have an important bearing.

Implications for economic policy

This is not the first resource expansion that Australia has experienced and the possible economic consequences of such developments are well understood, having been extensively discussed in recent years. There are also lessons to be drawn from events in some other Member countries, the most important of which is the necessity of an appropriate overall setting of macro-economic policy. In the Netherlands, Norway and the United Kingdom, expansionary macro-economic policies at different periods have complicated the adjustment process as the gas and oil fields were exploited. In each case, although to a lesser extent in the United Kingdom given the size

41. W.M. Corden, "Exchange rate policy and the resources boom", ANU discussion paper, No. 23, Canberra, March 1981.

42. The most detailed examination of the prospects of individual industries is that of the Impact general equilibrium model. In their submission to the Crawford Committee, Dixon and Powell found that many industries, including in particular many small import-competing industries, benefited from mining industry demands and from increased domestic absorption by the mining boom. See P.B. Dixon and A.A. Powell, ***Structural adaptation in an ailing macroeconomy,*** Melbourne, 1979.

43. This result is supported by Stoeckel who defined five sectors in a general equilibrium model and found that, whilst the impact of resource developments on the agricultural sector was likely to be adverse, import-competing industries could benefit. Apart from the reasons already cited, Stoeckel also mentioned the cost-cutting effects of a reduction of input prices. This is a point which has been taken up in much more detail and in more general terms by Pope who claims that one cannot tell, a priori, whether an appreciation is beneficial or harmful to manufacturing industry because the loss in international competitiveness may be offset by the gains arising from the reduction in input costs. See A. Stoeckel, "Some general equilibrium effects of mining growth on the economy", *Journal of Agricultural Economics,* April 1979, and R. Pope, "Revaluation; help or hindrance to manufacturers?", mimeo, August 1981.

of the economy, there have been resource-related inflationary pressures as domestic resources have been attracted into the resource projects at times of strong demand in the non-resource sectors and as high wages in resource projects have exerted upward pressures on wages in other sectors[44]. As the release of resources in the latter sectors is not necessarily instantaneous, and if the resources projects are to develop in a non-inflationary environment, the main lesson to be drawn is that room has to be made elsewhere in the economy.

In effect, this requires the government sector to increase its financial savings through macro-economic policy. This has been recognised in Australia, the authorities — as discussed in Part III below — having substantially reduced the public sector borrowing requirement in recent years. A main objective of the 1981/82 Budget was to permit the strong surge in private investment to proceed by reducing demand elsewhere. The decisions taken at the pre-Budget Premiers' Conference and Loan Council had similar objectives. Adherence to such a policy setting poses problems, however, as it has proved difficult to reduce or slow the growth of public expenditure. Public sector involvement in the provision of infrastructure at a time when policy aims to reduce the size of the public sector and its borrowing requirement implies a redirection of expenditure away from other public outlays. In the absence of cuts in total expenditures, resort may have to be made to further increases in taxation which would shift the burden onto the private sector and reinforce through fiscal measures the adjustments which should ideally occur through changes in relative prices. Rising public sector financial savings are also important if profitable private sector investment is not to be crowded out of capital markets, as indeed is another objective of the 1981/82 Budget. While reducing its own demand on financial markets and relying to a greater extent on market determined interest rates are the main avenues open to the authorities to ensure that domestic financial resources are available to the maximum extent possible to finance new investments, the maintenance of an attractive environment for overseas investment will also continue to be important. The functioning of financial markets has been thoroughly examined in a just-released report by the Campbell Committee whose central recommendations are to reduce regulation of financial markets to improve their efficiency in allocating investment funds.

The resource developments have implications for wage differentials which, as noted in Part III below, have not tended in the past to fully reflect market forces. The end of indexation may increase wage flexibility but many rigidities remain, increasing the risk that the higher wages needed to attract labour to the resources sector could flow on to wages in the non-resources sectors where the marginal product is lower. Should this occur, as it has in Norway, it is probable that part of the benefits of the resource developments will be dissipated through the effects of inflation on the ability of the non-resource tradeable sector to compete with imports or in export markets. The effect on wages is also connected to the supply of skilled labour which in some areas may be less than required[45]. Already, increased immigration has probably helped ease skill shortages but, should they intensify, immigration and manpower

44. For details of the impact of gas and oil developments on the *Netherlands* and *Norwegian* economics see OECD Economic Survey of the Netherlands, March 1978 (pp. 31-37 and 50-54) and OECD Economic Survey of Norway, March 1981.

45. There is presently no agreement as to whether shortages of skilled labour are likely to emerge. The DOLAC Working Group took a generally pessimistic view whereas the Institute of Applied Economic and Social Research believes that there may be only localised shortages. For details see DOLAC Report: "Prospective demand for and supply of skilled labour 1980-83 with particular reference to major development projects", September 1980, and Institute of Applied Economic and Social Research: "The resources development boom: resources development and skilled labour", *Australian Economic Review*, 4th Quarter 1980, pp. 12-19.

training policies – in addition to wage determination – are likely to assume more significance.

The essential adjustments in the economy if the maximum benefits of the resource developments are to accrue to Australians also encompass protection policy. The arguments for reducing protection in favour of improving efficiency of resource allocation exist independently of the resource developments and they have been stressed in the last three OECD Economic Surveys of Australia. The resource developments serve to strengthen those arguments. Ultimately, rising export receipts must be accompanied by increased import penetration whether as a result of higher inflation than in partner countries, exchange rate pressures or reductions in protection. The chosen path of adjustment will influence the composition of exports and imports as well as bearing directly on the standard of living. Apart from facilitating the adjustment to a more competitive and efficient manufacturing sector, lower protection would reduce the pressure for appreciation of the exchange rate. Adjustment through appreciation will tend to lead to an undue relative decline in efficient as well as inefficient parts of the tradeable goods sector as has happened in the Netherlands and the United Kingdom resulting in substantial unemployment (open or hidden). In Australia, adverse effects on the comparatively efficient rural sector could be considerable. Quota-protected and less efficient industries could actually benefit. In comparison, adjustments via lower protection provide gains to unprotected industries and improve the efficiency of resource allocation[46].

In addition to ensuring that the benefits of the increase in productive capacity and higher incomes are not undermined by inflation, there are other areas of policy where adjustments may have to be made if such benefits to Australians are to be maximised:

i) Foreign investment in Australia is controlled by the Foreign Investment Review Board which ensures a degree of Australian ownership of the resource developments. While, for the reasons explained earlier, foreign participation is essential if different issues arise once income accrues from the resource investments which may involve taxation policy as well as fiscal concessions available to the resources sector.

ii) The 1980 OECD Economic Survey of Australia drew attention to public sector involvement in infrastructure programmes. In this respect, a shift towards the private sector carries with it important implications directly for domestic incomes, and the ability of the public sector to provide public services which are in strong demand.

iii) The final issue which was also raised in the last OECD Economic Survey of Australia, is the appropriate pricing of public sector services, particularly electricity prices. Reassessments are currently being undertaken of certain aspects of public sector pricing, but it still remains an area of concern given the adjustments which are inherent in the resource developments under way.

46. As Corden has pointed out, any gains (or losses) for the non-protected industries are obtained at the cost of the protected industries, and vice versa. Corden also argues that the increase of export receipts will make the nation richer so that additional investment can be afforded, including investment in reducing protection in order to improve the long-term efficiency of the economy. See Corden, *op. cit.*

III. ECONOMIC POLICY

Fiscal policy

Substantial progress has been made over the last three years in reducing the public sector deficit[47], a principal objective of the Government's anti-inflation policy and seen as necessary to achieve sustainable private sector growth and higher employment over the medium-term. As Table 10 shows, the deficit after reaching a peak of 6 per cent of GDP in 1977/78 had fallen to 3.2 per cent in 1980/81. A further reduction both in absolute terms and as a proportion of GDP is officially expected in the current financial year. The main reason for the improving balance in fiscal policy is the Commonwealth Budget which moved from a deficit[48] of 3.7 per cent of GDP in 1977/78 to one of 0.9 per cent in 1980/81. The estimated budget outcome for 1981/82 is 0.1 per cent of GDP. In contrast to the Commonwealth sector, the deficit on transactions of the State and local government sector has continued to increase.

Following the marked reduction in 1979/80 in the Commonwealth budget deficit[49], the 1980/81 Budget presented to Parliament on 19th August 1980 provided

Table 10. **Budget and public sector deficits**

	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81[1]	1981/82[2]
Commonwealth budget									
$ million	293	2 566	3 585	2 740	3 333	3 478	2 034	1 127	146
Per cent of GDP	0.6	4.2	4.9	3.3	3.7	3.4	1.8	0.9	0.1
Commonwealth sector[3]									
$ million	365	2 531	3 545	3 046	3 882	3 646	2 450	1 471	679
Per cent of GDP	0.7	4.1	4.9	3.7	4.3	3.6	2.1	1.1	0.5
State and local government sector[4]									
$ million	460	918	454	979	1 568	1 891	2 108	2 708	n.a.
Per cent of GDP	0.9	1.5	0.6	1.2	1.7	1.9	1.8	2.1	n.a.
Total public sector									
$ million	825	3 449	3 999	4 025	5 450	5 537	4 558	4 179	n.a.
Per cent of GDP	1.6	5.6	5.5	4.8	6.0	5.4	4.0	3.2	n.a.
Memorandum item:									
Budget outlays (per cent of GDP)	23.8	28.9	30.1	29.0	29.6	28.5	27.7	27.9	27.6

1. Preliminary estimates.
2. Budget estimates.
3. Total of budget and non-budget borrowing requirements, less net advances from Budget and inter-sectoral interest payments.
4. The deficits of the State and local government level are net of transfers from the Commonwealth, being their share of the total public sector borrowing requirement.

Sources: Budget Statements Nos. 2 and 6, and *Budget Paper No. 10.*

47. The public sector deficit refers to the general government net borrowing requirement.
48. This is the contribution of the Commonwealth Government's Budget transactions to the general government net borrowing requirement.
49. For details, see OECD Economic Survey of Australia, June 1979 and June 1980.

for a further large contraction equivalent to about 0.6 per cent of GDP. The balance on domestic transactions – a better guide to the macro-economic impact of the Budget than the total budget deficit – was estimated, however, to move into small surplus for the first time for seven years. The improved budgetary position was expected to be achieved despite some relaxation of the earlier tight control of expenditures, outlays being projected to increase by 13.7 per cent compared with 9.1 per cent in the preceding year. The planned rise in outlays related largely to defence spending[50], transfers and net advances to the States and local government, cash benefits to persons and assistance to industry[51]. Capital expenditure was projected to rise sharply after having declined in 1979/80[52].

The main measures affecting receipts in 1980/81 were not announced in the Budget:

i) On 6th March 1980 it was announced that as from 1st July the personal taxation scale would be subject to half-indexation and dependent rebates raised by 34 per cent. The estimated revenue cost of these measures was $636 million in 1980/81.

ii) As from 8th April 1980, the levy on naturally occurring liquid petroleum gas was increased from $27.55 per tonne to $77.00 per tonne and on 1st July to $80.40 per tonne to give estimated additional revenue in 1980/81 of $71 million.

Without these changes and the relatively small measures announced in the Budget[53], it was officially estimated that receipts in 1980/81 would have increased by 18.2 per cent as against the Budget estimate of 16.2 percent, an increase yielding a reduction in the Budget deficit. The relative buoyancy of the Budget estimates reflected mainly the expected rapid growth of personal incomes, the strong rise in company income in 1979/80 and higher crude oil levy collections due to the full-year effects of the rise in oil prices in 1979/80[54].

The outcome of the 1980/81 Budget – shown in Table 11 – was a considerably lower deficit than projected, made up of a small fall in the deficit on overseas transactions and a substantially larger domestic surplus than was originally budgeted. Both expenditures and receipts exceeded the Budget estimates. Expenditures were close to the Budget estimate, rising by 14.6 per cent, $244 million or 0.7 per cent more than planned; the main reasons were higher outlays on public debt interest, transfers to the State and local government sector and education[55]. Receipts, however, were $683 million above the estimate – to give a rise of 18.6 per cent – reflecting stronger rises in personal incomes last year and company income in 1979/80 than forecast.

The 1981/82 Budget brought down on 18th August 1981 was designed primarily to constrain and then reduce the increasing inflationary pressures in the economy. The two basic objectives of fiscal policy underlying the Budget were to reduce public sector

50. Defence outlays are classified as current expenditure.

51. The increase in this item relates mainly to extra assistance to industry for export expansion, export market development and industrial research and development and the petroleum products freight subsidy scheme.

52. The main reason for the turnaround in Commonwealth direct expenditure was a planned increase in expenditure on airport facilities.

53. For details see Calendar of Main Economic Events.

54. The estimated increases in personal taxation, company taxation and the crude oil and LPG levy were $2 029.9 million, $1 093.5 million and $886.8 million respectively.

55. Public debt interest payments were $152 million over the estimate largely because of a large increase in subscriptions to Treasury Notes and the increases in interest rates. Transfers to the State and local government sector and expenditure on education overran their estimates by $65 million and $60 million respectively.

Table 11. **Budget transactions**
$ million

	1978/79	1979/80		1980/81			1981/82		
	Actual	Actual	Percentage change[1]	Budget estimate	Actual	Percentage change	Budget estimate	Percentage change	Contribution to increase (%)
RECEIPTS									
Income tax									
Companies	3 151	3 548	12.6	4 660	4 856	36.9	5 345	10.1	8.8
Individuals	12 804	15 040	17.5	17 070	17 543	16.6	20 860	18.9	59.6
Indirect taxes	7 178	8 584	19.6	9 955	9 958	16.0	11 455	15.0	26.9
Other receipts	2 403	2 455	2.2	2 780	2 790	13.6	3 055	9.5	4.7
TOTAL RECEIPTS	25 534	29 627	16.0	34 464	35 146	18.6	40 716	15.8	100.0
OUTLAYS									
Net expenditure on goods and services									
Defence	2 401	2 787	16.1	3 278	3 291	18.1	3 813	15.9	11.4
Other current	3 227	3 346	3.7	3 987	3 961	18.4	4 561	15.1	13.1
Capital	298	290	−2.7	400	438	51.0	434	−0.9	−0.1
Transfer payments and net advances									
To States and local Government	10 766	11 559	7.4	12 821	12 918	11.8	13 978	8.2	23.1
Cash benefits to persons	9 266	10 086	8.8	11 444	11 432	13.3	13 208	15.5	38.7
Other	3 054	3 595	17.7	4 100	4 233	17.7	4 869	15.0	13.9
TOTAL OUTLAYS	29 012	31 660	9.1	36 029	36 274	14.6	40 862	12.6	100.0
SURPLUS (+), DEFICIT (−)									
Domestic	−2 258	−567		+39	+429		+1 542		
Overseas	−1 220	−1 467		−1 605	−1 556		−1 688		
Total	−3 478	−2 034		−1 566	−1 127		−146		
FINANCING TRANSACTIONS									
Miscellaneous domestic financing, plus increase in government's own holding of debt	180	160			−112				
Net borrowing requirement	3 298	1 874			1 240				
Overseas financing	1 349	187			−98				
Net domestic borrowing requirement	1 949	1 687			1 338				
of which: Banks	878	292			1 484				
Other private sector	720	740			534				
Reserve Bank	351	655			−680				

1. Affected by altered financial arrangements stemming from the transition of the Northern Territory to self-government.
Sources: Budget Paper No. 10; Bulletin, Reserve Bank of Australia.

demands so as to increase the availability of resources to the private sector and, by cutting further the public sector borrowing requirement, achieve financial conditions which were non-accommodating to inflation. Part of the Budget framework was established at the May and June Premiers' Conferences and the June Loan Council which led to decisions to increase total net payments to the States and local government sector by 8.2 per cent, a marked slowdown from 1980/81 and implying a considerable fall in real terms[56]. In addition, the Commonwealth funding of the States' borrowing programmes was set at $1 307.2 millions, the same as in 1980/81. The allocations to the States were influenced to some extent as were some items of Commonwealth spending by decisions arising out of the Review of Commonwealth Functions which were announced at the end of April. The Review recommended cuts of about $600 million to take effect over the ensuing eighteen months[57]. Commonwealth net expenditure on goods and services was projected to rise by 14.5 per cent giving a total increase in Budget outlays of 12.6 per cent[58] (Table 12) or about 2 per cent in real terms. Revenues are estimated to increase by 15.8 per cent thus giving a reduction in the Budget deficit of $981 million (0.8 per cent of GDP) to a position of approximate balance. The main discretionary changes in revenues were:

i) The application of half-indexation to the personal taxation scale and dependent rebates, and rebates for basic health insurance (announced before the Budget) costing $505 million in 1981/82[59].

ii) A broadening of the sales tax sales by about three-quarters on a range of goods previously exempt with the imposition of sales tax at a rate of 2½ per cent to take effect from 1st January 1982[60]; an increase of 2½ per cent on existing rates of sales tax and the correction of certain sales tax anomalies, the total package being estimated to raise $553 million in 1981/82 and $892 million in a full year.

Table 12. **Budget outlays and receipts**

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81[1]	1981/82[2]
Outlays							
$ million	21 861	24 123	26 738	29 012	31 660	36 274	40 862
Percentage increase	22.5	10.3	10.8	8.5	9.1	14.6	12.6
Proportion of GDP	30.1	29.0	29.6	28.5	27.7	27.9	27.6
Receipts							
$ million	18 276	21 383	23 404	25 534	29 627	35 146	40 716
Percentage increase	19.7	17.0	9.5	9.1	16.0	18.6	15.8
Proportion of GDP	25.1	25.7	25.9	25.1	25.9	27.0	27.5

1. Provisional.
2. Official estimate.
Source: Budget Statement No. 6, 1981/82.

56. The States' tax sharing grants for 1980/81 were estimated to be $6 690 million, an increase of 11.3 per cent over 1980/81. Other general purpose revenues paid by the Commonwealth were put at $1 188.5 million which is a marked increase over 1980/81, but it largely reflects changes in the funding of health services as from 1st July 1981 under the *States (Tax Sharing and Health Grants), Act 1981.*

57. For details of the findings of the Review of Commonwealth Functions see Calendar of Main Economic Events.

58. Excluding the effects of an additional payday in 1981/82 compared with 1980/81, the increase is 11½ per cent.

59. The estimated full-year cost to revenue is $1 125 million.

60. The proposed starting date of the new sales taxes has been delayed by Parliament.

While slower rates of growth of both outlays and receipts than in 1980/81 are budgeted in 1981/1982, the main burden of reducing the budget deficit is projected to be borne by taxation. This has been the case in several years during the period since 1975/76 although over the period as a whole there has been a decline in the proportion of Budget outlays in GDP of about the same magnitude as the increase in receipts. The increase in receipts has parallels in most other Member countries whereas Australia is one of the few countries to have reduced the size of Budget expenditures relative to GDP (Table 12). The trends in Budget transactions nevertheless illustrate the difficulties for the authorities of achieving its objective of reducing the size of government. It was partly in recognition of this that the Review of Commonwealth Functions – noted above – was established. In addition to specific cuts in public expenditure and changes in the funding of some items, the Review Committee also announced the sale or lease of a number of Commonwealth enterprises to the private sector. The Review Committee is continuing its enquiries into ways to further reduce expenditure.

Monetary policy

Monetary policy has been aimed since 1976 at winding down the rate of growth of money and credit as part of the overall strategy of progressively reducing the rate of inflation. In the two years to 1977/78, the growth of broadly-defined money supply (M3) was well within the projections specified at Budget time, falling from 15 per cent in 1974/75 to 8 per cent in 1977/78. Since then the projected ranges have been exceeded, most importantly in 1978/79, when M3 rose by 11.8 per cent compared with an indicated range of 6 to 8 per cent. The main elements in the changed monetary performance over the three years to 1980/81 were, at different times, a turnaround in private sector foreign exchange transactions, strength of bank loans and advances in response to strengthening activity and the fall-off in the sales of Commonwealth securities to the non-bank private sector (Table 13) partly reflecting the lags in adjusting official yields to changed market circumstances.

The August 1980 Budget gave a conditional projection for M3 growth in 1980/81 of 9-11 per cent, not very much different from the previous year's projection of about 10 per cent. The indicated growth range was believed to be compatible with a projected growth in real output of 3 per cent and a rise in the output deflator of around 10 per cent, implying some further increase in the velocity of circulation of the same order as in previous years. Although the domestic budget turned out to be in surplus for the year, the surge in private sector foreign exchange transactions (which rose from $1 billion to $2.8 billion) led to a large expansion of primary liquidity. The main expansion in liquidity came in the first half of 1980/81, the prime influence being once again the pattern of the government deficit, although the inflow of funds from abroad was also stronger during this period. With activity buoyant, loans and advances remained strong. The Reserve Bank announced a limit of 10 per cent on bank lending, but this was exceeded by 2½ percentage points despite a rise in the statutory reserve deposit ratio from 6 to 7 per cent in January 1981. This contributed to the growth of M3 of 12.7 per cent, almost 3 percentage points above the centre of the target range. This overshoot occurred despite a further rise in interest rates after December 1980 following the deregulation of interest rate ceilings on a wide range of bank deposits (Diagram 9). The consequent substitution of funds away from non-interest bearing accounts may have contributed to the slowing in the growth of M1 during the year to 12.2 per cent (from 13 per cent in 1979/80 and almost 17 per cent in 1978/79). In contrast, the growth in the broader aggregates accelerated in 1980/81; M3 plus borrowings by non-bank financial intermediaries rose by about 16 per cent, compared with 13½ per cent in 1979/80.

Monetary management was complicated by the large inflows of private capital[61]. Another factor, however, has been the low level of sales of Commonwealth Government securities to the non-bank private sector which has meant that less of the liquidity-creating effects of the foreign capital inflows were sterilised (Table 13). Moreover, the non-bank take up of $534 million was more than accounted for by sales of short-dated Treasury notes which are highly liquid[62]. The difficulties encountered in selling long-dated bonds suggest that the new tap system of selling bonds, which was formally established in April 1980, did not work well, probably reflecting the reluctance until December 1980 to allow yields to rise more in line with market

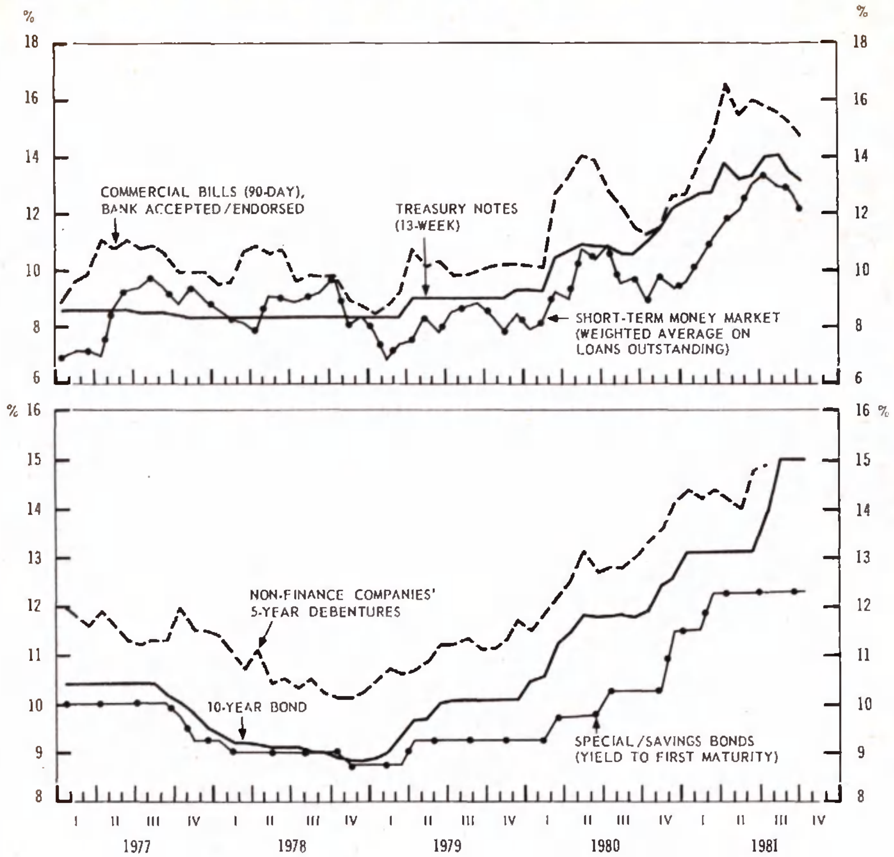
Table 13. **Formation of changes in the volume of money**[1]
$ million

	1976/77	1977/78	1978/79	1979/80	1980/81
Budget deficit (+) or surplus (−)	2 740	3 333	3 478	2 034	1 127
less: Overseas deficit	875	972	1 220	1 467	1 556
Domestic budget deficit					
less: Non-bank uptake	1 865	2 361	2 258	567	−429
of government securities	1 091	1 244	720	743	534
Unfunded domestic deficit	774	1 117	1 538	−176	−963
Private sector					
foreign exchange transactions	19	−1 202	−254	974	2 839
Net contribution of budget and overseas					
sectors to monetary base	793	−85	1 284	798	1 876
Rural credit advances	378	−106	78	−285	114
Other factors[2]	45	−340	40	174	334
Monetary base	1 216	−531	1 402	687	2 324
less: Non-bank currency holdings	360	383	421	463	555
SRD balances	864	−970	391	260	467
Banking sector LGS assets	−8	56	590	−36	1 302
Loans and advances	2 733	2 880	3 258	4 039	4 101
Other factors[3]	507	−432	357	916	270
Bank deposits of public	3 232	2 504	4 205	4 919	5 673
add back: Non-bank currency holdings	360	383	421	463	555
Change in volume of money (M3)	3 592	2 887	4 626	5 382	6 228
(Actual rate of growth)	(11.0)	(8.0)	(11.8)	(12.3)	(12.7)
(Projected/target growth)[4]	(10-12)	(8-10)	(6-8)	(Max. 10)	(9-11)
Domestic credit expansion[5]	3 573	4 089	4 880	4 408	3 389

1. Budget and overseas components are levels.
2. Reserve Bank transactions in commercial bills, other loans and advances, and miscellaneous accounts.
3. Other bank assets and liabilities and adjustment for government and inter-bank deposits.
4. Projected growth of M3 given in successive Budget Statements.
5. Change in M3 less private sector foreign exchange transactions.
Source: Budget Paper No. 1, 1981/82.

61. For details see Part I above.
62. Sales of bonds in 1980/81 at net $271 million were $481 million lower than in 1979/80 while holdings of Australian savings bonds fell by $319 million, a turnaround of $503 million from 1979/80.

Diagram 9 **Interest rates**



Source: Reserve Bank of Australia Bulletin.

conditions[63]. The adjustment of yields on tap stocks in 1981, and the increase in the yield on Australian savings bonds (to 12.25 per cent in March) improved the situation.

The rises in interest rates which were eventually allowed to come through early in 1981 and the further increases in official rates announced by the Treasurer in July (Diagram 9) suggest a more flexible interest rate policy which should stimulate sales of securities in 1981/82. An improved rate of bond sales, when taken with the further reduction projected for the Budget deficit may enable the money supply to be more effectively controlled than in the last three years. The projected range for M3 growth in 1981/82 was set at 10-11 per cent in the August 1981 Budget. With real GDP projected to grow by 3½ per cent and a GDP deflator increase of around 10 per cent, this implies a rising velocity of circulation during 1981/82. The rise in M3 may be close to

63. It is to be noted that the tap system has been reviewed as part of the Committee of Inquiry into the Australian Financial System set up by the Government in 1979. The Campbell Committee has now completed its report on the structure and methods of operation of the financial system and its regulation and control. An interim report containing a survey of the financial system was published in August 1980 and the final report, including recommendations, was tabled in the Commonwealth Parliament on 17th November 1981.

or even below the projected range, the outcome perhaps depending on the development of foreign exchange transactions. Early indications suggest that the growth of the monetary aggregates may have slowed down since mid-year; M3 grew by 11.2 per cent in the twelve months to October 1981 compared with 12.7 per cent up to June, the main factor being lower private sector foreign exchange transactions than in the same period of 1980.

Wage fixation

The system of wage determination established in April 1975 has been based on national wage cases in which the Conciliation and Arbitration Commission decided wage and salary rises indexed to movements in the Consumer Price Index unless it was persuaded by parties to the wage hearings that less than full indexation was justified[64]. National wage cases up to May 1978 were held quarterly and subsequently half-yearly. In the majority of hearings, the Commission awarded less than full indexation[65], discounting wage awards for such factors as personal tax changes, the effects of import parity pricing of oil and the incidence of industrial disputes. The indexation Principles[66] did, however, permit wages rises outside the national case awards, particularly on the grounds of the increased value of specific jobs. In 1978/79, these work-value awards assumed increasing importance, the contribution of national wage cases to increases in male award wages falling from 98 to 86 per cent. The proportion fell further to 81 per cent in the following twelve months.

The growing incidence of work-value awards, which seemed to bear little correspondence to the changes in the nature of jobs since 1979, prompted the Commission in late 1979 to hold a conference of interested parties about the feasibility of maintaining the indexation system. In its decision on the conference, the Commission persevered with indexation but tightened the Principles relating to work-value awards. The next two national wage cases resulted in 79 per cent indexation[67], and in the second half of 1980, the importance of work value awards declined. But substantial wage rises took place outside the indexation Principles reflecting the effects of higher pressure on demand for labour and a continuing high level of industrial disputes some of which were associated with demands by a number of unions for a 35 hour week. These developments led the Commission in its January 1981 national wage case judgment to announce that the system had broken down[68], there would be no further hearings under the existing Principles and an Inquiry into Wage Fixation Principles would be held in February 1981.

64. A description of the indexation system up to March 1980 is in OECD Economic Survey of Australia, June 1980, pp. 46-49.

65. Of the eighteen national wage case increases under the indexation principles, six provided for full indexation.

66. The Principles of indexation are in Annex II of the June 1980 OECD Economic Survey of Australia.

67. The first decision announced on 14th June, 1980, granted a 4.2 per cent increase in federal wage awards compared with an increase in the Consumer Price Index in the December 1979 and March 1980 quarters of 5.3 per cent. The second decision on 9th January 1981, relating to the 1980 June and September quarters, was a 3.7 per cent increase compared with a rise in the Consumer Price Index of 4.7 per cent.

68. The main reason cited by the Commission for the breakdown of the system were:

1. The prima facie assumption of full CPI adjustment built into Principle 1 has not been met in most cases. A principle in which the implied rule becomes the exception is unsatisfactory.

(Note 68 continued on next page.)

Following the Inquiry, the Commission on 7th April decided to retain a centralised system of wage fixation based primarily on indexation. Under the new system the Commission after the publication of the March quarter Consumer Price Index and other than in exceptional and compelling circumstances was to adjust award wages and salaries for 80 per cent of the combined December and March quarter movements in the Consumer Price Index. A second review would then be held following the publication of the September quarter Consumer Price Index to consider the remaining 20 per cent of the Consumer Price Index movement from the December and March quarters, the June and September quarter price changes and productivity movement. In accordance with the the main features of the new Principles, the Commission in May granted an increase in Federal awards of 3.6 per cent, compared with a Consumer Price Index increase of 4.5 per cent. The revised Principles were short-lived, however, the indexation system being abandoned by the Commission at the end of July in the midst of intense pressure, backed by industrial action, for wage increases and hours reductions inconsistent with the Principles. The Commission judged that "...the commitment of the participants to the system is not strong enough to sustain the requirements for its continued operation". The demise of indexation in effect meant a return to the procedures existing before indexation with individual claims being heard by the Commission as they are filed, backed up by periodical national wage cases to consider adjustments to wages or conditions on macro-economic grounds. However, the Commission ruled out a national wage case before February 1982. The demise of indexation also resulted in the Commonwealth deciding to take a less direct role in wage determination outside its own sphere of employment. In the post-indexation environment the Government has emphasised its indirect role in wage determination through its fiscal, monetary and external economic policies and has confined its direct intervention in wage hearings to major cases before arbitral tribunals and to cases affecting its own employees.

While the wage determination system is now to some extent more flexible than it was with indexation, its ability to achieve wage increases which are compatible with the reduction of inflation, the maintenance of external competitiveness and lower unemployment still depends — as under indexation — on the attitudes of parties to wage claims. Recognising this, the Government in early August held a special conference of State Premiers on wages and it also discussed with the trade unions and employers the wages outlook and industrial relations. Also, the tightening of fiscal and monetary policies in the Budget had as one of its main objectives the reduction of inflationary expectations and containment of wage pressures. In addition, the Commonwealth has announced a national inquiry into wage determination. Despite these positive anti-inflationary steps, it seems, however, that the main factors which led to the breakdown

(Note 68 continued.)

2. Persistent non-compliance although by a small proportion of the labour force, makes the system unworkable. New standards of pay and conditions created in this way will sooner or later flow to other wage and salary earners. Further, it has not been possible under the present system to confine the costs of non-compliance to those who do not comply. Benefits and costs have to be applied to all without discrimination. It is not surprising, therefore, that the concept of substantial compliance as it has evolved is regarded by those who comply as punitive.
3. The supporting mechanisms on which the Commission relied to sustain its wage principles have been seriously weakened.
4. The consensus which existed in 1975 between the unions and the Federal Government of the day that indexation was to be regarded as "an integral part of an equitable counter-inflationary policy" no longer exists. The Commonwealth now regards indexation as applied by the Commission as an engine of inflation and unemployment and as being inconsistent with its economic strategy.

of indexation still remain. Also apart from the factors discussed in the June 1980 OECD Economic Survey of Australia, the institutional framework would seem to be an important barrier to parties to wage bargaining considering the possible output and employment consequences of wage claims. Among the main institutional rigidities are the legalism of wage hearings, the statutory limitations on trade union amalgamations, the craft structure of much of the trade union movement, the relationships between Federal and State unions within the same industries, the Federal/State division of conciliation and arbitration functions and the effects this has on employer and union representation to wage claims in formulating their wage cases.

Structural adjustment

In August 1979 when responding to the Report of the Study Group on Structural Adjustment[69] the Government reaffirmed the intention to reduce long-run protection when economic circumstances permitted. This objective is an important element in the longer-term policy of developing a stronger, more specialised manufacturing industry with less reliance on Government assistance. Without making any commitment to reducing protection, the Government in August 1981 decided that it was "timely for a report on the options for approaching general reductions in protection". Accordingly, the Industries Assistance Commission (IAC) has been asked to complete a review and make a report to the Government within six months. To a considerable extent, the reference to the IAC reflects concern over increasing wage pressures[70]. It also represents a move to a closer integration of protection policy with demand-management policies, the reference forming part of budget policy for the first time. As regards the temporary assistance for the clothing, textile and footwear industries which was scheduled to end in mid-1981, the Government has decided to introduce a new programme of assistance which will run for seven years from 1st January 1982. Bounties rather than quotas will be provided for most yarns, most fabrics are to be quota free and subject to duties, most lightweight yarns will be duty free, but quotas will continue on some woven man-made fibres, clothing and footwear and finished textiles. The Government also has had before it an IAC draft recommendation to replace import quotas on motor cars with a 60 per cent tariff in 1985 and to reduce the rate gradually over the following five years.

As part of its longer-time policy on manufacturing industry noted above, the Government in August 1981 asked the IAC to examine the effectiveness of budgetary assistance to industry such as industrial research and development grants, depreciation provisions and investment allowances. The IAC has also been instructed to recommend any improvements bearing in mind the Government's policy of fiscal restraint, the report to be completed within six months. Like the reference on tariffs, the assistance to industry study suggests that industrial policy may become more aligned with the macro-economic setting of policy. In a separate move to try and increase competitive pressures it was announced just prior to the 1980/81 Budget that domestically-produced goods would no longer be given preference in Government purchases.

69. Established in September 1977, the Study Group was asked to study among other things "the extent and nature of adjustment problems of Australian manufacturing industries, with particular reference to the most highly protected industries...". The Study Group presented its findings in March 1979.

70. The reference to the Industries Assistance Commission states: "While there are sound prospects for continued expansion of manufacturing in 1981/82, the outlook is not without its problems, including pressures for wage and subsequent price increases." The IAC was also asked to have regard to "the Government's overall economic goals, including lower prices".

IV. SHORT-TERM PROSPECTS AND POLICY CONSIDERATIONS

Short-term prospects

International developments over the next eighteen months are likely to be more favourable to the Australian economy than in the recent period. While real GDP growth in the OECD area is projected at 1¼ per cent in 1982 – similar to that in 1981 – output growth is expected to pick up through the year to a rate of 3 per cent or more in the second half of 1982 and into 1983. The recovery in intra-OECD trade is expected to be stronger, being projected by the Secretariat to rise by about 3 per cent in 1982 following a fall of about 1 per cent in 1981. Inflation in the OECD area is expected to ease gradually to about 8 per cent from mid-1982, but as is normal in a cyclical upswing, unit values of non-oil commodities may pick up at an accelerating

Table 14. **Short-term forecasts**
Percentage volume changes from previous year,
1974/1975 prices[1]

	Calendar years			Fiscal years		
	1980	1981	1982	1980/81	1981/82	1982/83
Consumption						
Private	3.1	3¼	3	3.2	3½	2½
Public	3.7	2½	−¼	4.2	¼	−¼
Gross fixed investment						
Public	−3.0	−½	½	−1.0	—	½
Private	8.2	14	5¾	17.8	7¼	6
of which:						
Dwellings	11.5	4¾	2¾	10.6	1½	2½
Other construction	12.4	33	8½	30.4	16	9
Machinery and equipment	4.8	13½	6½	18.3	7½	6¾
Final domestic demand	3.4	4½	2¾	5.1	3¼	2½
Change in stockbuilding[2]	−0.4	−½	½	−0.1	½	—
Total domestic demand[3]	3.0	5½	3	6.0	4½	2½
Exports of goods and services	1.4	−3¾	4¼	−7.6	2	5¾
Imports of goods and services	4.3	11½	2¾	9.1	9	3
Change in foreign balance[2]	−0.4	−2½	¼	−2.9	−1¼	½
Gross domestic product	2.5	3	3¼	3.0	3½	2¾
Consumer prices[4]	9.6	8¾	10¾	8.9	9½	11
Current balance ($ billion)	−3.8	−7½	−8	−5.6	−7¾	−7½
(% of GDP)	(−3.0)	(−5½)	(−5)	(−4.3)	(−5)	(−4½)

1. Based on seasonally-adjusted data. It should be noted that the annual changes for calendar 1980 and fiscal 1980/81 differ from those in Table 1 which are based on unadjusted data.
2. Contribution to growth in GDP.
3. Includes statistical discrepancy not shown separately.
4. Private consumption deflator.
Sources: Quarterly Estimates of National Income and Expenditure, ABS; from third quarter of 1981, Secretariat forecasts.

rate after their recent declines. Taken together, these demand and price projections imply a steady, if unspectacular, improvement in the external influences on the Australian economy. Against the background of a more favourable external environment, the value of Australian exports of minerals and manufactures seems likely to improve significantly in 1982, and at a later stage volumes may be augmented by the coming-on-stream of some of the recent additions to capacity. The carry-over from the 1980 drought will constrain rural exports during the 1981/82 season when prices are also expected to be sluggish. However, on the assumption of a normal season in 1982/83 and with more favourable price prospects, rural export receipts could record moderate growth from about the middle of 1982.

The fiscal policy stance, as discussed in Part III, has been further tightened, and the higher Budget domestic surplus together with a real decline in own-account borrowings by States and local authorities imply a reduction in the public sector's net borrowing requirement from just over 3 per cent of GDP in 1980/81 to about 2 per cent in the current fiscal year. For 1982/83 it is assumed that public current expenditure will be tightly controlled. It is also assumed by the Secretariat that there will be no tax indexation and, even given the changes in health care financing, tax revenues could rise rapidly, leading to a further substantial reduction in the public sector deficit. Monetary settings are assumed to be tight with the projected range for M3 growth of 10-11 per cent in 1981/82 below the 1980/81 outcome, and weaker than anticipated capital inflow could lead to a slower rate of monetary expansion. A similar stance is assumed for 1982/83. An area of uncertainty is wages given the abandonment of indexation, tighter labour market conditions than for several years and the possibility that some recent large over-award settlements may flow on into other areas. While an acceleration in the Consumer Price Index may exert some pressures on wage demands generally, it is assumed in the forecast that, in the context of tight policies, earnings growth will decelerate somewhat after reaching a peak in the first half of 1982.

The expected trend in the growth of earnings and a recovery in farm incomes after the sharp decline in 1980/81 should result in a pick up in the growth of nominal household incomes in the coming months but this may be followed by a slight deceleration after mid-1982. Reflecting significant fiscal drag in the latter part of the current fiscal year and as assumed also in 1982/83, the slowdown in nominal disposable income is likely to be more pronounced, but the forecast pattern of consumer prices seems likely to result in a somewhat more even evolution of real disposable incomes after the end of 1981[71]. The indirect tax increases imposed in the August Budget will influence price movements from the December 1981 quarter on, which, together with the rapid growth of costs up to mid-1981, may result in consumer prices rising to a peak rate (of about 11½ per cent, annual rate) in the first half of 1982. Although the influence of higher external prices will tend to strengthen (on the technical assumption of an unchanged exchange rate), it seems possible that the underlying rate of inflation could remain largely unchanged over the remainder of the forecast period at about 10½ per cent and the actual rate might ease somewhat. While it is anticipated that growth in real disposable income will rise between the calendar years 1981 and 1982, there could be a weakening in the latter part of the forecast period. Allowing for a resumption of the longer-term decline in the non-farm savings propensity, real consumption growth may remain above 2 per cent (annual rate).

The latest investment expectations data for fiscal 1981/82 indicate continuing rapid growth in business investment – a rise of 32 per cent in value terms. However,

71. The relatively moderate rise in the second half of 1981, due largely to the earlier weakness of import prices, will tend to compound the effects on disposable income of the recovery in farm incomes and the half-indexation of income tax.

the balance between the construction and equipment components (55 per cent and 23 per cent respectively), coupled with the very rapid recent growth in construction may give rise to some localised capacity constraints. Given the present strength of investment, it seems inevitable that the rate of growth will moderate through the forecast period, but nonetheless remain buoyant. More generally, slower growth in domestic demand may have repercussions on the expansion plans of smaller enterprises. In total, business investment in 1981/82 is forecast to rise by about 10 per cent but then ease back to a rate of about 7½ per cent in 1982/83. Assessment of the prospects for dwelling investment is complicated by the uncertainty surrounding developments over the past year. Recent approvals data suggest a flatter trend, which would be consistent with tighter financial conditions and an easing of speculative activity. On balance, demand considerations and the limited availability of mortgage finance suggest that growth in residential investment will slow down and could even decline thgrough 1982.

The recent pattern of stockbuilding in the non-farm sector is, as noted above, difficult to explain. The strength of imports, however, suggests that a rebuilding of inventories may be under way in the second half of 1981. On the basis that this is on a smaller scale than in the same period of 1980, the contribution of non-farm stockbuilding to growth both in 1981 and in fiscal 1981/82, should, however, be negative. It seems unlikely, given the outlook for demand and the prospect of continued high financing costs, that non-farm inventories will on average add to growth more than marginally over the remainder of the forecast period. The expected recovery of farm stocks in 1981/82 following their decline in 1980/81 could partly offset movements in the non-farm sector.

The prospect of sustained growth, even if less marked than previously, in domestic final demand points to continued underlying buoyancy in the demand for imports; the effects of the expected easing in demand pressure through the forecast period may be offset by the recent deterioration in Australia's international competitiveness. The exceptionally sharp rise in import volumes in the second half of 1981 may, however, bring a reaction in the subsequent half-year. These trends, coupled with the expected recovery in exports – to an annual growth rate of about 6 per cent through the 1982/83 fiscal year – imply a reversal of the recent deterioration in the real foreign balance and a small positive contribution to GDP growth from this source through 1982 and the first half of 1983. The current deficit on external account which, despite an improvement in the terms of trade, rose to $5½ billion (or 4¼ per cent of GDP) in fiscal 1980/81, is forecast to increase further in 1981/82 – to about 5 per cent of GDP) – reflecting largely volume changes but, with the expected strengthening of export volumes, the deficit should decline to around 4½ per cent of GDP in the following fiscal year.

Although the pick up in external demand should largely offset the moderation in the growth of domestic demand, real GDP growth may, nonetheless, ease back gradually through the forecast period, to average about 2¾ per cent (annual rate) through the fiscal year 1982/83. This pattern in part reflects a recovery in farm output in the current fiscal year and the development of non-farm GDP should be steadier – averaging about 3 per cent (annual rate) through the forecast period as a whole. While less than in 1980/81 (4 per cent) this would represent a significant advance on the performance of the latter part of the 1970s and should permit further growth in employment, although at a slower pace than in fiscal 1980/81. Yet, because of population growth and the apparent responsiveness of participation rates to any improvement in employment prospects, it seems unlikely that unemployment will fall below its current level.

Policy considerations

Since 1978, real GDP has increased at more than twice the average rate for the OECD area as a whole and employment has risen strongly contrary to experience in many other Member countries. An important expansionary influence has been the marked upsurge in business fixed investment associated with the development of a number of major resource projects. But demand and activity had started to strengthen, albeit slowly, considerably before the onset of the resource-related investments and generally have continued to be buoyant, suggesting that the Government's longer-term policy measures aimed at reducing the imbalances in the economy have contributed. In addition, it is probable that the substantial reduction in the Federal borrowing requirement over a number of years has reduced incipient inflationary pressures and prevented some of the resource projects or other investments from being squeezed out of financial markets.

The outlook on the basis of present policies and the assumptions adopted in the forecast is for moderate growth in real GDP over the next eighteen months, the main stimulus coming from the continued strength of fixed investment particularly in the resources area. A further steady increase in employment is also expected. The main concern, however, is the inflation outlook. Although inflation was down from an annual rate of 20 per cent in late 1974 to single figures in 1978 and 1979, recent performance has been less satisfactory with inflation edging up despite the appreciation of the exchange rate. No improvement seems likely over the forecast period.

The rise in domestic costs, particularly wages, has accelerated more than suggested by price movements. And even with the forecast relatively moderate growth of activity and an unemployment rate of over 5 per cent, there is a risk that the rate of wage increases could accelerate further in the near future. Following the demise of indexation, wage determination may become more flexible than it has been since 1975 and thus enable wage settlements to better reflect market conditions. However, as argued in Part III above, it remains uncertain whether the wage determination system will enable wage rises to be achieved which are more compatible with lower inflation, improved external competitiveness and falling unemployment. But if there there is no change in the way incomes are determined, it is inevitable that demand-management policies will be more restrictive and unemployment higher than would otherwise be the case. While the system of wage fixation has been in place for a long time, it may no longer be appropriate in the present circumstances, when important changes in the structure of output imply significant shifts in the demand for labour between different sectors, regions and skills. The desirable change in the institutional framework is unlikely to proceed quickly. In the meantime, it is to be hoped that progress can be made in developing a better understanding between those who make and those who grant wage claims of the effects of their actions, taking into account the relationships between inflation, real wage costs and employment. It would be desirable that the national enquiry into wage determination announced by the Government but not yet under way, be asked to consider fully the alternatives to the present system as well as the institutional factors relating to wages and their effects on the economy.

Monetary policy is another factor which has impinged on inflation, the growth of broadly defined money supply (M3) having for three consecutive years to mid-1981 exceeded the rate estimated by the authorities at the time of the Budget to be consistent with the continued reduction of inflation. This monetary slippage has partly reflected the Government's desire to keep interest rates down at times when market conditions and adherence to the M3 projections warranted rising rates. However, interest rates in 1981 have been allowed to change more freely; in particular, yields on government securities have been raised in order to achieve higher sales to the non-bank private sector. The more flexible approach to interest rates, the current 10-11 per cent projection for M3 growth and the planned reduction in the Budget deficit suggest that monetary conditions in 1981/82 will be considerably less accommodating to inflation than in recent years. Also, the stance of monetary policy would seem to be in better balance with fiscal policy and to accord more closely to the medium-term policy approach than for some time.

If the existing potential wage pressures in the economy are to be contained, the authorities have little alternative but to adhere to tight demand management. Restrictive policies are also necessary if the resource developments are to continue, unaccompanied by stronger inflation arising from the limited availability of domestic resources. Inevitably, the development process implies some sacrifice of immediate consumption, both public and private. The progress made since 1975 in reducing the public sector borrowing requirement (the Budget is expected to be in approximate balance in 1981/82) has helped to make room for private sector expansion. In the past several years, the reduction in the Budget deficit has mainly reflected developments in revenue, reductions in the rate of growth of public expenditure having proved increasingly difficult to attain. Over the medium term, the involvement of the public sector in the provision of infrastructure for resource developments may compound these difficulties, especially if accompanied by demands for higher outlays on education, health and social security payments. The discussion in Part II above of some of the policy implications of the projected resource developments during the 1980s suggested that if the benefits to the Australian economy of the resource-based expansion were to be maximised, the private sector would need to accept a greater share of infrastructure costs during the investment phase of the projects.

The resource developments under way will involve substantial structural adjustments in the economy, the impact of which will be influenced by policy responses, both during the investment phase and when the export-oriented output accelerates. One area of particular concern is the exchange rate, where experience of some OECD countries involved in North Sea oil and gas points to the danger of excessive appreciation, even if only for a limited period. At the same time the general arguments for the need to cut protection levels are now greatly strengthened by the implication of adjustments associated with the resource projects. A reduction in protection, moreover, would help to prevent excessive currency appreciation and would in this way assist the more dynamic and competitive sectors of the economy. Other areas of policy are implicated if the necessary adjustments are to proceed smoothly – for example, immigration and manpower training may become more significant. An important area where some reassessment is now taking place is the pricing of energy, in particular of electricity; a substantial reduction in subsidies would seem necessary before prices can be considered compatible with efficient resource allocation.

The main concerns both in the short and medium term are inflation and the most appropriate ways to tackle it. While the current stance of macro-economic policy seems the only possible way to cope with the containment of inflation in the immediate future, the achievement of sustained non-inflationary growth over the longer term and the smooth asjustment of the economy to the strong expansion of resource-based sectors will necessitate changes in other areas. Of these, protection policy and the wage determination system are among the most important.

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ANNEXES

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Annex

CALENDAR OF MAIN ECONOMIC EVENTS

Details of main economic events between January 1979 and May 1980 were given in the OECD Economic Survey of Australia, June 1980.

1980

30th May

The Treasurer announced the introduction of Tap Stock No. 3 with a coupon rate of 11.7 per cent and May 1986 maturity and an annual initial yield of 11.79 per cent.

1st June

The Treasurer announced that the half-indexation of personal tax allowances would be based on an "adjusted" increase in the consumer price index of 7.5 per cent, giving a percentage increase for tax indexation purposes of 3.8 per cent. The "actual" increase in the price index of 9.7 per cent was adjusted for the effects of health care financing arrangements and for changes in oil pricing policy and other indirect taxes. The tax-free threshold was therefore raised from $3 893 to $4 041 with corresponding increases in the other tax bands.

27th June

The Loan Council agreed to State Government programmes for 1980-81 of $1 307 million (of which one-third is provided as a Commonwealth grant) representing an increase of 5 per cent on the previous year, and borrowing programmes for larger State authorities (those borrowing over $1.2 billion in the year) for 1979-80 of $1 929.6 million, including infrastructure borrowing programmes for such authorities of $632.3 million. The Loan Council also agreed to evolutionary changes in the marketing arrangements for semi-government borrowings which are regulated by the Loan Council under the "Gentlemen's Agreement", with new arrangements to come into effect on 1st July 1980.

30th June

The Minister for National Development and Energy announced details of the new import parity prices for indigenous crude oil and the crude oil levy arrangements to apply from 1st July 1980; the price for Bass Strait crude oil would rise from $24.77 to $27.50 per barrel, with prices for other domestic crudes rising by similar amounts. The price of naturally occurring LPG, now linked with the crude oil import parity price, would increase from $205 a tonne to $227.63 a tonne.

1st July

The Department of Industry and Commerce released the latest schedule of major manufacturing and mining investment projects, indicating substantial strengthening of the level of intended investment in Australia over the early 1980s.

7th July

The Treasurer announced that two new Tap Stocks (Nos. 4 and 5) would be on issue from 7 July, an 11.5 per cent November 1982 stock initially priced to yield 11.57 per cent and an 11.7 per cent June 1980 stock initially priced to yield 11.80 per cent.

14th July

The Conciliation and Arbitration Commission granted an increase of 4.2 per cent in all Federal wage awards effective from the first pay period commencing on or after 14 July, the award, being 79 per cent of the increase in the Consumer Price Index in the preceding December and March quarters.

20th July

The Treasurer announced the introduction of a new series of Australian Savings Bonds (Series 17), to be on issue from the commencement of business on 21 July 1980. The new series would be issued with a coupon interest rate of 10.25 per cent, 0.50 per cent higher than the rate offered on Series 16, and have a maturity date of 1 April 1988.

15th August

The Government announced a new programme of assistance for the textile, clothing and footwear industries to apply for a seven year period from1 January 1982 incorporating the following import access arrangements:

- most yarns to be subject only to minimum duties;
- most fabrics to be subject to duties only;
- tariff quotas to continue on a range of finished textile products, clothing and footwear.

Although the programme broadly maintained the existing tariff quota arrangements on the end products mentioned above; it introduced changes which increased the flexibility of the quota system and provided for increases in imports.

Quotas will be automatically increased each year to permit imports to increase by an amount equivalent to 1 per cent of annual domestic production levels. In addition quotas will be further increased by an amount equivalent to total market growth.

Under the new programme, the tariff quotas then applying to a range of textiles, yarns and footwear will be dismantled.

19th August

The Treasurer presented the 1980/81 Budget. The main features were:

- an increase in outlays of 13.7 per cent (to $36 037 million) compared with an increase of 9.1 per cent in 1979/80;
- an increase in receipts of 16.2 per cent (to $34 471 million) compared with an increase of 16.0 per cent in 1979/80;
- an estimated overall budget deficit of $1 566 million, $468 million less than the 1979/80 outcome; after taking account of an even larger overseas deficit, an estimated domestic surplus of $39 million.
- the main specific changes were:
  - *a*) an increase in defence spending of 17.7 per cent (about 7 per cent in real terms);
  - *b*) an increase in spending on social security and welfare of 12.4 per cent;
  - *c*) accelerated depreciation allowances, raising existing depreciation rates for plant and equipment by 20 per cent;
  - *d*) reduction in the standard rate of tax to 32 per cent with income tax bands indexed by 3.8 per cent (both as previously announced).
- the announcement of a projected range of M3 growth of about 9-11 per cent during 1980/81.

20th August

The Treasurer announced that two new Tap Stocks (Nos. 6 and 7) would be on issue from21 August 1980, an 11.4 per cent February 1983 stock, initially priced to yield 11.54 per cent, and an 11.5 per cent November 1984 stock initially priced to yield 11.71 per cent.

28th August

Interim report of the (Campbell) Committee of Inquiry into the Australian Financial System released. The report surveyed the present structure and operation of the system and identified the principal issues to be investigated.

5th September

The Loan Council announced an additional interest rate step in the scale of maximum borrowing rates for local and semi-government authorities. The new rate structure for public issues (private treaty loan rates in brackets) was: 4-6 years, 12.0 per cent (12.3 per cent); 7-9 years, 12.1 per cent (12.4 per cent); and 10 years and over, 12.3 per cent (12.6 per cent).

28th September

Foreign Investment Review Board report for 1979/80 shows a 65 per cent increase to $5 808 million in the total anticipated expenditure associated with all proposals approved during the year.

18th October

General election for both houses of the Federal Parliament resulted in the return of the Liberal-National Country Party Coalition with a reduced majority.

29th October

Yields on all three tap stocks on offer were increased. The increases took the yield on tap stock No. 5 (June 1990) and tap stock No. 7 (November 1984) to 12.40 per cent and to 12.35 per cent for tap stock No. 6 (February 1983). Related increases of between 0.6 and 0.8 percentage points were made to the maximum interest rates offered on local and semi-government securities.

13th November

The Treasurer announced that a new Tap Stock (No. 8), an 11.5 per cent May 1982 stock initially priced to yield 12.45 per cent, would be on issue from November 14.

25th November

The Treasurer announced that a new short Tap Stock (No. 9), an 11.5 per cent September 1982 stock initially priced to yield 12.44 per cent, would be on issue from 26 November.

2nd December

The Treasurer announced a number of decisions affecting the interest rates charged by trading and savings banks in Australia. The changes included:

- an increase of 2 percentage points to 12.5 per cent in the maximum interest rate trading banks may charge on overdrafts with limits of less than $100 000.
- an increase of one percentage point to 11.5 per cent in the maximum interest rate charged by banks for loans under $100 000 for owner-occupied housing; and
- the abolition of controls on trading and savings banks' deposit rates.

3rd December

The Minister for Business and Consumer Affairs and the Minister for Industry and Commerce announced the Government's decision on the IAC report on passenger motor vehicle import restrictions. The main elements of the decision were:

- continuation of the 80/20 market sharing arrangement for the life of the motor vehicle manufacturing plan (1984) with continued imposition of quantitative restrictions;
- an interim global quota allocation for passenger motor vehicles for 1981 of 88 000 units, to be distributed on the basis of importers' previous quota allocation, with the final quota to be determined in the light of a review of market conditions in May 1982; and
- deferral of a decision on the quota allocation system to be adopted after 1981 until consideration of the IAC report on post-1984 assistance arrangements for the industry.

Yields on all three tap stocks on offer were increased. The increases took the yield on tap stock No. 6 (February 1983) and tap stock No. 9 (September 1982) to 12.85 per cent and to 12.60 per cent for tap stock No. 5 (June 1990). A related increase of 0.2 percentage points was made to the maximum interest rates offered on local and semi-government securities.

7th December

The Treasurer announced a new series of Australian Savings Bonds (series 18) with an interest rate of 11.5 per cent (1.25 per cent higher than the previous rate) and a maturity rate of 1 August 1988.

17th December

The Treasurer announced a new Tap Stock (No. 10), issued as a 12.0 per cent December 1987 stock, initially priced to yield 12.64 per cent.

18th December

The Reserve Bank of Australia announced an increase of one percentage point to 7.0 per cent in the major trading banks' Statutory Reserve Deposit ratio with effect from 6 January 1981.

23rd December

The Minister for National Development and Energy announced details of the new import parity price for indigenous crude oil to apply from 1 January 1981. The new price for Bass Strait crude oil would be $30.23 per barrel, an increase of $2.73 on the old price of $25.50.

8th January

Yields on all three tap stock on issue — tap stock No. 6 (February 1983), tap stock No. 9 (September 1982) and tap stock No. 10 (December 1987) — were increased to 13.10 per cent. A related increase of 0.5 percentage points was made to the maximum interest rates offered on local and semi-government securities.

9th January

The Conciliation and Arbitration Commission granted an increase of 3.7 per cent in all federal wage awards effective from the first pay period commencing on or after 9 January. It was also announced that this would be the last national wage hearing under the existing principles.

19th January

The President of the Conciliation and Arbitration Commission announced that a public inquiry into wage fixation principles would begin in February.

6th February

The Treasurer announced that a new Tap Stock (No. 11), a 12.5 per cent May 1983 stock initially priced to yield 13.10 per cent, would be issued on 9 February.

6th March

The Treasurer announced that a new Tap Stock (No. 12), a 12.5 per cent July 1984 stock initially priced to yield 13.10 per cent, would be issued on 9 March.

23rd March

The Treasurer announced a new series of Australian Savings Bond (series 19) with an interest rate of 12.25 per cent (0.75 per cent higher than the previous rate).

7th April

The Conciliation and Arbitration Commission announced a new system of wage fixing principles following its Inquiry into the wage determination system. In handing down its decision the Commission reinstituted a centralised system of wage determination based on 6-monthly hearings. The main features of the new system are:

- the automatic adjustment of award wages and salaries for 80 per cent of the December and March quarter CPI movements, other than in exceptional and compelling circumstances, following publication of the March quarter CPI (the First Review);
- a "final review", following publication of the September quarter CPI, which will consider the remaining 20 per cent CPI movement left over from the December and March quarters, the June and September quarters CPI movements and productivity movements (which will include applications for changes in work conditions, including shorter working hours).

8th April

The Ministers for Business and Consumer Affairs and for Industry and Commerce announced the Government's acceptance of the long term duty levels recommended in the Industries Assistance Commission report on the Iron and Steel Industry, although for some of the products for which changes are to be phased in the Government decided on longer phasing periods than the IAC recommended.

29th April

The Minister for Health announced details of new health funding and insurance arrangements.

The Treasurer announced that the half-tax indexation adjustment for 1981/82 would be the last such adjustment; thereafter the Government intends to consider discretionary adjustments to taxation scales.

30th April

The Prime Minister announced details of the Government's decisions following the Review of Commonwealth Functions. Eventual on-going savings in public spending are estimated to be of the order of $560 million per annum. Major proposals are: abolition of the Prices Justification Tribunal; staffing review to reduce Commonwealth Government employment by about 16 000; partial deregulation of Qantas; sales of certain Commonwealth assets; reduction in export grants; transfers of large areas of health responsibilities to the States; introduction of tuition fees for certain second degrees; termination of assisted passages for immigrants; contracting out of services; cancellation or deferrment of major capital works projects and withdrawal of the Commonwealth from regional development activities.

4th May

Commonwealth and State Governments met to review the tax sharing arrangements which had operated between 1976/77 and 1980/81. Decisions taken at that conference and subsequently provided for a change from personal income tax sharing to total tax sharing in 1982/83 and enabled the States and the Northern Territory to receive in 1981/82 a 9 per cent increase in their combined 1980/81 tax sharing grants plus further allocations of about 1 per cent in lieu of certain specific purpose programmes terminated.

7th May

The Conciliation and Arbitration Commission granted a 3.6 per cent increase in all Federal awards under the revised national wage cases guidelines.

8th May

The Treasurer announced that a new Tap Stock (No. 13), a 12.5 per cent April 1983 stock initially priced at 13.10 per cent, would be issued on May 11.

9th June

The Treasurer announced that a new Tap Stock (No. 14), a 12.5 per cent May 1988 stock initially priced at 13.10 per cent, would be issued on June 10.

19th June

The Loan Council agreed to State Government loan programmes for 1981/82 of $1 307.25 million (of which one-third is provided as a Commonwealth grant) representing the same money amount as that provided for in 1980/81. Borrowing programmes for the 'larger' State authorities for 1981/82 were set at $2 098.3 million, including infrastructure borrowing programmes for such authorities of $806.7, an increase of 11.2 per cent on the larger authorities programme in 1980/81. The Commonwealth's semi-government authorities programme, including infrastructure, will be $363.0 million, smaller in current prices than the 1980/81 programme.

6th July

Yields on tap stocks were increased from 13.1 per cent for all tap stocks on offer to 13.5 per cent for Tap Stock No. 13 (April 1983), 13.6 per cent for Tap Stock No. 12 (July 1984) and 13.9 per cent for Tap Stock No. 14 (May 1988). A related increase of 0.8 percentage points was made to the maximum interest rates offered on local and semi-government securities.

9th July

The Treasurer announced that a new Tap Stock (No. 15), a 13.0 per cent June 1984 stock initially prices to yield 13.6 per cent, would be issued on July 10.

19th July

The Treasurer announced that, following a review of existing policy on outward portfolio investment, the Government had decided to significantly relax restrictions on portfolio investment overseas. The decisions meant that from July 20 1981 there would no longer be any restrictions on the amount that may be invested overseas in equities and in real estate. There would not be any change in the amounts that may be invested overseas in eligible fixed interest securities and it would still be necessary to obtain prior exchange control approval from the Reserve Bank for all portfolio investment overseas.

31st July

The Conciliation and Arbitration Commission announced the abandonment of wage indexation.

11th August

The Reserve Bank announced a reduction of the minimum term for which trading banks could issue certificates of deposit from 3 months to 30 days.

18th August

The Treasurer presented the 1981/82 Budget. The main features were:

- an increase in outlays of 12.6 per cent (to $40 862 million) in 1981/82 compared with an increase of 14.6 per cent in 1980/81;
- an increase in receipts of 15.8 per cent (to $40 716 million) in 1981/82 compared with an increase of 18.6 per cent in 1980/81;
- a deficit of $146 million, $981 million less than the outcome in 1980/81; after taking account a large overseas deficit an estimated domestic surplus of $1 542;
- the main changes occurred on the tax side and included:

a) half-indexation of income tax scales (as announced in April);
b) increase of 2½ per cent in each of the existing sales tax rates, correction of some anomalies, and extension of the sales tax to a wide range of exempt goods at a rate of 2½ per cent from 1st January 1982;
c) extension of coal export duty to black coal not presently subject to duty at a rate of $1 per tonne;
d) increase in maximum statutory life of a mine or well from 6 to 10 years for tax deductions on capital expenditure;

– the announcement of a projected range of M3 growth of 10-11 per cent over the course of 1981/82.

15th September

The Reserve Bank announced that it was requesting the major trading banks as a group to limit the rate of growth in their advances outstanding, for the time being, to 12 per cent per annum. This request superseded the previous guidance figure of 10 per cent per annum.

25th September

The Treasurer announced that a new tap stock (tap stock No. 16), a 13.50 per cent June 1983 stock initially priced to yield 14.50 per cent, would be on issue from 28 September.

2nd October

The acting Treasurer announced that 1 172 proposals by foreign interests to invest in Australia were approved by the Government during 1980-81. Total anticipated expenditure associated with these proposals was $6 618 million, an increase of 14 per cent on the previous year.

27th October

The Treasurer announced that two new tap stocks (Nos. 17 and 18) would be on issue from 28 October, a 14.0 per cent April 1984 stock initially priced to yield 14.65 per cent, and a 14.93 per cent.

6th November

The Treasurer announced that a new tap stock (tap stock No. 19), a 14.5 per cent April 1988 initially priced to yield 15.0 per cent, would be on issue from 9 November.

17th November

The Campbell Committee's final report on the Inquiry into the Australian Financial System was tabled in the Commonwealth Parliament.

STATISTICAL ANNEX

Table A. **Gross domestic product**
$ million, current prices

Year ended 30th June	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
EXPENDITURE										
1. Private consumption	22 686	25 449	30 092	36 569	43 605	49 830	55 390	62 122	69 823	78 428
Durables	2 920	3 295	4 152	5 169	6 105	6 740	6 995	7 449	8 083	9 285
Other	19 766	22 154	25 940	31 400	37 500	43 090	48 395	54 673	61 740	69 143
2. Government current expenditure	4 783	5 444	6 838	9 205	11 455	13 408	15 171	16 815	18 762	22 055
3. Gross fixed capital formation	9 632	10 170	11 754	14 184	17 022	18 961	20 611	23 099	25 095	31 051
Private	6 331	6 685	7 772	8 534	10 322	11 859	12 707	14 917	16 290	21 265
Public enterprises	1 792	1 816	2 073	2 884	3 303	3 698	4 237	4 365	4 825	5 482
General government	1 509	1 669	1 909	2 766	3 397	3 404	3 667	3 817	3 980	4 304
4. Change in stocks	20	−293	1 209	1 094	50	1 152	−417	1 058	674	394
5. Exports of goods and services	5 578	6 918	7 784	9 889	10 982	13 190	13 991	16 513	21 625	22 303
6. Imports of goods and services	5 218	5 353	7 782	10 247	10 837	13 784	15 021	17 892	20 915	24 816
7. Statistical discrepancy	213	537	1 549	1 075	430	419	550	−55	−716	615
8. GROSS DOMESTIC PRODUCT AT PURCHASERS' VALUES	37 694	42 872	51 444	61 769	72 707	83 176	90 275	101 660	114 348	130 030
ORIGIN										
1. Agriculture, hunting, forestry and fishing[1]	2 351	3 099	4 168	3 651	3 688	4 146	4 017	6 531	n.a.	n.a.
2. Manufacturing[1]	8 141	8 978	10 470	12 150	13 627	15 304	16 267	17 251	n.a.	n.a.
3. Other industry[1]	5 268	5 874	6 866	8 673	10 104	11 565	12 672	13 670	n.a.	n.a.
4. Services[1]	18 234	20 676	24 635	30 680	36 766	42 413	46 979	52 120	n.a.	n.a.
5. Indirect taxes less subsidies	3 700	4 245	5 305	6 615	8 522	9 748	10 340	12 088	14 101	16 218
6. GROSS DOMESTIC PRODUCT AT PURCHASERS' VALUES	37 694	42 872	51 444	61 769	72 707	83 176	90 275	101 660	114 348	130 030

1. Includes revisions to total GDP which have not yet been allocated to industries.
Sources: Australian submission to the OECD and Australian National Accounts.

Table B. **Gross domestic product**
$ million, average 1974-1975 prices

Year ended 30th June	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
EXPENDITURE										
1. Private consumption	31 786	33 545	35 403	36 569	37 718	38 642	39 228	40 345	41 318	42 623
Durables	3 805	4 136	4 838	5 169	5 433	5 521	5 306	5 363	5 523	5 970
Other	27 981	29 409	30 565	31 400	32 285	33 121	33 922	34 982	35 795	36 653
2. Government current expenditure	7 693	7 902	8 496	9 205	9 951	10 490	11 007	11 480	11 685	12 172
3. Gross fixed capital formation	14 360	14 253	14 514	14 184	14 717	14 555	14 470	15 087	14 808	16 461
4. Change in stocks	−102	−530	1 482	1 094	72	925	−543	1 216	250	106
5. Exports of goods and services	9 481	9 673	9 083	9 889	10 213	11 026	11 223	11 472	13 143	12 135
6. Imports of goods and services	7 552	7 660	9 985	10 247	9 755	10 711	10 282	11 169	11 107	12 107
7. Statistical discrepancy	319	750	1 905	1 075	405	359	415	−8	−399	358
8. GROSS DOMESTIC PRODUCT AT PURCHASERS' VALUES	55 985	57 933	60 898	61 769	63 321	65 286	65 518	68 423	69 698	71 748

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	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Compensation of employees	20 575	22 966	28 127	36 115	41 580	46 926	51 500	55 443	61 766	71 332
Wages and salaries	19 804	22 026	26 893	34 472	39 541	44 612	48 840	52 579	58 546	..
Supplements to wages and salaries	771	940	1 234	1 643	2 039	2 314	2 660	2 864	3 220	..
Income from property and entrepreneurship	7 112	8 609	10 732	11 717	13 323	15 575	17 293	21 292	23 433	24 965
Income from independent traders	..	..	..	..	..	..	..	..	..	..
Interest, rents and dividends	..	..	..	..	..	..	..	..	..	..
Current transfers from Government	2 159	2 685	3 301	4 586	6 400	7 735	8 665	9 512	10 341	11 683
Third party insurance transfers	83	94	125	131	164	206	208	263	288	320
Current transfers from the rest of the world	255	266	285	362	360	276	402	412	588	690
INCOME	30 183	34 619	42 571	52 909	61 826	70 716	78 068	86 921	96 415	108 991
less: Direct taxes paid on income	3 765	4 084	5 485	7 709	9 213	11 046	12 122	12 797	15 040	17 543
Consumer debt interest	212	243	370	493	572	719	846	920	1 046	1 250
Other direct taxes, fees, fines, etc.	440	488	559	588	683	785	843	850	816	836
Current transfers to the rest of the world	172	217	261	266	313	290	367	398	347	440
DISPOSABLE INCOME	25 594	29 588	35 895	43 855	51 045	57 875	63 890	71 956	79 166	88 922
Consumption expenditure	22 686	25 449	30 092	36 569	43 605	49 830	55 390	62 122	69 823	78 428
Food	4 144	4 569	5 393	6 213	7 104	8 203	9 339	10 575	12 060	13 866
Clothing	1 986	2 255	2 670	3 141	3 522	3 923	4 355	4 707	5 052	5 660
Rent	3 071	3 502	4 080	5 017	6 215	7 569	8 865	10 132	11 420	12 781
Other	13 485	15 123	17 949	22 198	26 764	30 135	32 831	36 708	41 291	46 121
SAVING[1]	2 908	4 139	5 803	7 286	7 440	8 045	8 500	9 834	9 343	10 494
(Per cent of disposable income)	11.4	14.0	16.2	16.6	14.6	13.9	13.3	13.7	11.8	11.8

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	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981[1]
	Thousand persons										
Civilian employment: Total[2]	5 516.7	5 601.4	5 765.1	5 891.2	5 866.4	5 946.0	6 000.1	5 997.2	6 075.1	6 249.5	6 372.1
In manufacturing[2]	1 364.9	1 330.4	1 382.3	1 374.3	1 262.9	1 281.6	1 276.8	1 208.9	1 213.3	1 239.9	1 247.6
Unemployment[2]	107.3	150.1	136.3	161.6	302.5	298.1	358.1	402.1	404.7	405.6	386.5
Unfilled vacancies[3]	40.8	32.4	64.0	62.0	30.1	24.2	22.0	19.5	19.8	19.8[5]	n.a.
	Per cent										
Unemployment	1.9	2.6	2.3	2.7	4.9	4.8	5.6	6.3	6.2	6.1	5.7
Participation rate: Male	82.8	82.7	82.3	81.7	81.2	80.6	80.1	78.9	78.5	78.4	78.0
Female	40.4	40.6	41.8	42.8	43.7	43.6	44.2	43.8	43.6	44.8	44.7
	Hours										
Average weekly hours paid for[4]											
		Old basis / New basis									
All industries	43.2	42.9 / 42.0	42.3	41.3	40.6	40.7	40.7	40.6	40.9	40.9	
Manufacturing	43.5	43.2 / 43.1	43.6	42.2	41.3	41.3	41.3	41.6	42.2	41.7	

1. Average of 11 months ended November.
2. These estimates are derived from the labour force survey which is now conducted monthly. Until February 1978, surveys were conducted in February, May, August and November each year. Estimates are averages of all surveys conducted in each of the years shown, except for manufacturing which are averages for February, May, August and November for years 1977 to 1981; earlier periods the figures for manufacturing are for August. Manufacturing excludes electricity, gas and water.
3. Registered with Commonwealth Employment Service.
4. Refers to full-time adult male employees' (other than managerial, executive, professional and higher supervisory staff and excluding rural industries and private domestic service), as at a pay-period in October each year. Until 1972 figures exclude employees in the Government sector and in Northern Territory and the Australian Capital Territory.
5. Average of seven monthly figures.

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

Table E. **Prices and wages**

Year ended 30th June	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
	1966-1967 = 100					1974-1975 = 100					
Implied GDP deflator, total	117.3	125.3	136.1	155.5	184.7	114.8	127.4	137.8	148.6	164.1	181.2
Private consumption	116.5	123.9	131.1	146.0	170.2	115.6	129.0	141.2	154.0	169.0	184.0
Gross fixed capital formation	118.0	126.1	134.0	150.6	185.0	115.7	130.3	142.4	153.1	169.5	188.6
Consumer prices: Total	114.6	122.4	129.8	146.6	171.1	113.0	128.6	140.9	152.4	167.8	183.7
Food	112.4	116.8	125.7	149.5	164.0	109.9	122.7	136.1	151.7	172.9	190.8
Non-food	115.6	124.9	131.7	145.4	173.7	114.1	130.6	142.6	153.0	166.8	182.1
Foreign trade prices[1]: Exports	97.5	100.0	120.4	145.7	174.4	106.3	118.2	122.5	143.2	164.0	181.2
Imports	104.5	108.9	106.9	119.0	156.1	111.3	125.8	143.3	158.3	187.4	202.4
Terms of trade	93.3	91.8	112.6	122.4	111.7	95.5	94.0	85.5	90.5	87.5	89.5
	Dollars										
Hourly wage rates[2]											
All activities[3]	1.39	1.54	1.69	1.99	2.61	3.00	3.39	3.71	3.95	4.30	4.76
of which: Manufacturing	1.34	1.49	1.64	1.92	2.51	2.86	3.23	3.54	3.78	4.13	4.58
Hourly earnings[4]											
		Old basis New basis									
All industries	2.08	2.24 2.35	2.72	3.58	4.05	4.61	5.10	5.46	5.93	6.70	
Mining and quarrying	2.68	2.88 2.90	3.28	4.40	5.32	6.11	6.84	7.45	8.22	9.37	
Manufacturing	2.04	2.21 2.20	2.58	3.44	3.82	4.33	4.79	5.11	5.66	6.37	
Building and construction	2.26	2.42 2.27	2.66	3.55	3.97	4.54	4.98	5.30	5.74	6.44	

1. Implicit prices.
2. Weighted average minimum rates payable to adult males as prescribed in awards, determinations, etc. Average of thirteen end-months figures.
3. Excluding the rural, shipping and stevedoring industries.
4. Refers to full-time adult males (other than managerial, etc. staff) in private employment (excluding rural industries and private domestic service) as at a pay-period in October each year. From 1972 figures include employees in the Government sector and in the Territories.

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

Table F. **General government receipts and expenditure**
$ million

Year ended 30th June	Total[1] 1978	Total[1] 1979	Total[1] 1980	Total[1] 1981	Australian Government 1978	Australian Government 1979	Australian Government 1980	Australian Government 1981
Current receipts	29 365	32 109	37 426	43 884	23 726	25 972	30 184	35 611
Direct taxes	15 312	15 913	18 542	22 343	15 312	15 913	18 542	22 343
On income households	12 122	12 797	15 040	17 544	12 122	12 797	15 040	17 544
On income corporations	3 072	3 002	3 361	4 639	3 072	3 002	3 361	4 639
Withholding taxes	118	114	141	161	118	114	141	161
Indirect taxes	10 840	12 672	14 908	17 270	6 041	7 422	8 897	10 301
Income from property and entrepreneurship	2 370	2 673	3 161	3 434	2 194	2 469	2 602	2 856
Compulsory fees, fines, etc.	843	850	816	836	178	168	144	111
Current disbursements	27 298	30 454	33 941	39 618	23 412	26 212	28 921	33 582
Goods and services	15 171	16 815	18 762	22 055	5 210	5 771	6 171	7 589
Subsidies	500	584	807	1 053	410	483	708	936
Interest on public debt	2 510	3 028	3 467	4 193	1 733	2 070	2 355	2 741
Current transfers to domestic sectors	8 665	9 512	10 341	11 683	15 607	17 374	19 124	21 683
Current transfers to the rest of the world	453	515	565	633	453	515	565	633
Saving	2 067	1 655	3 485	4 266	314	−240	1 263	2 029
Capital transfers	n.a.	n.a.	n.a.	n.a.	−1 646	−1 623	−1 741	−1 816
Finance of gross accumulation	n.a.	n.a.	n.a.	n.a.	−1 332	−1 863	−478	213
Investment expenditure	n.a.	n.a.	n.a.	n.a.	406	303	327	381
Net lending	n.a.	n.a.	n.a.	n.a.	−1 738	−2 166	−805	−168

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

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

Year ended 30th June	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Current account										
Exports, fob	4 723	5 992	6 711	8 443	9 448	11 445	12 027	14 075	18 581	18 858
Imports, fob	3 792	3 809	5 755	7 651	7 923	10 346	11 167	13 491	15 828	19 198
Trade balance	932	2 184	955	792	1 525	1 102	863	580	2 750	−339
Invisibles, net	−1 288	−1 493	−1 900	−2 060	−2 960	−3 539	−3 912	−4 399	−4 946	−5 239
CURRENT BALANCE	−358	691	−945	−1 269	−1 437	−2 439	−3 049	−3 815	−2 193	−5 578
Capital account										
Government	−50	−60	29	−22	−93	247	1 563	1 353	−65	5
Trade credit n.e.i.[1]	−45	59	−53	−60	120	110	−208	35	−379	209
Other private capital	1 384	334	393	906	568	1 439	1 072	1 834	2 287	4 757
Balancing item[2]	546	53	149	−13	−177	149	79	472	51	1 757
APPARENT CAPITAL BALANCE	1 835	384	520	811	417	1 945	2 506	3 693	1 894	6 728
Official monetary movements										
Change in official reserve assets	1 545	1 079	−384	−460	−1 053	−190	−474	−167	−347	1 101
Allocation of SDR	−63	—	—	—	—	—	—	−94	−98	−86
Other transactions[3]	−3	−3	−41	2	34	−300	−68	136	145	134
Net official monetary movements	1 478	1 077	−425	−458	−1 019	−490	−543	−124	−300	1 149
CHANGES IN MARKET VALUE OF OFFICIAL RESERVE ASSETS[4]										
a) Gold[5]	6	−13	−10	28	511	198	278	714	2 178	−933
b) Currency assets	1 404	539	−633	−41	−865	19	−456	−143	−210	868
c) IMF gold tranche	−37	−7	6	7	−1	19	5	7	−7	77
d) Special Drawings Rights	63	−9	−50	−61	−52	−10	86	82	−165	16
Total	1 436	510	−687	−67	−407	226	−87	660	1 796	28

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. Includes:
— 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.
— Changes in investments of the Bank of Papua New Guinea.
— Deposits of the Bank for International Settlements with the Reserve Bank of Australia.
— Use of IMF credit.
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 $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

Calendar years	Imports 1978	Imports 1979	Imports 1980	Exports 1978	Exports 1979	Exports 1980
SITC sections:						
Food and live animals chiefly for food	4.3	4.0	3.8	27.9	32.5	33.7
Beverages and tobacco	1.1	0.9	0.9	0.2	0.2	0.2
Crude materials, inedible, except fuels	4.2	4.3	4.4	30.6	25.7	28.7
Mineral fuels, lubricants and related materials	9.1	10.7	13.8	13.8	12.3	11.1
Animal and vegetable oils, fats and waxes	0.5	0.5	0.4	0.8	0.8	0.5
Chemicals and related products, n.e.s.	8.7	9.7	9.0	4.7	2.1	2.2
Manufactured goods classified chiefly by material	17.9	17.9	17.8	12.1	11.8	11.7
Machinery and transport equipment	38.9	38.4	36.3	4.5	4.8	5.4
Miscellaneous manufactured articles	13.3	12.6	12.2	1.6	1.7	1.8
Commodities and transactions not classified according to kind[1]	2.0	1.0	1.4	3.8	8.1	4.7
Total (merchandise and non-merchandise)	100.0	100.0	100.0	100.0	100.0	100.0
OECD countries	76.4	74.5	71.6	64.6	61.8	60.0
North America	24.0	25.8	24.6	13.3	13.7	13.8
Japan	19.4	15.6	17.1	30.3	27.7	26.6
EEC	25.2	25.2	22.2	14.4	14.0	13.4
Other	7.8	7.9	7.7	6.6	6.4	6.2
Non-OECD countries	23.1	25.0	28.0	34.7	37.7	39.4
Sino-Soviet area[2]	1.5	1.9	1.7	6.8	8.6	10.0
Other developed countries	0.6	0.6	0.6	0.6	0.5	0.6
Developing countries	21.0	22.5	25.7	27.3	28.6	28.8
Unspecified	0.5	0.5	0.4	0.7	0.5	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

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

BASIC STATISTICS:

INTERNATIONAL COMPARISONS

BASIC STATISTICS: INTERNATIONAL COMPARISONS

	Reference period	Units	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan
Population	Mid-1979	Thousands	14 422	7 503	9 849	23 690	5 117	4 765	53 478	61 359	9 450	226	3 368	56 888[2]	115 880
Inhabitants per sq. km of land area	»	Number	2	89	323	2	119	16	97	247	72	2	48	189	307
Net average annual increase	Mid-1969 to Mid-1979	%	1.6	0.1	0.2	1.2	0.4	0.3	0.6	0.2	0.7	1.1	1.4	0.7	1.3
Employment Total civilian	1979	Thousands	6 064	3 051	3 754	10 369	2 498	2 124	21 114	25 017	3 312	(101)	1 130	20 287	54 790
of which: Agriculture, forestry, fishing	»	% of total	6.5	10.7	3.2	5.7	8.3	11.8	9.0	6.2	30.8	(13.3)	19.7	14.8	11.2
Industry[4]	»	»	31.3	40.5	35.5	28.9	30.0	34.4	36.3	44.9	30.0	(37.7)	32.3	37.7	34.9
Other	»	»	62.2	48.8	61.3	65.4	61.7	53.8	54.7	48.9	39.2	(49.0)	48.0	47.5	53.9
Gross domestic product at market prices	1979	US $ billion[11]	120.7	68.4	108.3	227.0	66.2	41.4	571.3	763.9	38.6	2.5	14.8	323.6	999.6
Average annual volume growth[6]	1974 to 1979	%	2.6	2.9	1.9	3.2	2.7	2.1	3.0	2.8	5.3	3.3	3.6	2.3	4.3
Per capita	1979	US $[11]	8 370	9 120	11 000	9 580	12 940	8 690	10 680	12 450	4 080	10 980	4 390	5 690	8 620
Gross fixed capital formation	1979	% of GDP	21.8	25.0	20.5	22.5	21.8	23.1	21.3	22.7	25.6[8]	24.5	32.6	18.9	32.0
of which: Transport, machinery and equipment	»	»	..	9.8	6.0	8.1	7.6	8.6	9.2	9.1	8.6	6.6	9.8[19]	8.0	10.7
Residential construction	»	»	4.2[10]	14.2	6.5	5.3	6.9	6.5	6.4	6.5	9.2	5.7	6.4[19]	5.1	7.4
Average annual volume growth[6]	1974 to 1979	%	0.6	0.6	0.5	2.1	0.0	–2.7	0.7	3.7	5.7	–1.8	8.9	–1.2	4.5
Gross saving ratio[12]	1979	% of GDP	21.2[10]	25.3	18.5	22.2	17.8	24.5	23.0	24.2	27.0	24.2	23.2	23.3	31.2
General government															
Current expenditure on goods and services	1979	% of GDP	16.2	18.1	17.8	19.2	24.8	18.3	14.9	19.8	16.3	11.7	20.0	15.8	9.8
Current disbursements[13]	»	»	29.8[10]	42.2	47.4	36.1	49.4	34.7	42.2	40.7	29.7	25.0[22]	41.7[19]	41.1	24.2
Current receipts	»	»	32.5[10]	44.2	44.2	36.0	50.3	38.3	43.6	42.7	30.6	34.0[22]	37.8[19]	35.9	26.6
Net official development assistance	1979	% of GNP	0.5	0.2	0.6	0.5	0.8	0.2	0.6	0.4	..	..	..	0.1	0.3
Indicators of living standards															
Private consumption per capita	1979	US $[11]	5 050	5 090	6 920	5 360	7 280	4 810	6 620	6 810	2 610	6 700	2 760	3 480	5 100
Passenger cars, per 1 000 inhabitants	1977	Number	392	248	292	389[14]	271	227	314	326	66	315	180	289	173
Telephones, per 1 000 inhabitants	1978	»	404[22]	325[22]	332	648	569	447	372	404	266	429[22]	172	301	442
Television sets, per 1 000 inhabitants	1977	»	351[14]	247[16]	286	428[14]	338	363[14]	372	308	127[14]	214[14]	193	224	239[20]
Doctors, per 1 000 inhabitants	1977	»	1.4[21]	2.3	2.1	1.8	2.0	1.6	1.6[14]	2.0	2.2	1.7[16]	1.2	2.3	1.2
Full-time school enrolment[15]	1979	% of age group	45.0[22]	32.0[23]	61.3[20]	64.9[22]	57.4[22]	68.5	55.9	41.5[22]	45.4[20]	..	50.0[14]	43.9[14]	71.4
Infant mortality[17]	1979	Number	12.2[19]	14.8	11.7[19]	12.0[19]	9.1	7.6[19]	9.8	14.7[19]	18.7	11.3[19]	14.9[19]	15.3	8.0
Wages and prices	Average annual increase														
Hourly earnings in industry[18]	1975 to 1980	%	10.3	7.4	8.8	10.1	11.2	11.1	13.6	6.1	24.2	43.4	16.6	21.2	8.4
Consumer prices	»	%	10.6	5.3	6.4	8.7	10.4	10.7	10.5	4.1	16.3	41.5	14.1	16.6	6.5
Foreign trade															
Exports of goods, fob	1979	US $ million[11]	18 636	15 432	55 428[7]	55 932	14 616	11 148	97 980	171 516	3 852	792	7 164	72 120	103 032
As percentage of GDP	»	%	15.4	22.6	51.2	24.6	22.1	26.9	17.2	22.5	10.0	31.7	48.4	22.3	10.3
Average annual volume increase	1974 to 1979	%	4.7	6.5	3.5	4.9	4.1	4.5	5.1	3.0	8.4	10.6	9.7	8.1	5.9
Imports of goods, cif	1979	US $ million[11]	16 536	20 184	60 348[7]	53 520	18 456	11 304	106 872	157 752	9 624	828	9 864	77 808	110 672
As percentage of GDP	»	%	13.7	29.5	55.7	23.6	27.9	27.3	18.7	20.7	24.9	33.1	66.6	24.0	11.1
Average annual volume increase	1974 to 1979	%	1.7	6.6	3.2	3.2	3.6	–0.2	5.8	7.0	4.9	0.7	8.4	4.7	3.1
Total official reserves[24]	End-1979	US $ million	1 790	5 048	6 991[7]	3 887	3 312	1 586	21 357	56 940	1 126	165	2 230	21 239	20 327
As percentage of imports of goods	In 1979	%	10.8	25.0	11.6	7.3	17.9	14.0	20.0	36.1	11.7	19.9	22.6	27.3	18.4

	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia[1]
Population	364	14 038	3 124	4 073	9 867	37 108	8 294	6 348	44 089	55 946	220 584	22 160
Inhabitants per sq. km of land area	141	415	12	13	107	74	18	154	56	229	24	87
Net average annual increase	0.7	0.9	1.2	0.6	0.8	1.1	0.4	0.2	2.5	0.1	0.9	0.9
Employment Total civilian	158	4 617	(1 261)	1 872	3 852	11 706	4 180	2 962	14 806	24 711	96 945	9 324[3]
of which: Agriculture, forestry, fishing	5.9	6.0	(10.2)	8.6	30.6	19.4	5.8	7.4	61.3	2.6	3.6	35.8
Industry[4]	39.0	32.1	(33.7)	30.1	35.0	36.4	32.5	39.3	16.2	39.0	31.4	22.5
Other	55.1	61.9	(56.1)	61.3	34.4	44.2	61.7	53.3	22.5	58.4	65.0	41.7
Gross domestic product at market prices	4.2	149.1	21.4[9]	46.7	20.4	197.0	106.4	95.0	68.9	400.9	2 349.9	61.2[5]
Average annual volume growth[6]	0.3	2.2	0.6	5.0	3.0	2.2	1.4	–0.8	5.0	1.8	3.3	5.8
Per capita	11 640	10 620	6 840	11 470	2 070	5 310	12 820	14 970	1 560	7 170	10 650	2 760
Gross fixed capital formation	25.8	21.7	17.8[9]	27.8	18.9	19.0	19.5	21.9	17.8	17.8	18.1	34.6
of which: Transport, machinery and equipment	9.2[22]	8.7	7.8	9.9	7.1	6.9[19]	7.3	7.1	..	9.3	7.4	..
Residential construction	6.6[22]	5.8	3.3	5.3	3.7	..	5.0	..	3.8	3.0	4.8	..
Average annual volume growth[6]	0.2	1.4	..	1.5	0.5	–1.9	–0.4	–2.6	5.0	–0.1	2.2	8.8
Gross saving ratio[12]	28.2[19]	20.7	22.9[9]	25.2	..	20.5	17.5	26.4	20.4	19.5	17.8	..
General government												
Current expenditure on goods and services	15.5	18.8	16.0[9]	19.7	15.0	10.9	28.7	12.9	12.9	20.3	18.0	17.6
Current disbursements[13]	43.5	55.1	..	47.1	30.7	26.7	57.1	30.0	23.4	40.6	31.9	..
Current receipts	52.2	55.8	..	52.2	26.9	27.5	57.7	33.3	23.8	39.5	32.9	..
Net official development assistance	..	0.9	0.3	0.9	..	..	0.9	0.2	..	0.5	0.2	..
Indicators of living standards												
Private consumption per capita	6 510	6 330	4 060	5 560	1 500	3 650	6 770	9 560	1 120	4 320	6 860	1 590
Passenger cars, per 1 000 inhabitants	398	277	385	273	107[14]	161	350[14]	307	11[14]	255[14]	505[14]	88
Telephones, per 1 000 inhabitants	539	453	533[22]	402	128	280	744	677	32[22]	447	770	79
Television sets, per 1 000 inhabitants	293[14]	279	259[14]	270[14]	76[14]	185[14]	363[14]	285[14]	44[14]	324	571[20]	170
Doctors, per 1 000 inhabitants	1.3	1.7	1.3[14]	1.8	1.4	1.8[14]	1.8[14]	2.0	0.6	1.5	1.7	1.4[14]
Full-time school enrolment[15]	37.3[19]	65.0	44.8[22]	65.0	33.4[14]	41.3[19]	56.3[14]	70.1[22]	12.7[20]	44.6[20]	75.0	..
Infant mortality[17]	13.0	8.5	13.8[19]	8.6[19]	38.9[14]	15.1[19]	7.3	8.6[19]	..	13.3[19]	13.0	36.7[14]
Wages and prices												
Hourly earnings in industry[18]	..	6.1	15.4	9.4	14.5	25.7	9.9	2.8	33.5[23]	14.9	8.5	19.0
Consumer prices	6.1	6.0	14.4	8.4	21.8	18.6	10.5	2.3	50.1	14.4	8.9	17.9
Foreign trade												
Exports of goods, fob	—	63 624	4 709	13 452	3 480	18 192	27 528	26 472	2 472	90 816	181 800	6 240
As percentage of GDP	—	42.7	22.0	28.8	17.1	9.2	25.9	27.9	3.6	22.7	7.7	10.2
Average annual volume increase	—	3.6	5.1	8.5	6.8	12.0	0.0	4.2	–2.7	4.4	4.1	3.8
Imports of goods, cif	—	67 212	4 566	13 728	6 540	25 380	28 536	29 304	5 688	102 828	207 132	12 360
As percentage of GDP	—	45.1	21.4	29.4	32.1	12.9	26.8	30.8	8.3	25.6	8.8	20.2
Average annual volume increase	—	4.4	–3.2	2.3	0.8	2.6	0.2	4.4	–2.8	3.6	5.8	2.1
Total official reserves[24]	—	9 619	453	4 269	1 962	13 898	3 583	20 275	941	20 694	19 956	1 336
As percentage of imports of goods	—	14.3	9.9	31.1	30.0	54.8	12.6	69.2	16.5	20.1	9.6	10.8

1 Partly from national sources.
2 Total resident population.
3 Private and socialised sector.
4 According to the definition used in OECD: Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
5 Social product.
6 At constant prices.
7 Including Luxembourg.
8 Excluding ships operating overseas.
9 Fiscal year beginning April 1st.
10 Fiscal year beginning July 1st.
11 At current prices and exchange rates.
12 Gross saving = Gross national disposable income minus private and government consumption.
13 Current disbursements = Current expenditure on goods and services plus current transfers and payments of property income.
14 1976.
15 Children aged 15-19.
16 1974.
17 Deaths in first year per 1 000 live births.
18 Figures are not strictly comparable due to differences in coverage.
19 1978.
20 1975.
21 1972.
22 1977.
23 1974 to 1979.
24 Gold included in reserves is valued at 35 SDR per ounce (see IMF, International Financial Statistics, series Total Reserves).

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); Statistical Office of the European Communities, Basic Statistics of the Community; IMF, International Financial Statistics; UN, Statistical Yearbook.

National sources have also been used when data are not available according to standard international definitions.

15 6 81

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