OECD

ECONOMIC SURVEYS

1982-1983

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

AUSTRALIA

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

JANUARY 1983

OCDE

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Pursuant to article 1 of the Convention signed in Paris on 14th December, 1960, and which came into force on 30th September, 1961, the Organisation for Economic Co-operation and Development (OECD) shall promote policies designed:

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

The Signatories of the Convention on the OECD are Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The following countries acceded subsequently to this Convention (the dates are those on which the instruments of accession were deposited): Japan (28th April, 1964), Finland (28th January, 1969), Australia (7th June, 1971) and New Zealand (29th May, 1973).

The Socialist Federal Republic of Yugoslavia takes part in certain work of the OECD (agreement of 28th October, 1961).

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Statistical annex

DIAGRAMS

BASIC STATISTICS OF AUSTRALIA

THE LAND

Area (1 000 sq. km)	7 682.3	Urban population, 30.6.1981, % of total (cities over 100 000)	70
Agricultural area, 1980, % of total	64.6	Population of major cities, 30.6.1981 (1 000):	
		Sydney	3 281
		Melbourne	2 804
		Brisbane	1 086
		Adelaide	953
		Perth	918

THE PEOPLE

Population, 31.12.1981 (1 000)	15 054	Civilian employment, May 1982 (1 000)	6 405
No. of inhabitants per sq. km	2.0	*of which:* Agriculture	410
Natural increase, 1981 (1 000)	127	Industry[1]	1 245
Net migration, 1981 (1 000)	127	Other activities	4 750

PARLIAMENT AND GOVERNMENT

Composition of Parliament following latest elections:

Party	Senate	House of Representatives
Australian Democrats	5	–
Australian Labor Party	27	52
Independent	1	–
Liberal Party of Australia	28	53
National Party of Australia	3	20
Total	64	125

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

PRODUCTION[2]

Gross Domestic Product, 1982 ($ A million)	148 235	Gross fixed capital formation, 1982: Percentage of GDP	25.1

THE PUBLIC SECTOR % OF GDP IN 1982[2]

Expenditure on goods and services[3]	24.4	Current revenue	34.6
Current transfers	13.6	*of which:* Direct taxes	18.5

FOREIGN TRADE

Exports		Imports	
Main exports in 1981-82, % of total:		Main imports in 1981-82, % of total:	
Crude materials, inedible, except fuels	29.7	Machinery and transport equipment	40.7
Food and live animals	29.6	Manufactured goods	16.8
Manufactured goods	10.1	Miscellaneous manufactured goods	11.7
Machinery and transport equipment	5.6	Chemicals	7.9

THE CURRENCY

Monetary unit: Australian dollar	Currency unit per US dollar, average of daily figures:	
	Year 1981	0.8701
	October 1982	1.0593

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.

This Survey is based on the Secretariat's study prepared for the annual review of Australia by the Economic and Development Review Committee on 23rd November 1982.

After revisions in the light of discussions during the review, final approval of the Survey for publication was given by the Committee on 16th December 1982.

INTRODUCTION

The Australian economy moved into recession later than the OECD area as a whole. The origins of the downturn which started in late 1981 were both external and domestic. High international interest rates and weak world trade and commodity prices, particularly for basic metals and energy, contributed to the postponement of a number of large resource-related investment projects and a sharp deceleration in total private fixed investment which had been an important influence in the earlier rapid expansion. Domestically, a substantial acceleration in wage costs, weakening profitability and strong demand for imports were important factors. Reflecting both the higher wage costs and sluggish demand, the earlier growth in employment was reversed and unemployment – having fallen since mid-1980 – has increased sharply for more than a year. At the same time inflation reaccelerated to a rate above the OECD average. With both nominal and real interest rates at very high levels, monetary conditions were tight in fiscal year 1981/82 as was the stance of fiscal policy despite some slippage from the Budget estimates.

With fiscal policy being eased in the August 1982 Budget, both public consumption and investment are expected to rise considerably in the current financial year. Nevertheless, a weak development of private fixed investment, a rundown of stocks largely because of drought conditions, and a related stagnation of export volumes suggest only moderate growth of real GDP in calendar 1983. Assuming some recovery in farm output and world demand, exports could recover in the first half of 1984 and contribute to an acceleration in real GDP growth. While employment may start to rise again, unemployment is projected to continue rising. The projected recovery is heavily dependent on the forecast deceleration of inflation (private consumption deflator) from a peak annual rate of about 13 per cent in the second half of 1982. An assumed marked deceleration in import prices should contribute to a slowing of price increases as should unit labour costs as a result of a sharp reduction in the level of wage increases up to at least mid-1983. On the assumption of a fixed exchange rate, a small terms of trade loss is projected which together with a deterioration in the real foreign balance implies a further rise in the current external deficit from the equivalent of 5¼ per cent of GDP in 1981 to 6½ per cent in 1983.

Recent developments in the economy, including fiscal policy, financial conditions and monetary policy, are discussed in Part I of this Survey as are the short-term economic prospects for growth, employment, prices and the balance of payments. Part II contains a review of the changing structure of the economy and a discussion of some aspects of policies for structural adjustment. The Survey concludes in Part III with a review of the main economic policy considerations.

I. RECENT DEVELOPMENTS

Demand and output

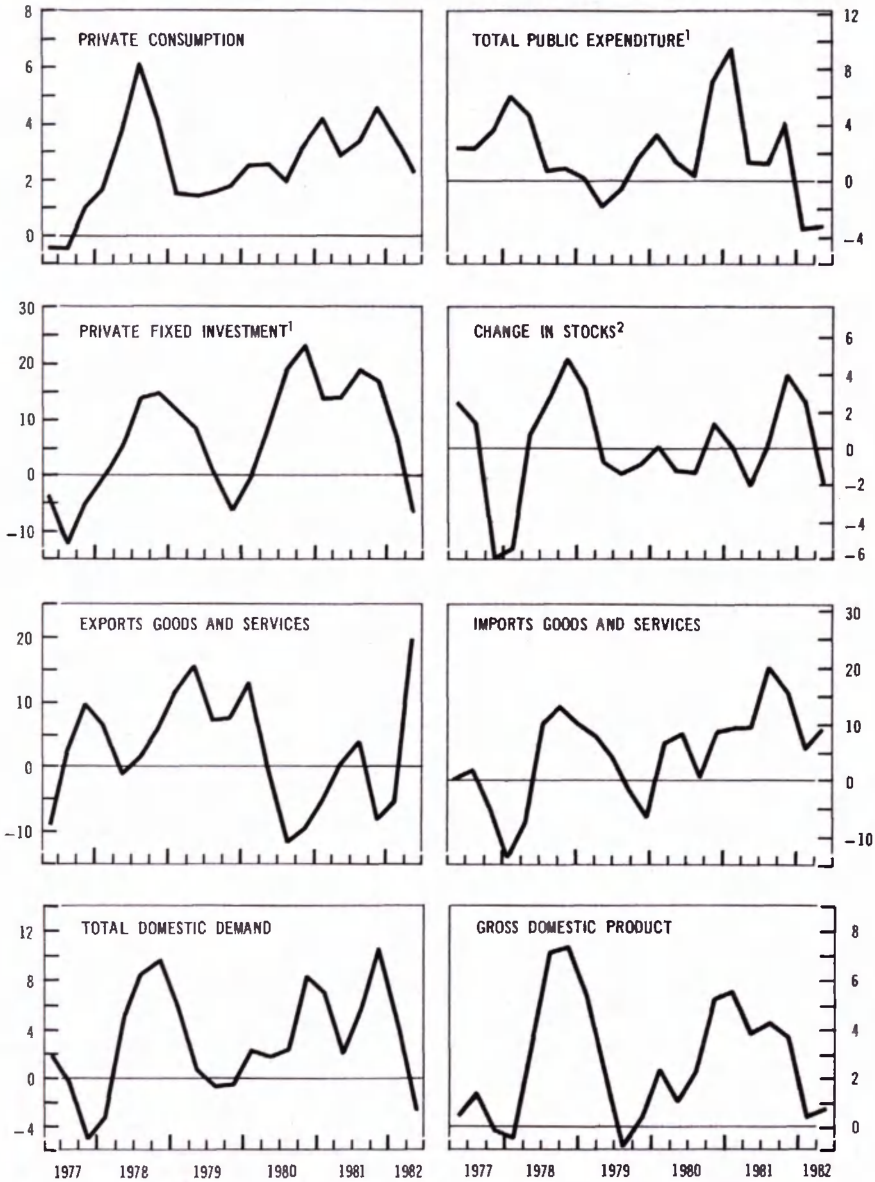
During the last eighteen months the Australian economy has changed course abruptly. Following three years of strong and accelerating growth, final domestic demand remained flat in the fourth quarter of 1981, fell by 2 per cent (annual rate seasonally adjusted) in the first quarter of 1982 and is expected to show only weak growth for the remainder of the year. Stockbuilding, which had contributed strongly to the growth of GDP in the second half of 1981, also collapsed in the first half of 1982 but imports, still reacting to the earlier growth of investment demand and to the loss of international competitiveness, continued to grow strongly. Two elements appeared in the first half of 1982 to offset this downward pressure: export volumes grew rapidly (reflecting the good harvest from the 1981/82 season) and the statistical discrepancy contributed 2.3 per cent (s.a.a.r.) to GDP growth after an equally large negative contribution in the previous half-year. Abstracting from the effects of the statistical discrepancy, expenditure-based non-farm GDP fell by 2.3 per cent (s.a.a.r.) in the first half of 1982 after growth of 4.7 per cent (s.a.a.r.) in the second half of 1981. Farm output in the second half of 1981 grew very strongly (34 per cent s.a.a.r.) and continued to show relatively fast growth into the first half of 1982. Including both the farm sector and the statistical discrepancy gives an overall measure of total real GDP growth which decelerated from an annual rate of 3.7 per cent in the second half of 1981 to one of 0.7 per cent in the first half of 1982.

The important features of these developments were the unforeseen nature of the downturn and the delay in recognising it when it came. The reversal in private investment expenditures and intentions was sudden and unexpected[1] and it was not until almost mid-1982 that the weakness of demand and output in the last quarter of 1981 became reflected in the revised national accounts (Table 2). As a consequence there was some delay before either the public or the private sector were able to fully react to the new course of events. Policy for 1981/82 had been established on the basis that the level of activity would need to be restrained rather than supported; in mid-1982 the first moves were made to ease the stance of policy. The private sector appears to have built up an unwarranted level of stocks in the second half of 1981 (increases in non-farm stocks were greatly reduced in the first half of 1982), to have committed itself to import orders which were not justified by the slackening in investment expenditures and to have entered into wage-bargains around the turn of the year which were incompatible with overseas price trends and the level of sales and productivity experienced in the first half of 1982.

As in previous cycles, private consumption has pursued a steadier path than that of either total or disposable household incomes. In *nominal* terms the rise in *total* household incomes has accelerated steadily over the last five years from 10.3 per cent in 1977/78 to 14.5 per cent in 1981/82 (Table 3). However, this trend disguises considerable short-term volatility in the individual components, in the impact of average tax rates and price inflation, and in the response of household saving behaviour. *Real disposable* income grew very rapidly in the second half of 1980, stagnated in the first half of 1981, again grew rapidly in the second half of 1981, and again appears to have stagnated in the first half of 1982. These fluctuations were caused partly by the volatility of farm

1. See, for example, Australian Treasury: *Budget Paper No. 2, 1981-1982*, p. 56 (August 1981); Melbourne Institute of Applied Economic and Social Research: *Australian Economic Review, 4th Quarter 1981*, pp. 35-36 (December 1981); OECD *Economic Survey of Australia 1981-1982*, pp. 12 and 47 (January 1982).

Diagram 1. **Demand and output**
Percentage changes between adjacent half years, seasonally adjusted annual rates



1. Adjusted for sale of assets by public sector to private sector, see footnote 2 to Table 2.
2. Contribution to percentage change in GDP at annual rates.

Source: Australian Bureau of Statistics.

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

	From previous year[4]				From previous half-year, seasonally adjusted annual rate				
	1979	1980	1981	1981/82	1980		1981		1982
	Calendar years			June year	I	II	I	II	I
Consumption									
Private	2.3	2.7	3.3	3.6	2.6	3.3	2.9	4.6	2.3
Public	1.4	4.7	5.1	2.9	4.4	6.8	4.1	5.4	−3.4
Gross fixed investment	2.4	4.8	11.3	6.2	3.7	17.7	7.8	12.1	−6.0
of which[2]:									
Public	−3.3	−1.3	−0.4	−1.6	−4.9	7.6	−4.6	1.0	−3.1
Private: Total	5.8	8.2	17.1	9.8	8.6	23.1	14.0	17.1	−7.2
Dwellings	10.6	14.1	2.8	−3.2	9.8	27.3	−10.2	10.0	−19.4
Other construction	−1.8	13.8	25.9	15.9	19.4	25.2	41.7	1.7	22.6
Machinery and equipment	5.9	3.6	22.1	14.5	4.9	20.2	20.1	26.3	−10.2
Final domestic demand	2.1	3.5	5.4	4.1	3.1	7.0	4.2	6.5	−0.7
Change in stockbuilding[3]	1.7	−1.4	0.8	0.9	−1.3	1.3	−2.1	4.0	−2.0
of which:									
Private non-farm[3]	1.2	−0.2	−0.5	0.2	−1.7	1.2	−2.3	1.7	−0.4
Farm and miscellaneous[3]	0.6	−1.2	1.2	0.7	0.4	0.1	0.2	2.2	−1.6
Total domestic demand	3.9	2.1	6.1	5.0	1.8	8.3	2.0	10.6	−2.6
Exports of goods and services	11.2	−0.8	−4.2	0.3	−0.3	−9.5	0.6	−8.2	19.5
Imports of goods and services	2.7	4.4	10.7	12.5	8.2	8.6	9.3	15.8	9.1
Change in foreign balance[3]	1.4	−1.0	−2.7	−2.3	−1.5	−3.4	−1.6	−4.4	1.2
GDP (expenditure-based estimate)	5.4	1.1	3.4	2.7	0.3	4.8	0.5	6.2	−1.6
Statistical discrepancy	−1.1	0.4	0.7	0.3	0.7	0.2	3.3	−2.4	2.3
GDP (income-based)	4.2	1.5	4.1	3.0	0.9	5.1	3.8	3.7	0.7
of which: Farm	17.7	−19.1	6.4	15.5	−1.6	−17.9	−5.2	33.9	9.7
Non-farm	3.2	3.2	4.0	2.3	1.1	6.8	4.3	2.0	0.2

1. Volume data measured at 1979/80 prices.
2. Components adjusted for sale of Eraring power station from public to private sector in 1981 II.
3. Contribution to GDP growth (percentage points, on income measure).
4. 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.

Table 2. **Revisions to Quarterly National Accounts**

Quarterly movements of final domestic demand and gross non-farm product at constant prices as estimated at successive issues of *Quarterly Estimates of National Income and Expenditure:* Australian Bureau of Statistics.

Quarterly per cent change, seasonally adjusted annual rate

		Issue			
		September[1] 1981	December 1981	March[2] 1982	June 1982
		Publication date			
		10 December 1981	5 May 1982	23 June 1982	2 September 1982
		Final domestic demand			
1981	March	5.2	3.5	3.6	3.9
	June	−0.6	2.9	2.9	2.7
	September	11.1	10.5	11.1	12.0
	December		3.4	0.5	−0.1
1982	March			−2.4	−2.0
	June				1.6
		Gross non-farm product			
1981	March	1.5	4.1	4.1	2.4
	June	2.0	3.4	3.2	3.0
	September	1.7	4.5	5.9	4.2
	December		4.1	−2.8	−3.0
1982	March			−1.2	0.1
	June				3.6

1. At constant 1974-75 prices. From the December issue onwards the estimates were rebased to 1979-80 prices.
2. In the March 1982 issue, for the first time, sales of existing fixed capital assets by the public sector to the private sector were included in private sector fixed capital expenditure and deducted from public sector fixed capital expenditure. Largely because of recent large sales by the public sector to the private sector—notably a portion of the Eraring power station—the level of real private fixed business investment in the December 1981 quarter was revised upward by about 16 per cent and its growth between the September and December quarter 1981 revised from 17.1 per cent (s.a.a.r.) to 101.5 per cent. Corresponding adjustments were made to public investment and neither total investment nor GDP were affected by the change in method.

incomes (Table 3). Disposable income was also affected by variations in average tax payments which increased substantially faster than incomes in both the first half of 1981 and the first half of 1982 (at annual rates of 22 per cent and 34 per cent respectively). It also reflected the course of wage and salary earnings themselves which, after decelerating during the course of 1981, increased markedly – at an annual rate of 17½ per cent – in the first half of 1982. The net result of these irregular movements in nominal incomes, offset by a moderate and more regular acceleration in consumer prices, was an overall acceleration in real disposable income accompanied by a parallel but more moderate acceleration in real consumption.

This acceleration was accompanied by a shift in the pattern of consumption, with expenditure on motor vehicles and other durables growing especially rapidly (respectively 5.8 per cent and 8.5 per cent in real terms in 1981), expenditure on clothing and rent growing slightly faster than average whilst expenditure on other non-durables remained sluggish. Recent estimates since June 1982 of the value of retail trade, however, suggest that this growth has come to a halt and that in real terms, the retail trade component of total consumption may now be beginning to decline. The expansion of real disposable incomes also coincided with an increase in the saving ratio. The rise in the aggregate saving ratio is difficult to interpret because of the fluctuations in farm income; the non-farm saving ratio began to rise during the 1979/80 fiscal year after five

Table 3. **Household income and expenditure**
Percentage changes, seasonally adjusted annual rates

	From previous year Not seasonally adjusted				From previous half year				
	1979	1980	1981	1981/82	1980 I	1980 II	1981 I	1981 II	1982 I
Farm income	111.2	−16.2	−2.9	−1.9	−4.7	−7.1	−32.3	46.4	−30.9
Wages and salaries	9.7	14.5	14.9	14.9	12.8	18.1	15.7	12.7	17.5
Other non-farm income	9.4	13.1	14.2	16.3	13.8	16.5	10.2	22.4	15.5
Transfer receipts	10.9	13.0	12.1	16.3	15.4	16.3	9.1	17.0	15.3
Total household income[1]	13.0	12.2	13.5	14.5	12.4	16.3	11.3	15.9	14.7
Taxes	12.9	14.0	18.4	20.7	13.9	15.7	21.7	13.9	33.9
Disposable income	13.1	11.9	12.5	13.3	12.1	16.3	9.4	16.4	10.8
Consumption	12.1	13.1	12.5	13.2	13.5	12.4	11.9	14.1	12.4
Savings	19.4	4.7	13.0	14.3	2.4	47.1	−6.0	33.2	0.7
Memorandum items:									
Consumption deflator	9.7	10.1	8.9	9.2	10.6	8.8	8.8	9.1	9.9
Real household income	3.0	1.9	4.2	4.9	1.6	6.9	2.4	6.3	4.4
Real taxes	2.9	3.5	8.7	10.6	2.9	6.3	11.9	4.3	21.9
Real disposable income	3.1	1.6	3.3	3.8	1.3	6.8	0.6	6.7	0.8
Real consumption	2.3	2.7	3.3	3.6	2.6	3.3	2.9	4.6	2.3
Real savings	8.9	−4.9	3.8	4.7	−7.4	35.2	−13.5	22.0	−8.3
Tax ratio (per cent household income)	16.0	16.2	16.9	17.6	16.5	16.4	17.2	17.0	18.4
Saving ratio (per cent disposable income)	14.2	13.3	13.3	13.0	11.9	13.4	12.4	13.2	12.6

1. After deduction of consumer debt interest.
Source: Quarterly Estimates of National Income and Expenditure, ABS.

years of continuous decline[2]. The rise – a moderate one – has continued in 1980/81 and 1981/82.

Excluding purchases of assets from the public sector[3], private real fixed business investment fell by about 1½ per cent between the second half of 1981 and the first half of 1982, after having risen by 35 per cent since the first half of 1980. Expectations data (which excludes agriculture, construction and community services) suggests a slight fall in real terms between the first and second halves of 1982 and a further, sharper fall in the first half of 1983, thus bringing to an end an investment cycle of considerable strength which began in the first half of 1980 and which, at its peak, achieved an annualised growth rate of 25 per cent. The expansion was concentrated in the mining and basic metal industries, reinforced during 1981 by large additional investment in transport – mainly imports of ships, aircraft and oil rigs. Outside these three categories, however, the investment cycle has been weaker, with real investment in other surveyed industries increasing by about 4 per cent in 1980 and 10 per cent in 1981. Investment in other manufacturing has been particularly weak but it has been supported to an unknown extent by the development of leasing arrangements over recent years. Investment by the finance and property sector – the nominal owner under the leasing arrangements – has

2. See Australian Treasury: *Budget Paper No. 1*, 1982-83, page 16.
3. See footnote 2 to Table 2.

grown by about 10 per cent per annum in real terms over the last two years and some of it has added to manufacturing capacity as well as that of other, mainly service, sectors.

Since mid-1981 investment both in mining and finance industries has continued to grow strongly and appears likely to continue to do so into 1983. Elsewhere declines have occurred or are anticipated. Investment in basic metal industries has been affected by the deferment or cancellation of several major projects – particularly in aluminium smelting – in spite of the large number of projects which a year ago appeared ready to proceed[4]. Some of last year's investment in transport equipment was in any case of an irregular nature and unlikely to be repeated, but the recent postponement of a number of aircraft deliveries has additionally reduced the immediate outlook. For all industries other than mining, the expected value of total fixed investment in fiscal year 1982/83 is only 5½ per cent higher than the corresponding expectation for 1981/82. Although expectations tend to be adjusted as the year proceeds, a decline in real terms seems inevitable. For industries not covered by the survey, the sharp reduction in farm incomes in 1982/83 and the general weakness of demand for new construction seem likely to accentuate the decline in total business fixed investment.

The causes of the downturn appear to be mixed. In the first place, the weaker world demand for basic metals, the high level of real interest rates prevailing internationally during 1981, the reduction in world energy prices in real terms, the acceleration of domestic wage costs, and upward pressure on domestic electricity prices have all evidently led to a reassessment of the profitability of new investment generally and in particular investment in large energy-using projects and in the basic metal industries. Secondly, the acceleration of final domestic demand (from 2 per cent in 1979 to 3½ per cent in 1980 and 5½ per cent in 1981) would appear by itself sufficient to have warranted stronger and more sustained investment in the non-resource areas than that which actually occurred. The immediate expectations of investors about future profitability were influenced by the decline in international competitiveness (and the

Table 4. **Investment expenditures**

Percentage changes in value from previous half-year, seasonally-adjusted annual rates

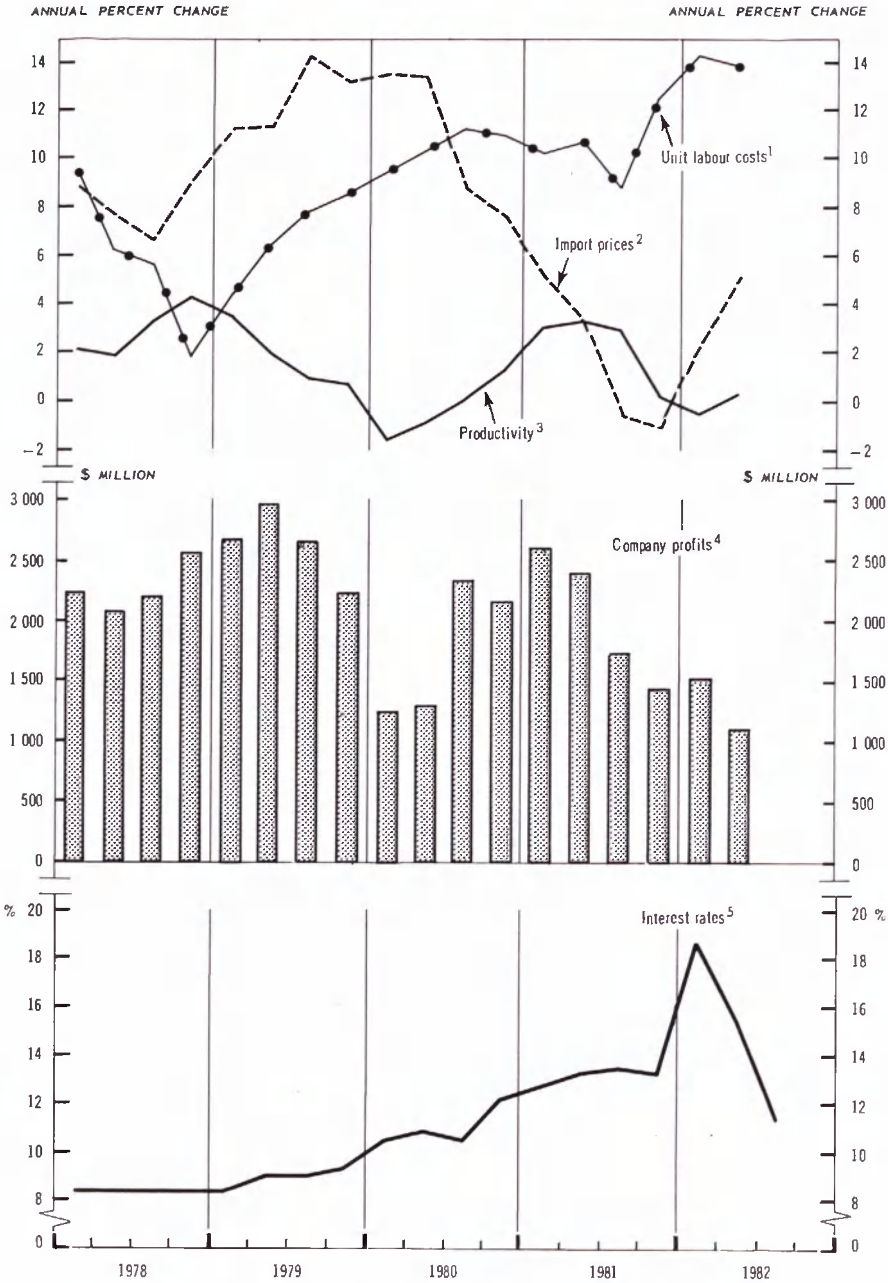
	1978	1979		1980		1981		1982	Fiscal year
	II	I	II	I	II	I	II	I	1982-83[2]
Mining	65.0	12.9	−31.9	50.2	68.5	105.2	35.4	39.6	21.4
Basic metals	29.4	39.0	27.8	171.3	120.1	95.1	27.3	31.1	−27.8
Other manufacturing	9.2	7.4	−15.6	8.8	47.5	9.4	3.5		−4.7
Finance[1]	30.4	30.4	1.9	30.1	24.6	24.5	14.8	14.8	27.3
Transport	21.3	23.9	−38.0	—	144.9	108.4	165.5	2.6	−9.8
Other industries	19.8	12.4	−5.3	14.7	11.9	25.8	10.1		
Total survey	26.6	18.2	−8.8	27.9	41.6	39.1	23.5	21.4	6.0
Memorandum item:									
Non-dwelling private investment[3] (national accounts)	34.2	16.4	−3.9	20.9	34.0	35.9	28.4	10.9	

1. Finance, insurance, real estate and business services (includes leasing to other sectors).
2. Per cent change on previous fiscal year. Based on expectations at the time of the July/August surveys for the two years of the calculation.
3. Adjusted for sales of existing assets from the public to the private sector. See footnote (2) to Table 2.

Sources: New fixed capital expenditure by private enterprises in selected industries, ABS; *Quarterly Estimates of National Income and Expenditure*, ABS; *Round-up of Economic Statistics*, Treasury.

4. See OECD *Economic Survey of Australia, 1981-82*, pp. 25-32.

Diagram 2. **Costs, profits and interest rates**



1. Average earnings for non-farm employees, divided by non-farm productivity as defined in note 3 below.
2. Implicit deflator for endogenous imports: i.e. excluding petroleum, civilian aircraft and government goods.
3. Real non-farm output divided by total non-farm employment.
4. Four-quarter moving total. After stock valuation adjustment.
5. 90-day Treasury bonds.

Sources: Australian Bureau of Statistics and Treasury, *National Income Forecasting Model.*

associated increase in import penetration) which occurred during much of 1981 and by the rise in real interest rates. Company incomes had grown fairly rapidly in the initial years of the cycle – by 14 per cent in 1979/80 and by 19 per cent in 1980/81 – but decelerated sharply from the fourth quarter of 1981 onwards – leading to an overall increase of 6½ per cent for 1981/82 as a whole – in response to acceleration in wage costs. Together with the existing investment programme and the build-up of non-farm stocks, the squeeze on profits implied a substantially increased demand for funds at a time when real interest rates on two-year bonds had risen to around 5 per cent.

After showing little growth in the fourth quarter of 1981, the national accounts estimates of real private investment in dwellings indicate a sharp fall of 27 per cent at an annual rate in the first quarter of 1982 followed by a decline at a rate of 23 per cent in the second quarter. The number of residential building approvals, which had declined moderately in the second half of 1981, fell by 15 per cent in the first half of 1982 and the number of commencements and the value of work done also showed sharp falls in the first half of 1982. Housing finance approvals[5] declined by 22 per cent during the year to June 1982.

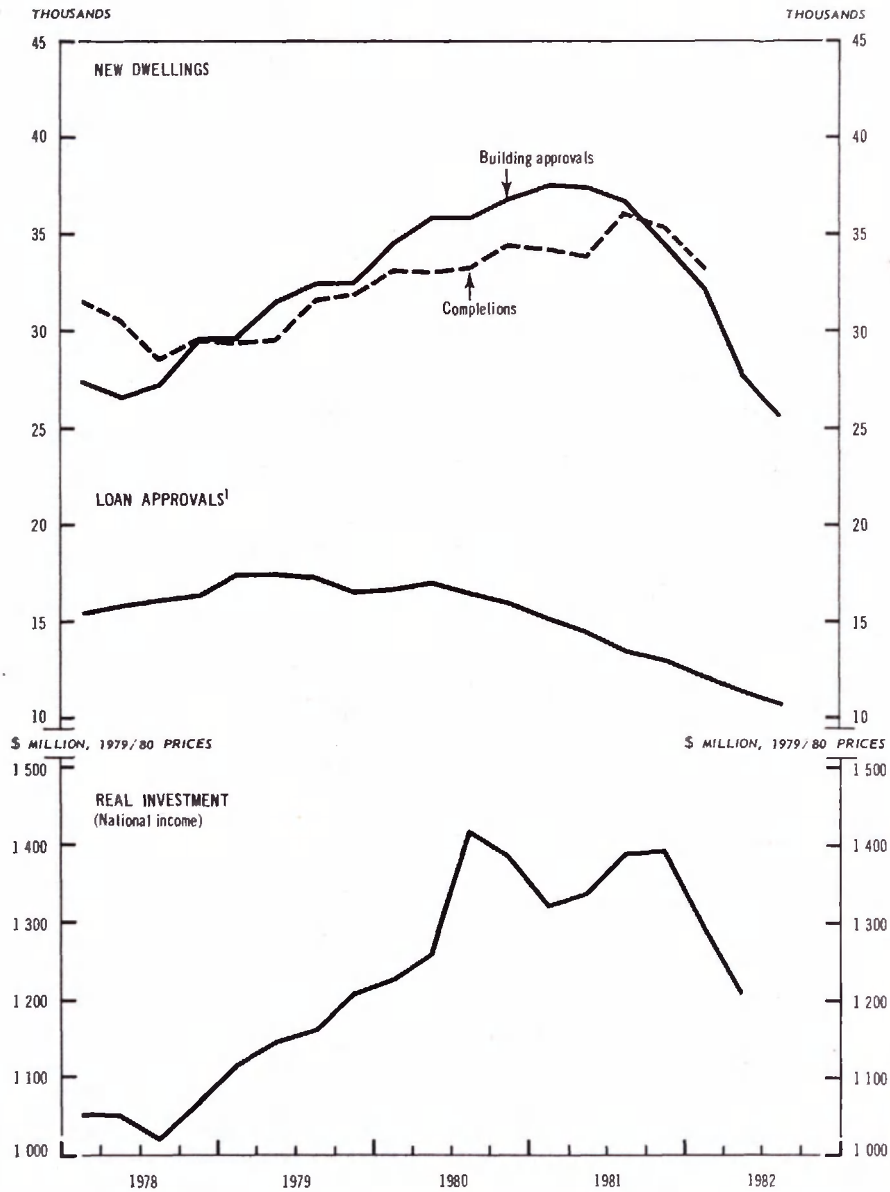
However, the course of events leading to this decline is less clear. The basis of the national accounts estimates of investment in dwellings was changed in September[6], the alteration possibly leading to an overestimate of the growth between 1980 and 1981. Secondly, the importance of the major institutions – banks, building societies, finance and insurance companies – in the provision of finance for housing has declined in recent years, and since the mid-1970s the number of finance approvals has fallen without following the cyclic fluctuations in housing activity. The clearest picture appears to emerge from the number of local government housing approvals, which (seasonally adjusted) show a regular upswing in housebuilding, starting in the third quarter of 1978 and terminating in mid-1981 (Diagram 3).

The demand for housing over recent years has arisen not only from the general income-induced demand for owner occupancy but also from the demand for secondary homes – concentrated in Queensland – and from the additional demands associated with the development of resource-based projects. There have been marked regional differences. However, the downturn, dating from the middle of 1981, is likely to have been partly induced by constraints on interest rates and hence on lending volumes. An increasing number of borrowers may have been deflected to non-institutional sources where interest rates are higher and may have risen further. Savings bank mortgage interest rates increased from 11.50 per cent to 13.50 per cent between June 1981 and June 1982. The value of approvals for new loans by the major lenders fell by 10 per cent over the same period.

Stockbuilding played a substantial part in accentuating the change in the growth of GDP between the second half of 1981 and the first half of 1982, adding 4 per cent (seasonally adjusted annual rate) in the first case and subtracting nearly 2 per cent in the second[7]. Both farm and non-farm stocks contributed to the change, although the causes and quarterly timing differed. Following little change in stock levels during the first three quarters of 1981, non-farm stocks were rapidly built up in the last quarter of the year and in the first quarter of 1982. The accumulation appears to have centred in retail and wholesale trade and had the effect of reversing the downward trend in the stocks/sales ratio which had been apparent since mid-1980. The level of stocks in

5. Approvals to individuals by major lenders for construction or purchase of new dwellings.
6. From a complete enumeration of commencements and work done to a sample survey basis.
7. However, movements in the statistical discrepancy tended to act in the opposite direction, smoothing the path of the income estimate of GDP in comparison with that obtained from the expenditure components (Table 1).

Diagram 3. **Indicators of the demand for housing**
Seasonally adjusted



1. Loans for construction or purchase of new dewellings from banks and permanent building societies.

Sources: Reserve Bank of Australia Bulletin; Australian Bureau of Statistics.

manufacturing showed no change between June 1981 and June 1982. In part the build-up appears to have been a reaction to the very rapid growth in real consumption in the third quarter of 1981 (7 per cent, s.a.a.r.) and an anticipation of further rapid growth. When this failed to appear stocks were run down very rapidly. However, the reduction may also have been a response to the rapid rise in interest rates in the first four months of 1982[8]. In national accounting terms some of this reaction may have been masked by fluctuation in sugar stocks. Farm stocks were also substantially rebuilt in the second half of 1981 reflecting both the good wheat harvest (wheat stocks had been run down following the poorer harvest in 1980/81) and purchases of wool by the Australian Wool Corporation in support of the weakening wool market.

In real terms, and after adjusting for the sales of assets to the private sector[9], real public expenditure in the fiscal year 1981/82 increased by 1.5 per cent, compared with growth of less than 1 per cent foreseen in the 1981/82 Budget and significantly less than the 4.2 per cent growth in the previous fiscal year. In line with the medium-term strategy the Commonwealth Budget had been framed in terms of the need to restrain public expenditures in the face of what was then expected to be strong expansion in the private sector and implied a deceleration in real outlays both by the Commonwealth Government itself and, by means of smaller increases in Commonwealth grants, in the real consumption and investment expenditures of the States and local authorities. There was some slippage from this budgetary position in the first half of the year. Partly reflecting some special timing factors, grants and transfers to the States increased at a rate of 17.9 per cent between the first and second halves of 1981, considerably faster than the rise through the previous year and representing a growth rate in real terms of about 4½ per cent (s.a.a.r.)[10]. As a consequence, although the Commonwealth's own expenditures were restricted to an increase of about 1 per cent in real terms, real expenditure by the States grew at an annual rate of just over 5½ per cent in the second half of 1981 and real new investment expenditure by public enterprises by just over 12 per cent, much of it reflecting the re-equipment programme in the publicly-owned airline. In the second half of the financial year, i.e. the first half of calendar 1982, the position was reversed. Grants to the States declined, both capital and current expenditure by the States fell in real terms (by about 7 per cent s.a.a.r.) and there was a cut back in new investment undertaken by public enterprises. In total, these movements meant that the public sector as a whole added nearly 1.2 percentage points to the growth of GDP in the second half of 1981 and subtracted nearly 1 per cent from GDP growth in the first half of 1982 (s.a.a.r.) (Diagram 1).

Labour market developments

After improving considerably for about three years, labour market conditions have deteriorated in the last year (Diagram 4). Employment, which in the two years to 1980/81 grew at an average annual rate of about 2½ per cent, rose by only 1.2 per cent in 1981/82. But all the increase in employment in 1981/82 occurred in the first half of the financial year and, reflecting the weakening in production, employment fell in the second half to a level in July 1982 similar to that of a year earlier (Table 5). Female employment held up rather better than male employment, largely reflecting developments in the construction and metal manufacturing industries. In construction, employment fell by 1.7 per cent in the twelve months to August 1982, the decline

8. The buying rate on ninety-day commercial bills rose from 15¾ per cent in December 1981 to 21⅔ per cent in April 1982.

9. See footnote 2 to Table 2.

10. Deflation and seasonal adjustment of the individual components of Commonwealth and State and Local Authority has been carried out by the Secretariat.

Table 5. **Labour force indicators**
Civilian labour force as of September quarter of each year[1]

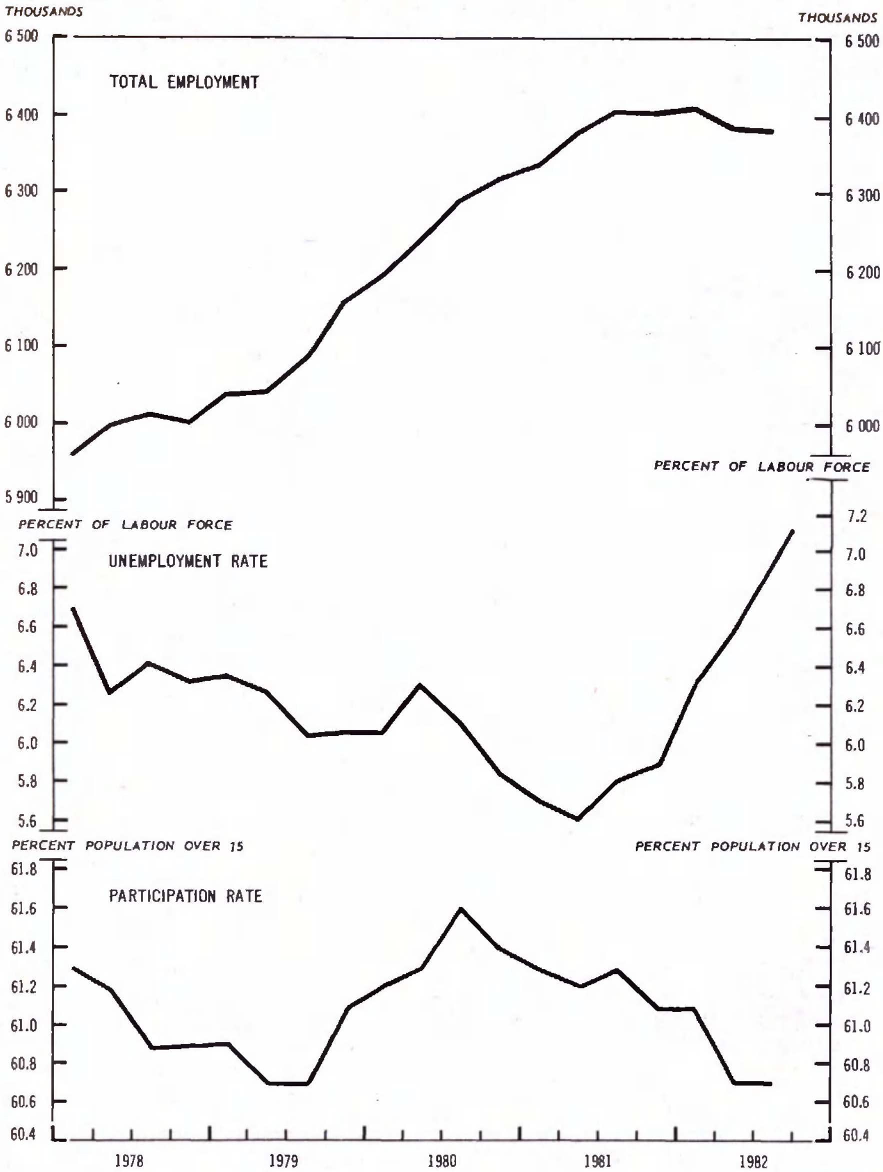
	Units	September quarter 1980	1981	1982
Civilian population				
aged 15 years and over	Thousands	10 865.8	11 088.9	11 327.3
of which: Males	Thousands	5 364.8	5 475.8	5 595.4
Females	Thousands	5 501.0	5 613.1	5 731.9
Civilian labour force	Thousands	6 678.4	6 784.8	6 856.1
of which: Males	Thousands	4 196.9	4 268.3	4 316.1
Females	Thousands	2 481.5	2 516.5	2 540.0
Total civilian employment	Thousands	6 284.0	6 403.8	6 384.6
of which: Males	Thousands	3 988.4	4 066.3	4.043.3
Females	Thousands	2 295.6	2 337.5	2 341.2
Unemployed	Thousands	394.4	381.0	471.6
Unemployment rate	Per cent	5.9	5.6	6.9
of which: Males	Per cent	5.0	4.7	6.3
Females	Per cent	7.5	7.1	7.8
Age of unemployed (June)				
15-19	Per cent	32.4	29.4	29.7
20-24	of	22.4	21.7	22.1
25-34	total	21.6	22.8	22.6
35 and over		23.6	26.1	25.6
Unemployed by age (June)				
15-19	Per cent	16.5	13.0	17.3
20-24	Per cent	9.1	7.5	9.5
25-34	Per cent	5.1	4.5	5.7
35 and over	Per cent	3.0	3.1	2.8
Average (mean) duration of unemployment				
(June)	Weeks	28.7	33.3	30.6
of which: Males	Weeks	28.5	35.2	34.0
Females	Weeks	28.9	31.3	26.6
Part-time workers	Thousands	1 022.2	1 046.0	1 072.4
of which: Males	Thousands	207.4	217.3	234.3
Females	Thousands	814.8	828.7	838.0
Participation rate	Per cent	61.5	61.2	60.5
Male	Per cent	78.2	77.9	77.1
Female	Per cent	45.1	44.8	44.3

1. Figures may not total due to rounding.
Source: ABS, *The Labour Force, Australia.*

starting after mid-1981, despite a considerable pick-up in activity up to the end of the year; as activity fell off in early 1982 the industry quickly shed labour and to a greater extent than in earlier downswings. Employment in metal manufacturing fell by 5.4 per cent in the twelve months to August 1982 compared with a 12.5 per cent increase in the previous twelve months. This sharp turnaround which was reflected in retrenchments in the steel industry and postponements of resource-related projects was associated with sizeable wage increases and reductions in the working week from 40 to 38 hours following the ending of indexation. In other manufacturing (excluding food, beverages and tobacco) employment fell by 3.6 per cent, in the year to August. The fall in employment in these industries and the pattern in other industries were associated with a shift from full-time to part-time work in contrast to earlier years.

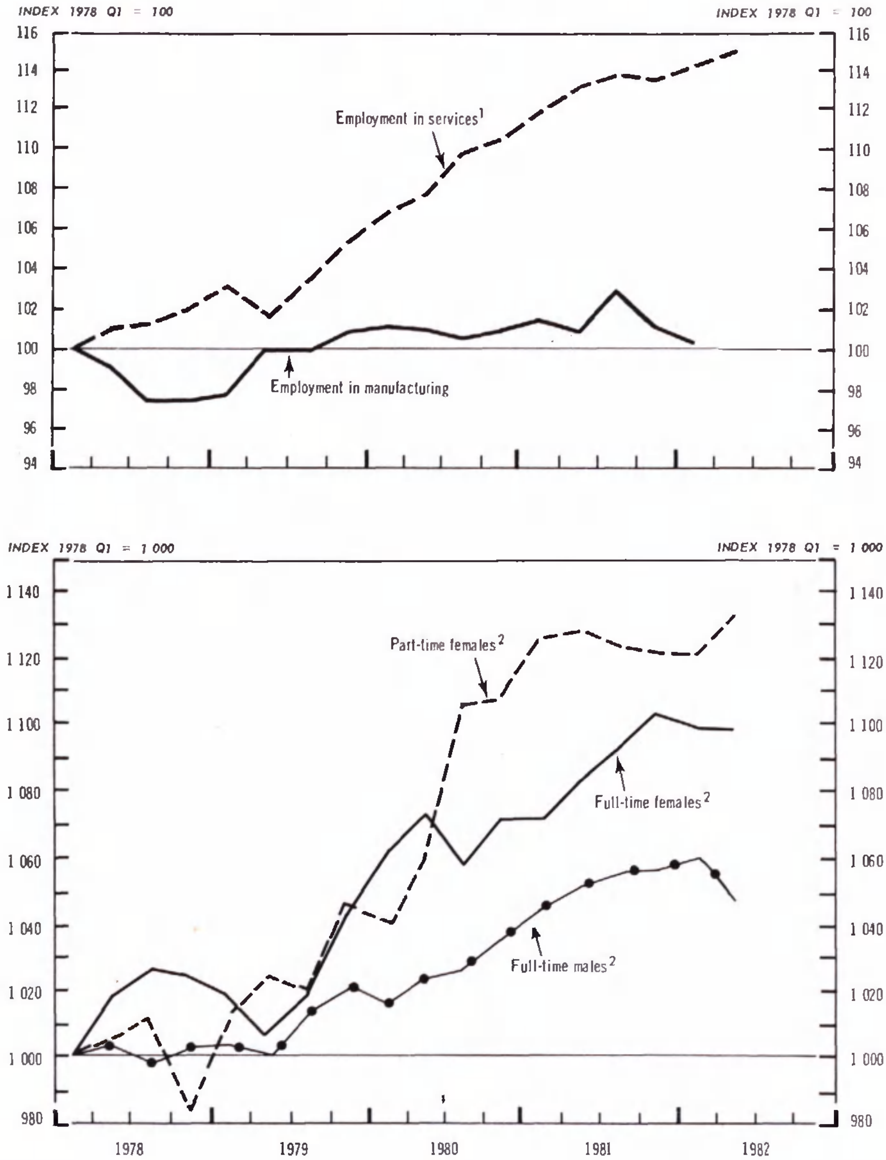
Despite deteriorating labour market conditions, labour force numbers in the twelve months to September 1982 grew a little more than in the previous period but as with

Diagram 4. **Employment and unemployment**
Seasonally adjusted



Source: Australian Bureau of Statistics.

Diagram 5. **Composition of employment**



1. Persons employed in services includes finance, property and business, and community and recreational services.

2. Wage and salary earners.

Source: Australian Bureau of Statistics ; Secretariat seasonal adjustment.

other indicators there was a weakening at the end of the 1981/82 financial year. As in earlier years, the female labour force increased at a faster rate than for males. As reflected in participation rates (Table 5), the downturn did not discourage females from entering the labour market, while the male participation rate continued its longer-run decline but at a faster rate than in the three preceding years. With employment stagnating, recorded unemployment rose sharply – by 90 600 to 471 600 – between September quarter 1981 and September quarter 1982 to a rate of 6.9 per cent of the labour force. Male unemployment rose by 70 700 to a rate of 6.3 per cent and female unemployment by 19 800 to 7.8 per cent. Seasonally adjusted unemployment started to rise considerably before a weakening of output became evident – final domestic demand increased by 6½ per cent (seasonally adjusted annual rate) in the second half of calandar 1981 while the unemployment rate increased from 5.3 per cent to 6.0 per cent. This experience differs considerably from earlier cycles. The pattern of unemployment increases suggests that business reacted quickly in mid-year to reports of a sharp deterioration in profits associated with a marked acceleration in labour costs and in view of the uncertainties surrounding wage determination, remained cautious despite expectations of improved trading profitability[11]. The acceleration in unemployment in the first half of calendar 1982 coincided with the weakening of activity and higher labour costs.

The marked rise in the demand for labour in the two years to mid-1981 was particularly beneficial to those in the 15-19 year age group (Table 5). This marked improvement has since more than reversed, the unemployment rate rising by over 4 percentage points to 17.3 per cent between June 1981 and June 1982. Over the same period, the 15-19 year-olds' labour force fell by 21.600 and their participation rate from 62.0 per cent to 60.7 per cent. The rise in youth unemployment has been one factor contributing to the reduction in the average duration of unemployment (Table 5), there being a considerable increase in 15-19 years-olds unemployed for under eight weeks in the recent period. This was also the case for other age groups as would be expected in a period of rising unemployment immediately following a period of increasing employment.

Prices, wages and costs

Between the first half of 1981 and the first half of 1982, the deflators for private consumption, final domestic demand, the consumer price index and the output price of manufacturing all accelerated by about 1 percentage point although the deflator for non-farm GDP increased by 3½ percentage points, to 14 per cent (annual rate) in the first half of 1982 (Table 6). Although the overall rate of inflation in 1981 was comparable with that experienced in other OECD countries (an increase of about 9 per cent in the private consumption deflator) the acceleration is disconcerting because it came at a time when price increases elsewhere were begininning to moderate. Moreover, the outcome embodies a number of divergent elements. Food prices rose more slowly in 1981 than in 1980 and slowed down in the first half of 1982, responding indirectly to movements in overall export prices and weakening world markets for foodstuffs generally. For similar reasons, increases in the domestic price of crude oil were more restrained in 1981. Acting against these downward features, however, the indirect taxes arising from the 1981/82 Budget were estimated to add ½ per cent to the consumer price index, the changed arrangements for health care payments generated a substantial (about 50 per cent) increase in this component of the consumer price index and

11. The quarterly business survey in September 1981 by the Australian Chamber of Commerce and the National Bank showed a considerable rise in the balance of respondents expecting a pick-up in trading and profits in the December quarter.

Table 6. **Recent trends in prices and costs**
Per cent change from previous period: annual rates

	1979 I	1979 II	1980 I	1980 II	1981 I	1981 II	1982 I
National accounts deflators							
Private consumption	9.5	10.2	10.6	8.8	8.8	9.1	9.9
Final domestic demand	9.1	9.8	11.4	10.2	9.1	9.9	10.9
GDP	10.2	10.4	13.1	8.8	9.0	10.1	11.9
Exports of goods and services	20.1	25.7	16.2	7.3	1.7	2.9	2.9
Imports of goods and services	11.0	22.1	14.8	9.4	3.1	−1.1	9.9
Non-farm GDP	8.0	8.5	14.0	8.0	10.3	11.2	14.0
Consumer price index							
Food	14.7	13.9	13.5	9.8	8.5	10.5	5.0
Durables	4.5	7.3	9.0	5.6	5.6	8.2	8.7
Other non-durables	9.7	10.6	11.3	9.4	9.7	8.6	—
Total	8.5	10.7	10.6	8.9	9.3	10.9	10.3
CPI excluding food, health services, petrol and indirect tax changes	6.4	7.4	8.5	9.3	8.8	9.4	9.6
Manufacturing							
Articles produced by manufacturers	16.7	15.8	15.0	10.6	8.2	6.8	9.3
Wage costs							
Award wage rates	9.6	7.3	11.1	10.6	10.5	9.9	15.2
Average non-farm earnings	9.8	8.2	10.6	14.9	12.1	11.8	16.7
Normal unit labour costs	5.3	4.5	6.7	12.5	8.1	6.4	10.3
Other incomes							
Corporate trading enterprises gross operating surplus	14.3	11.2	19.3	19.6	16.6	12.4	−12.6
Non-farm non-wage incomes	8.8	5.7	16.4	15.5	12.2	19.5	12.0
Farm incomes	40.6	9.8	−4.7	−7.1	−32.3	46.4	−30.8
Memorandum item:							
Hourly productivity (non-farm)	0.4	0.2	0.2	3.9	2.6	2.3	0.7

Source: ABS.

budgetary pressure on State finances contributed to a rise of around 20 per cent in charges for fuel and light. At a rather different level, significant increases in prices for non-rural exports (chiefly arising from renegotiated contracts for coal and mineral exports, together with the effects of the depreciation of the Australian dollar since mid-1981) produced in the deflator for non-farm GDP a rather faster acceleration in the first half of 1982 than in either final demand or in domestic manufacturing output.

More fundamentally, in 1980/81 and 1981/82 there was a sustained acceleration in wage and unit labour costs, although with some short-term variations in the timing of the increases. The growth rate of non-farm average earnings[12] accelerated during 1979 and 1980, reaching a peak of nearly 15 per cent (at an annual rate) in the second half of 1980. The rate fell back again in the first half of 1981 but subsequently rose to almost 17 per cent in the first half of 1982 (seasonally adjusted annual rates). The acceleration was undoubtedly linked to the increasing strength of the labour market during 1980 and 1981 but its effect on prices was, in the first instance, mitigated by strong growth of productivity (late 1980 and early 1981) and by the substantial deceleration in import prices which took place during 1981. During this period companies were also able to

12. Non-farm wages, salaries and supplements per non-farm wage and salary earner.

rebuild profit margins and there was strong growth in company gross operating surplus. In late 1981 and in the first half of 1982 this situation changed. The growth of output and productivity was reduced, company profits fell and there was a sharp decline in the corporate cashflow rate. In addition, the turnaround in the effective exchange rate (which fell 8½ per cent between July 1981 and July 1982) resulted in a substantial acceleration in the cost of imported materials. These factors – in spite of the reduced corporate share of income – contributed to an acceleration of final prices between the second half of 1981 and the first half of 1982.

Although the driving force behind the acceleration in wage costs has been the improvement in labour market conditions during 1980 and early 1981, institutional factors have played an important role. Following the formal abandonment of indexation by the Arbitration Commission in mid-1981 and its subsequent decision not to agree to an automatic flow-on of wage increases from one sector of the workforce to another[13] there was some delay in the emergence of a pattern in wage settlements. An immediate effect of the Commission's decision and the events leading up to it was the postponement of a number of claims. The wage rate index[14] increased by only 2 per cent in the five months May to October 1981 and the (annualised) increase in award wages between the second and third quarters of 1981 was reduced to 8 per cent. However, the slackening in award wages was not fully reflected in average earnings which increased by nearly 10.7 per cent in the second half of 1981.

The initial period of relative quiet was followed by the presentation of a large number of claims in November and December, of which the key settlement was the Metal Industry Agreement covering about 350 000 workers[15]. This agreement included an immediate increase of $25 per week, a further increase of $14 per week from June 1982, a reduction in hours to 38 per week from March 1982, some additional supplementary payments and tool allowances and an agreement not to pursue further claims for twelve months. The agreement is estimated to increase wage costs in the industry by 20 per cent to 25 per cent over twelve months. It also formed the benchmark for subsequent award negotiations by other groups during 1982, almost all of whom have achieved the initial, $25 per week, increase and about half of whom have also obtained agreement to a mid-term increase of around $14. As a result of these and other negotiations, the wage rate index rose abruptly, increasing by 20.8 per cent in the first quarter of 1982 and 17 per cent in the second quarter (annual rates). Indications from recent settlements, following the decline in output and employment in the first half of 1982, suggest considerable moderation in the wage round beginning in the second half of 1982.

Since the end of indexation, there has been considerable uncertainty about the future of the wage determination system. In February 1982 the Australian Council of Trade Unions sought a National Wage Case hearing of its claim for automatic flow-on of the Metal Trades Agreement to other sectors of the workforce, on the grounds that the results obtained by this agreement were by then sufficiently widespread to represent a "community standard". The ACTU also sought the reintroduction of automatic quarterly wage indexation. These claims were rejected by the Arbitration Commission, which indicated that it would continue to hear claims only on a case-by-case basis. However, the Commission proposed a conference to be held in August 1982 to discuss the future of the wage determination system. However, the Conference, when convened in early September, foundered on the unions insistence on the maintenance of real wage rates (i.e. full indexation to movements in the consumer price index). Since the

13. For a description of the decision see OECD, *Economic Survey of Australia, 1981/1982*, pp. 42-43.
14. Adult males weekly wage rates.
15. i.e. roughly one-quarter of all workers affected by the sixty largest federal awards.

Conference, the Australian Council of Trade Unions has announced its intention of supporting the claims by individual unions in order to establish a standard wage movement for the whole workforce parallel to those obtained in the leading awards. At the same time the Government has indicated that it would intervene more actively in the forthcoming industry cases. In November, the Government suggested a twelve-month pause on award wages and a Premiers' Conference was called for early December to consider the proposals.

External trade and payments

For the second year in succession the current external account deteriorated markedly. From $2.1 billion in the fiscal year 1979/80 the deficit widened to $5.3 billion in 1980/81 and $9.2 billion in 1981/82, respectively 1.9 per cent, 4.1 per cent and 6.2 per cent of GDP. Four main factors appear to have combined to produce this result. First, the Australian economy has been expanding rapidly at a time when world output has declined and export markets have been particularly weak. Secondly, there was a significant deterioration in Australia's international competitiveness, due to the combined effects of the appreciation in the exchange rate up to mid- 1981 (although it has since depreciated considerably), to the subsequent acceleration in domestic costs and to the slowing of inflation which has taken place within Australia's main trading

Table 7. **Balance of payments**
$ million, current prices

	1980		1981		1982
	I	II	I	II	I
Seasonally adjusted					
Exports, fob	9 618	9 411	9 447	9 082	10 012
Imports, fob	8 389	9 282	9 929	10 627	11 851
Balance of trade	+1 230	+130	−483	−1 545	−1 838
Services credits	1 556	1 622	1 718	1 741	1 902
Services debits	2 668	2 745	2 835	2 997	3 132
Net services	−1 112	−1 123	−1 117	−1 256	−1 230
Transfers and property income, credits	663	647	693	684	751
Transfers and property income, debits	2 005	1 978	2 122	2 237	2 556
Net transfers and property income	−1 342	−1 331	−1 429	−1 553	−1 805
Net invisibles	−2 454	−2 454	−2 544	−2 809	−3 035
Current balance	−1 225	−2 323	−3 027	−4 354	−4 873
Not seasonally adjusted					
Government capital	−117	−37	−30	380	109
Private capital and non-official monetary inflow	1 431	2 151	3 151	2 840	6 307
Total identified capital inflow	1 314	2 114	3 121	3 221	6 416
Balancing item	364	261	948	−74	994[1]
Net apparent capital inflow	1 678	2 375	4 068	3 148	7 410
Current balance	−1 184	−2 374	−2 919	−4 454	−4 749
Net official monetary movements	+494	+1	+1 148	−1 306	−2 660

1. Includes certain items of private capital
Source: Balance of Payments. ABS.

Table 8. **Principal exports**[1]
Years ending June

	Value in 1978/79 $ millions	Per cent changes								
		1978/79 to 1979/80			1979/80 to 1980/81			1980/81 to 1981/82		
		Price	Volume	Value	Price	Volume	Value	Price	Volume	Value
Meat and meat products	1 713	32.1	−23.5	1.0	−4.1	−4.3	−8.2	−8.7	−4.7	−13.1
Wheat	794	25.7	118.1	174.3	12.0	−29.1	−20.6	−3.8	3.4	−0.5
Sugar	448	24.4	19.6	48.8	47.9	16.2	71.9	−31.7	−2.4	−33.3
Wool	1 482	16.5	−7.7	7.6	12.2	3.1	15.7	6.4	−6.3	−0.2
Coal	1 524	0.9	8.8	9.8	5.8	11.2	17.6	19.2	−2.4	16.3
Mineral ores	2 581	20.2	7.1	28.9	5.9	−8.9	−3.5	13.0	−4.7	7.7
Manufactures[2]	2 519	26.7	6.4	27.3	4.7	−6.1	−1.6	−3.9	4.0	0
Total exports (fob)	14 072	24.4	6.1	32.1	7.5	−5.5	1.5	1.1	0.1	1.2

1. Because of differences in coverage and definition between the value, volume and price series used, value changes can not be obtained as an exact multiple of the associated volume and prices changes, and all three estimates should be treated as approximate.
2. Excludes meat and meat preparations.
Sources: ABS: Exports, monthly; ABS Export price index; ABS Exports at constant 1974-75 prices; Secretariat estimates for some price and volume changes in 1981-82.

partners. Thirdly, net property income and transfers abroad increased sharply between 1980/81 and 1981/82 to service the large capital inflow that occurred in 1980/81 and to a lesser extent in 1981/82. Finally, because of adverse weather conditions, agricultural output in the 1980/81 season was lower than usual and its product was released on to export markets whose prices during 1981 were declining.

In spite of the widening deficit on current account however, it has been more than covered by the inflow of private capital. Foreign investment in Australia has risen from $3.5 billion in 1979/80 to $5.8 billion in 1980/81 and $9.6 billion in 1981/82, much of this increase taking the form of overseas borrowing by existing private and public enterprises rather than new foreign ventures in Australia. In spite of the large current deficit and with only minor support from Government borrowing, the overall balance of payments has contributed to a significant increase in overseas reserves which, after revaluation adjustments, now amount to 23 per cent of the annual import bill for goods and services.

Table 9. **Merchandise imports**

Per cent change between fiscal years ending June

	1978/79	1979/80	1980/81	1981/82
Import values				
Food and beverages	3.8	19.6	−2.3	12.4
Industrial materials	21.7	25.0	8.6	14.6
Fuels	−1.9	85.0	29.8	9.1
Capital goods	38.2	5.1	30.4	27.8
Transport equipment	41.9	−7.8	17.2	42.2
Consumer goods	13.4	13.2	9.9	17.4
Total imports	23.0	17.6	17.1	21.2
At constant 1979/80 prices				
Total imports	9.8	0.2	11.0	14.0
Deflator: 1979/80 = 100	10.0	17.2	9.2	2.6
Memorandum items:				
Endogenous imports at constant prices (s.a.)	12.2	0.1	10.8	17.6
Index of international competitiveness[1] (+ = improvement)	9.2	−3.0	−3.2	−9.7

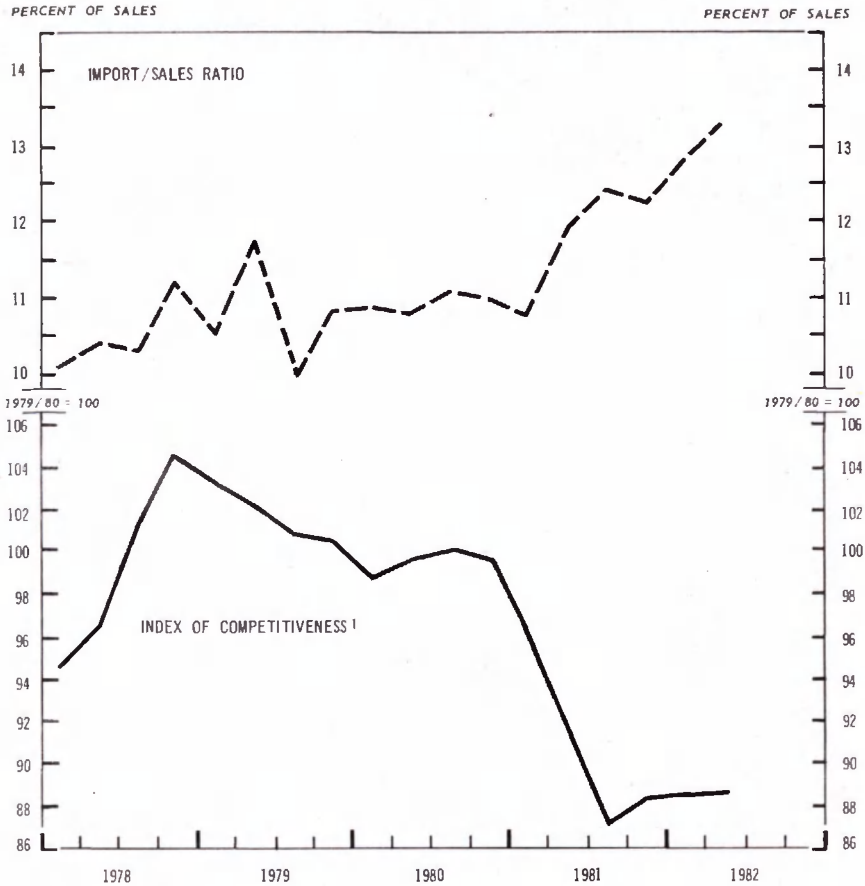
1. The Treasury: unit wage cost based measure.
Source: ABS: Imports, monthly and annual.

As far as merchandise trade is concerned, the main elements are shown in Tables 8 and 9. Although there is some difficulty in reconciling volume, value and price movements[16] the broad features would appear to be the following:

i) Weak demand in the United States (for beef), in Japan (for mutton) and subdued demand in the USSR and Iran (for mutton) have led to reduced export volumes of meat in 1981/82. Beef prices are now 20 per cent below their 1980 peak and are not expected to recover. In value terms, meat exports fell by 9 per cent in 1980/81 and 13 per cent in 1981/82.

16. There is not an exact match between the various sub-groups of the price, value and volume series and the Australian Bureau of Statistics has not yet rebased and updated its series for exports at constant prices which ends at September 1981.

Diagram 6. **Import/sales ratio and international competitiveness**



1. Based on a comparison of non-farm unit wage costs. Cf. Budget paper No. 1, Chart 7, 1982/83.
Source: Australian Bureau of Statistics and Treasury.

ii) Sugar prices have declined from their peak at the end of 1980, mainly as the result of a recovery in world output. Although there was little change in the volume of exports during 1981/82, value fell by over one-third.

iii) The volume of wheat production fell by nearly one-third in 1980/81, a reaction to the previous year's exceptional harvest. However, prices held firm (a 13 per cent increase) and some rundown of stocks occurred so that the reduction in the value of exports was confined to about 20 per cent. Production in 1981/82 is estimated to again have reached almost record levels but prices have weakened and there has been some build-up of stocks so that both export volumes and export values have increased only slightly – by about 2 per cent.

iv) Wool prices showed a small increase (about 3½ per cent) between 1980/81 and 1981/82 and although there was very little increase in the volume of production there were substantial stock purchases by the Australian Wool Corporation and a small fall in export volumes.

v) Coal and mineral ores have been chiefly affected by Japanese demand which has weakened considerably during the course of 1981/82. However, the renegotiation of long-term supply contracts has led to substantial price increases, particularly for coal, which has implied a significant, 16 per cent, increase in the value of coal exports and has offset the fall in mineral volumes.

vi) The overall increase in import volumes (14 per cent) in 1981/82 was especially heavy in capital goods and transport equipment (aircraft, ships and oil rigs), the demand being clearly linked to the surge in investment expenditure. However, there was equally clearly an increased degree of import penetration in the market for consumer and other goods, deriving not only from the build-up of retail and wholesale stocks around the end of 1981 but also from a decline in international competitiveness (Diagram 6).

Fiscal policy

In accordance with the Government's medium-term strategy described in Part II below, the 1981/82 Budget aimed to further lower the public sector deficit[17] in order to achieve non-accommodating financial conditions and to make room for private sector expansion by reducing the size of the public sector. Within this overall approach, the Budget was designed to contain and then reduce inflationary pressures which were then increasing. As Table 10 shows, the Budget deficit[18] was projected to fall by about $1 billion, or by 0.8 per cent of GDP to 0.1 per cent. The actual deficit was somewhat higher than planned (Table 10) but it declined to 0.4 per cent of GDP, the lowest for ten years. The slippage was more than due to outlays which rose by 13.9 per cent compared with the Budget estimate of 12.6 per cent. As a consequence, outlays did not fall as a proportion of GDP as projected[19]. The overrun was largely attributable to higher outlays on education, social security and welfare (mainly unemployment benefits), transport and communications and public debt interest. Receipts were slightly higher than budgeted (Table 10), considerable short-falls on excise duties on crude oil and LPG, company tax and sales tax[20] being more than offset by higher than expected personal income tax receipts reflecting in part measures to reduce tax avoidance. The public sector borrowing requirement was reduced from 3.6 to an estimated 2.7 per cent of GDP[21].

With the onset of recession from about the turn of the year and the substantial increase in unemployment, the Government decided in the 1982/83 Budget presented on 17th August 1982 to deviate from its medium-term approach to fiscal policy but without changing its economic objectives or the commitment to substantially reduce inflation. In particular, rather than seek to further reduce the Budget deficit and government spending relative to GDP – principal planks of the medium-term anti-inflation policy – the Government judged it appropriate to provide for a rise in outlays from 27.9 to 28.7 per cent of GDP entailing an increase in the Budget deficit

17. General government net borrowing requirement.

18. The budget deficit is that part of the general government net borrowing requirement arising from the Commonwealth Government's Budget transactions.

19. Outlays in the Budget were projected to fall from the then-estimated 27.9 per cent of GDP in 1980/81 to 27.6 per cent; in the event they rose on revised figures from 27.8 per cent to 27.9 per cent.

20. The shortfall on crude oil and LPG excise duties was mainly due to industrial disputes and a fall in the export price of LPG. Receipts from sales tax were below the Budget estimate because the budget proposals to broaden the sales tax base which would have raised an estimated $132 million were rejected by the Senate. Company income subject to tax in 1980/81 was lower than expected.

21. Adjusting the public sector borrowing requirement for special factors such as the sale of the Eraring power station, the fall was from 3.6 to 3.2 per cent of GDP, all of the reduction being due to Commonwealth transactions.

Table 10. **Budget transactions**
$ million

	1979/80	1980/81		1981/82			1982/83		
	Actual	Actual	Percentage change	Budget estimate	Actual	Percentage change	Budget estimate	Percentage change	Contribution to increase (%)
Receipts									
Income tax									
Companies	3 547	4 856	36.9	5 345	5 258	8.3	5 486[1]	4.3	5.0
Individuals	15 040	17 543	16.6	20 860	21 224	21.0	23 346	10.0	46.1
Indirect taxes	8 719	10 068	15.5	11 563	11 302	12.3	13 002	15.0	36.9
Other receipts	2 322	2 715	16.9	3 013	3 006	10.7	3 560	18.4	12.0
Total receipts	29 627	35 181	18.7	40 780	40 790	15.9	45 393	11.3	100.0
Outlays									
Net expenditure on goods and services									
Defence	2 787	3 304	18.6	3 813	3 832	16.0	4 257	11.1	7.4
Other current	3 341	3 949	18.2	4 576	4 677	18.4	5 267	12.6	10.3
Capital	290	442	52.4	434	421	−4.8	568	34.9	2.6
Transfer payments and net advances									
To States and local government	11 559	12 919	11.8	13 978	14 043	8.7	15 999	13.9	34.1
Personal benefit payments[2]	10 090	11 439	13.4	13 208	13 342	16.6	15 447	15.8	36.7
Other	3 594	4 237	17.9	4 869	5 024	18.6	5 530	10.1	8.8
Total outlays	31 660	36 291	14.6	40 877	41 339	13.9	47 067	13.9	100.0
Surplus (+), Deficit (−)									
Domestic	−566	+446		+1 592	+918		+230		
Overseas	−1 467	−1 556		−1 688	−1 468		−1 904		
Total	−2 033	−1 110		−96	−549		−1 674		
Financing transactions									
Miscellaneous domestic financing, plus increase in government's own holding of debt	+151	−131			−184				
Net borrowing requirement	1 876	1 241			733				
Overseas financing	187	−98			368				
Net domestic borrowing requirement	1 689	1 339			365				
of which: Banks	259	1 484			223				
Other private sector	775	535			−121				
Reserve Bank	655	−680			264				

1. Includes $255 million of special tax to recover avoided company tax and division 7 taxes.
2. Includes unfunded employee retirement benefits.

Sources: Budget Statement No. 6; Bulletin, Reserve Bank of Australia.

(Table 10). It is intended that the methods used to finance the deficit will be non-inflationary. Also, the structure of the Budget, with emphasis on personal income tax reductions and higher family allowances is seen by the Government as an inducement to wage restraint.

Prior to the Budget and with the aim of facilitating the achievement of the Government's monetary objectives[22], the Loan Council at its June 1982 meeting decided to replace the tap system for selling Treasury Bonds with a tender system, the Treasurer having the power to decide the conditions attaching to each tender. The Treasurer was also given the power by the Loan Council to determine the terms and conditions of Australian Savings Bonds. At the same meeting, it was agreed to increase State and other authorities' (excluding electricity authorities which were freed from Loan Council restrictions) borrowing programmes by 11½ per cent[23], indicating a greater availability of capital than in 1981/82[24]. Current general purpose grants were reflected in an increase in the Budget of 13.9 per cent in net payments to the State and local government sector, representing a considerable rise in real terms. The actual increase in 1981/82 was 8.7 per cent or somewhat lower than the increase in the implicit deflator for public consumption (11½ per cent). Accordingly, the earlier squeeze on the States and local authorities aimed at reducing the growth of their expenditure and financing requirements has been relaxed in 1982/83.

Total outlays in the 1982/83 Budget are projected to grow at the same rate as in 1981/82, 13.9 per cent, representing an estimated increase in real terms of about 2½ per cent and 3½ per cent after adjusting for pay-day effects. Net expenditure on goods and services is budgeted to rise by 13 per cent, a substantially lower rate than in the two previous years. In addition, the fall in capital expenditure in 1981/82 is planned to be reversed in 1982/83 (Table 10) and the projections suggest most of the real growth in net expenditure on goods and services will be accounted for by capital rather than current items[25]. Transfer payments and net advances are projected to grow by 14.1 per cent compared with 13.3 per cent in 1981/82. As well as the higher payments to States and local authorities noted above, a major reason for the sizeable growth in this component of outlays is the sharp budgeted rise in personal benefits payments. The main items of increase are age pensions and allowances, war service pensions, family allowances and unemployment benefits[26].

Total receipts in 1982/83 are estimated to increase at a considerably slower rate than in 1981/82 and earlier years (Table 10). To a considerable extent the expected slowdown in receipts reflects the effects of the forecast weakening in economic growth, but numerous discretionary measures at a sizeable ultimate cost to revenue were announced both before and in the Budget. The main pre-Budget changes were the granting of a personal income tax rebate on home loan interest payments at a revenue cost of $100 million in 1982/83 and $230 million in a full year, measures to counter tax avoidance and evasion estimated to raise $840 million in 1982/83 and the introduction

22. For details see section on Monetary Policy below.

23. Within the total increase, the State Government borrowing programmes were increased by 10 per cent, half of which ($65 million) is in grant form to be used for welfare housing.

24. The extent of the increase is not available as in 1981/82 States resorted to leveraged leases and other forms of "off-programme" borrowings which will be more difficult under the new arrangements. The comparison is also affected by the change in the treatment of borrowing for electricity programmes.

25. On a national accounts basis. On a deliveries basis, current expenditure could rise by about 1½ per cent in real terms.

26. Basic pension and benefit rates continue to be indexed to movements in the Consumer Price Index, the increases being made each November and May. With effect from November 1982, the rates of family allowance for the first and second child is increased by 50 per cent. As from the same date unemployment benefit for people eighteen years and over is raised by 10.8 per cent to $4.40 a week and for under-18s by $4 to $40 per week.

of much more liberal depreciation arrangements for business. The more important changes in the Budget were:

i) Changes in personal income tax rate scale composed of a $400 per annum increase to $4595 in the tax-free threshold, a reduction in the standard rate of income tax from 32 to 30 per cent and an increase in the top of the standard rate step from $17 894 to $19 500. The cost to revenue is estimated to be $1 468 million in 1982/83 and $2 357 million in a full year.

ii) Existing sales tax rates were raised by 2½ per cent and a range of goods previously exempt from sales tax are to be taxed at a rate of 7½ per cent as from 1st January 1983, the two measures being estimated to increase revenue by $414 million in 1982/83 and $595 million in a full year.

iii) The excise treatment of off-road motor spirit and distillate was altered to give a net increase of revenue in 1982/83 of $161 million[27] and excise duties on motor spirit distillate, tobacco products and beer were increased to give estimated additional revenue of $391 million in 1982/83 and $474 million in a full year.

Reflecting these changes, the Budget deficit is estimated to increase by the equivalent of 0.6 per cent of GDP to 1 per cent. With the increase in States and local authorities' borrowing programmes, the rise in the public sector borrowing requirement is likely to be somewhat bigger than the increase in the Budget deficit and it may rise to the equivalent of around 4 per cent of GDP. However, there are already indications that the Budget deficit will be considerably larger than projected reflecting mainly an increased number of recipients of unemployment benefits and drought-related outlays which were not included in the Budget. Also, the full year costs of the revenue concessions and some discretionary expenditure measures are substantially larger than in 1982/83 which suggests that, without changes in policies, there could be a further sizeable increase in the public sector borrowing requirement in 1983/84.

Financial conditions and monetary policy

Financial conditions in 1981/82 were somewhat tighter than in the previous year and, using the Government's summary indicator (M3), close to the monetary objectives set out in the August 1981 Budget. The Budget projected a rise in M3 of 10–11 per cent in 1981/82, a 3 per cent increase in real GDP and a rise in the GDP deflator of about 10 per cent. In the event, M3 grew by 11.3 per cent and the increases in real GDP and the deflator were similar to the estimates. In addition to M3, the other main monetary aggregates (M1 and M2) rose less than in 1980/81 (Table 11). There was also a marked slowdown in the growth of primary liquidity. At the same time private sector interest rates rose strongly (Diagram 7) during most of the year to levels well above those in major international financial centres. Although private sector interest rates fell after April 1982, they remained exceptionally high in real terms.

The main factors contributing to the change in money supply are summarised in Table 11. While the increase in the domestic Budget surplus helped to constrain the growth of monetary aggregates, the unwillingness of the authorities to fix competitive rates resulted in a fall in holdings of Commonwealth Government securities to the non-bank private sector, thus adding to monetary growth in contrast to earlier years. Although concentrated mainly in the December quarter and in May 1982, sales of Treasury bonds to the non-bank sector were satisfactory, but these were more than

27. The excise exemption on off-road distillate was removed and was partially replaced by a rebate for domestic users, hospitals, nursing homes and off-road use by agriculture, fishing mining and forestry. The revenue gain in a full year is estimated at $176 million.

Table 11. **Formation of changes in the volume of money**[1]
$ million

	1977/78	1978/79	1979/80	1980/81	1981/82
Budget deficit (+) or surplus (−)	3 310	3 455	2 033	1 110	549
less: Overseas deficit	972	1 222	1 468	1 556	1 468
Domestic budget deficit	2 338	2 233	565	−446	−919
less: Non-bank uptake of government securities	1 247	720	741	534	−156
Unfunded domestic deficit	1 091	1 513	−176	−980	−763
Private sector foreign exchange transactions	−1 182	−252	978	2 803	2 462
Net contribution of budget and overseas sector to monetary base	−91	1 261	802	1 823	1 699
Rural credit advances	−108	78	−284	114	3
Other factors[2]	−335	65	169	385	−614
Monetary base	−534	1 404	687	2 322	1 087
less: Non-bank currency holdings	385	421	457	557	593
SDR balances	−970	392	260	467	260
Bank sector LGS assets	51	591	−30	1 298	235
Loans and advances	2 882	3 258	4 036	4 088	4 602
Other factors[3]	−430	356	918	286	837
Bank deposits of public	2 503	4 205	4 924	5 672	5 673
add back: Non-bank currency holdings	385	421	457	557	593
Change in volume of money (M3)	2 887	4 626	5 382	6 228	6 261
(Actual rate of growth)	(8.0)	(11.8)	(12.3)	(12.7)	(11.3)
(Projected/target growth)[4]	(8-10)	(6-8)	(Max.10)	(9-11)	(10-11)
Domestic credit expansion[5]	4 069	4 878	4 404	3 425	3 804

1. Budget and overseas components are levels.
2. Reserve Bank transactions in commercial bills, other loans and advances, miscellaneous accounts and the balancing item.
3. Other bank assets and liabilities and adjustments for government and interbank deposits.
4. Projected growth of M3 in successive Budget Speeches.
5. Change in M3 less private sector foreign exchange transactions.

Sources: *Budget Paper No. 1*, 1982/83 and Bulletin, Reserve Bank of Australia, August 1982.

offset by falls in holdings of Australian Saving Bonds and Treasury notes[28]. Overall, however, Commonwealth Government transactions had a substantial restraining effect on the growth of the monetary aggregates. The contribution of private sector foreign exchange transactions was somewhat less than in 1981/82 and below the Budget estimates (Table 11). Concerned about the strong growth of credit, the Reserve Bank in September 1981 asked the major trading banks to limit the growth in total advances to an annual rate of 12 per cent from a June 1981 base level. The guideline was withdrawn in June 1982. This guideline was respected and although loans and advances by the major trading banks increased by 12.1 per cent, their percentage contribution to monetary formation was much the same as in 1980/81. Lending by most non-bank financial institutions expanded rapidly, however, reflecting partly their ample liquidity position as a result of the disinvestment in Australian Savings Bonds by the non-bank public and the ability of the banks to create contingent liabilities through bill lines which were subsequently acquired by non-banks.

The markedly slower growth of M1 (narrowly-defined money supply[29]) than the broader aggregates reflected largely interest rate developments associated with strong

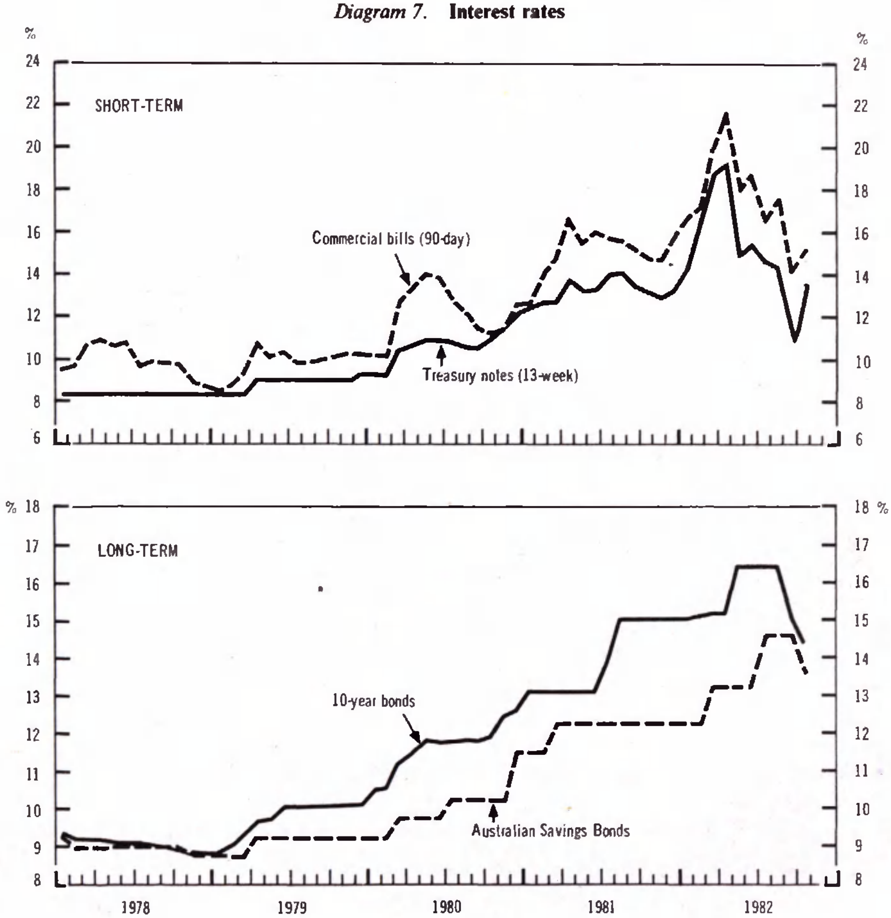
28. Non-bank holdings of Treasury bonds rose by $749 million, while those of Treasury notes and Australian Savings Bonds fell by $152 million and $721 million respectively.
29. Fixed deposits of trading banks are included in M2 and M3 but are excluded from M1.

Table 12. **Volume of money**
Percentage changes, seasonally unadjusted[1]

	1978/79	1979/80	1980/81	1981/82
Currency	11.9	11.5	12.6	11.9
Current deposits with trading banks	18.9	13.5	11.8	−2.8
M1	16.7	12.9	12.0	1.6
Plus: Other deposits with trading banks[2]	9.4	20.7	18.7	26.8
M2	13.3	16.5	15.2	13.9
Plus: Deposits with savings banks	10.1	7.2	9.3	7.7
M3	11.8	12.3	12.7	11.3

1. June to June.
2. Fixed deposits and certificates of deposit.
Source: *Bulletin*. Reserve Bank of Australia.

Diagram 7. **Interest rates**



Source: Reserve Bank of Australia Bulletin.

competition for deposits by banks and other financial institutions which diverted funds from current to fixed deposits. Following the deregulation in December 1980 of interest rates on fixed-term deposits, rates increased considerably (Diagram 7) and major trading banks' fixed deposits rose strongly (22.9 per cent during 1981/82) while current deposits stagnated. The increase in fixed deposits was also facilitated by the reduction from 30 to 14 days as from mid-March 1982 in the minimum period the trading banks could offer fixed deposits and certificates of deposit on amounts of $50 000 and over and from three months to 30 days for fixed deposits of sums below this amount. The increase in fixed deposits and negotiable certificates was also influenced by the success of Cash Management Trusts, which effectively reduced to the small investor the minimum investment requirement for money market securities.

For 1982/83, the Government announced a monetary projection for the growth of M3 of 9-11 per cent, this projection referring to the average annual growth rate rather than the June-to-June basis used in the past. The official objectives are to restrain the growth of financial aggregates consistent with the M3 projection and to direct monetary policy to enhancing the recent indications of a slowdown in the growth in wages. With real GDP expected to be about flat and the GDP deflator expected to increase by about 10½ per cent, the M3 projection provides scope for a tightening of monetary conditions. Much will depend, however, on the conduct of policy through the year and particularly as it impacts on interest rates. Monetary management was enhanced by the decisions of the June Loan Council to give the Treasurer power to set interest rates on Australian Savings Bonds and to change from a tap to a tender system for selling bonds. These changes should permit the authorities to be more active in bond markets in line with their monetary objectives[30].

Short-term prospects

The forecasts presented in Table 13 rest partly upon the view that the development of the international economy will be more favourable to Australia during 1983 than in 1982. OECD imports are expected to grow by 2¾ per cent in 1983, having shown almost no growth in 1982 and could reach a growth rate of nearly 5 per cent in the first half of 1984. On the assumption that exchange rates remain fixed at their present level, that there are no policy changes in the major economies and that the price of oil, in $US, remains at its present level, it seems likely that demand, output, and more especially, imports, will recover somewhat in the United States and Canada and that a modest growth of imports will emerge in Japan during 1983. Prospects in other South East Asian markets and in Europe are less buoyant, but international interest rates should decline bringing a corresponding reduction in Australian rates. As far as the domestic economy is concerned, it is assumed that the move to a more expansionary stance of fiscal policy, implicit in the budget for 1982/83 and in subsequent increases in expenditure, will be continued into 1983/84 and that the growth of monetary aggregates, in the range 9-11 per cent, will be broadly accommodating throughout the forecast period. It is also assumed that the drought, which has severely affected farm output in the 1982/83 season, will not be repeated in 1983/84.

On these assumptions the marked slowdown in the growth of the economy during 1982 should give way to a recovery in both demand and output by late 1983, although not to the peak rates of growth experienced during 1981. The high level of wage and price inflation, which has been a prominent feature during 1982, should decline during

30. The steps to reduce administrative control of interest rates and the shift to a tender system for selling Commonwealth Government bonds accorded with the recommendations of the Final Report of the Committee of Enquiry into the Australian Financial System. A summary of the Campbell report is reproduced as Annex I and some further implications are discussed in Part II of the Survey.

Table 13. **Demand and output prospects**[1]

	Per cent share of GNP 1981	Constant 1979/80 prices; seasonally adjusted; percentage changes at annual rates											
		Calendar years			Fiscal years			1981	1982		1983		1984
		1981	1982	1983	1981/82	1982/83	1983/84	II	I	II	I	II	I
Private consumption	59.9	3.4	2.5	1.1	3.6	1.2	1.7	4.6	2.3	0.7	1.0	1.8	2.2
Government consumption	17.2	5.1	0.3	3.8	2.8	1.6	3.7	5.4	−3.4	3.0	4.0	4.0	3.0
Gross fixed investment	25.0	11.2	−1.0	−0.7	6.2	−3.6	1.6	12.1	−6.0	−4.1	−0.2	1.9	2.9
of which:													
Public investment[2]	7.1	−0.4	0	6.3	−0.4	3.5	6.2	1.0	−3.1	5.0	7.0	6.0	6.0
Private dwellings	4.7	2.9	−9.5	−2.2	−3.1	−8.8	1.3	10.0	−19.4	−6.0	−2.1	1.5	4.2
Private construction	3.3	26.2	8.6	−5.0	16.6	−0.9	−2.1	1.7	22.6	−9.0	−4.5	−1.6	−0.5
Private plant and equipment[2]	10.0	21.7	−1.7	−3.8	13.3	−7.5	−0.6	26.3	−10.2	−8.0	−3.5	0	1.0
Final domestic demand	102.1	5.5	1.2	1.1	4.1	0.1	2.0	6.5	−0.7	−0.1	1.2	2.2	2.5
Stockbuilding[3]	0.4	0.3	−0.6	−0.5	0.9	−1.5	0.3	4.0	−2.0	−2.0	−0.2	0.3	0.7
Total domestic demand	102.5	5.7	0.6	0.6	5.0	−1.4	2.3	10.6	−2.6	−2.0	1.0	2.5	3.2
Foreign balance[3]	−3.2	−2.8	−0.4	0	−2.2	0.4	−0.1	−4.4	1.2	0.3	−0.1	−0.1	−0.1
Exports of goods and services	15.8	−4.3	5.7	−1.7	0.4	1.6	1.5	−8.2	19.5	−4.5	−2.0	1.8	4.5
Imports of goods and services	19.0	10.8	6.9	−1.3	12.4	−0.7	1.7	15.8	9.1	−5.0	−1.0	2.0	4.0
GDP at market prices[4]	100.0	4.1	0.8	0.6	2.9	−0.5	2.3	3.7	0.7	−1.8	0.9	2.5	3.2
Memorandum items:													
Consumer prices[5]		8.9	10.5	9.9	9.2	11.5	7.7	9.0	9.9	13.0	10.0	7.0	7.0
Unemployment (per cent of total labour force)		5.8	7.4	9.0	6.4	8.3	9.4	6.0	6.9	7.9	8.7	9.3	9.6
Current external balance: $ billions		7.4	9.9	11.4	9.1								
As per cent of GDP		5.3	6.3	6.6	6.1								

1. Based on seasonally adjusted data. Note that the annual changes for calendar 1981 and fiscal 1981-1982 may differ from those in Table 1 which are based on unadjusted data.
2. Adjusted for sale of Eraring Power Station (cf. footnote 2 to Table 2).
3. Contribution to growth of GDP.
4. Includes statistical discrepancy not shown separately.
5. Private consumption deflator.

Sources: Quarterly Estimates of National Income and Expenditure: Australian Bureau of Statistics; Secretariat forecasts.

1983 but come to a halt as output begins to pick up. The current external balance, which probably reached 6¼ per cent of GDP in 1982, is likely to widen further for 1983 as a whole, although greater strength in exports should bring some improvement towards the beginning of 1984. Finally, the rundown in stocks, both farm and non-farm, which is expected to subtract nearly 1½ percentage points from the growth of GDP during the 1982/83 fiscal year, should by mid-1983 have run its course and no longer act as an impediment to the growth of output.

Following growth of 3.4 per cent in 1981, real private consumption is expected to decelerate sharply in the second half of 1982 and only gradually recover during 1983. Real non-farm incomes are expected to show very little increase, and perhaps a slight decline, throughout the projection period and in addition farm incomes are expected to decline, perhaps by as much 40 per cent following the severe drought in the 1982/83 season. However, the growth of real household incomes and consumption is expected to be supported by an acceleration in Government transfer payments, a reduction in direct taxation from November 1982 onwards and a decline in the saving ratio. The increase in benefits appears almost certain to be larger than that foreseen at Budget time, both on account of large-scale support for farm incomes following the drought and because the rise in unemployment is greater than envisaged. Private investment expenditure was substantially affected during 1982 by the deterioration in world conditions, the rise in interest rates, the decline in profits and by the general deceleration in domestic demand. Although expectations dating from mid-1982 (discussed above) suggest a decline in business fixed investment up to the first half of 1983, some of these adverse conditions should by then have diminished. This does not imply a recovery of investment of the scale experienced in 1980/81, but should at least prevent any further decline, particularly in housebuilding which may by then also have eliminated any excess stocks of unsold houses.

Following the 1982/83 Budget and the easing of controls in State borrowing, public consumption and investment are both expected to increase fairly rapidly in 1983 – by almost 4 per cent for real government consumption and just over 6 per cent for public investment. On the assumption of no policy change this rate of growth has been continued into 1983/84. As far as stocks are concerned, it is assumed that much reduced stockbuilding in the first half of 1982 will be followed by substantial destocking in the second half of the year. In non-farm stocks these movements reflect the relatively high level of stocks/sales achieved around the beginning of 1982, the subsequent rise in interest rates and the stagnation of domestic demand. In farm stocks, both wheat and wool stocks are likely to be run down during 1982 due to drought. Together these movements are expected to subtract nearly 1½ per cent from the growth of GDP in the fiscal year 1982/83, but on the assumption of a normal harvest and a constant stock/sales ratio in non-farm stocks, should result in a small positive contribution to GDP in 1983/84.

The fall in total domestic demand during 1982 and weakness in 1983 have consequences for employment, inflation and imports. Employment is expected to fall in the second half of 1982 and the first half of 1983 and to grow by only ½ per cent (annual rate) in the second half of 1983. Labour force participation rates should weaken, but the unemployment rate is likely to rise by perhaps 3 per cent of the labour force between the end of 1981 and the middle of 1983. This weakness in the labour market together with a sharp deceleration in import prices (a reflection of world trends plus the assumption that the exchange rate is held constant) should reinforce the deceleration of wage and price inflation in the second half of 1982, bringing the rates of growth of the GDP deflator down to about 7 per cent per annum (annual rate) by the end of 1983.

The uncertainties to which the forecast is inevitably subject centre around the course of world trade, the effects of the current fiscal stance and its assumed continuation into 1983/84, and, particularly in the latter part of the forecast, the response of wages to any recovery in activity. A weaker outcome than is assumed for the world economy in 1983, particularly in North America and Japan, would jeopardise not only the export growth anticipated from late 1983 onwards but could also affect private investment particularly in the minerals and basic metal industries. The risk is multiplied if interest rates do not decline as assumed. As far as policy is concerned, much depends upon the willingness of States to exploit their increased ability to borrow, the extent to which supplementary measures may amplify fiscal expansion, and on whether or not the present stance is continued into 1983/84. The risk on inflation arises later. Although some degree of deceleration in wage settlements seems assured during 1982 and into 1983, it may well be less than that envisaged above. In addition, the risk exists that any recovery during late 1983 and 1984 would engender an undue acceleration of earnings and wages. Particularly in a world environment in which inflation is decelerating, both would jeopardise the international competitiveness of the economy and the balance of payments. On balance, the risks on growth of real GDP are on the downside.

II. MEDIUM-TERM STRUCTURAL ADJUSTMENT AND ECONOMIC POLICIES

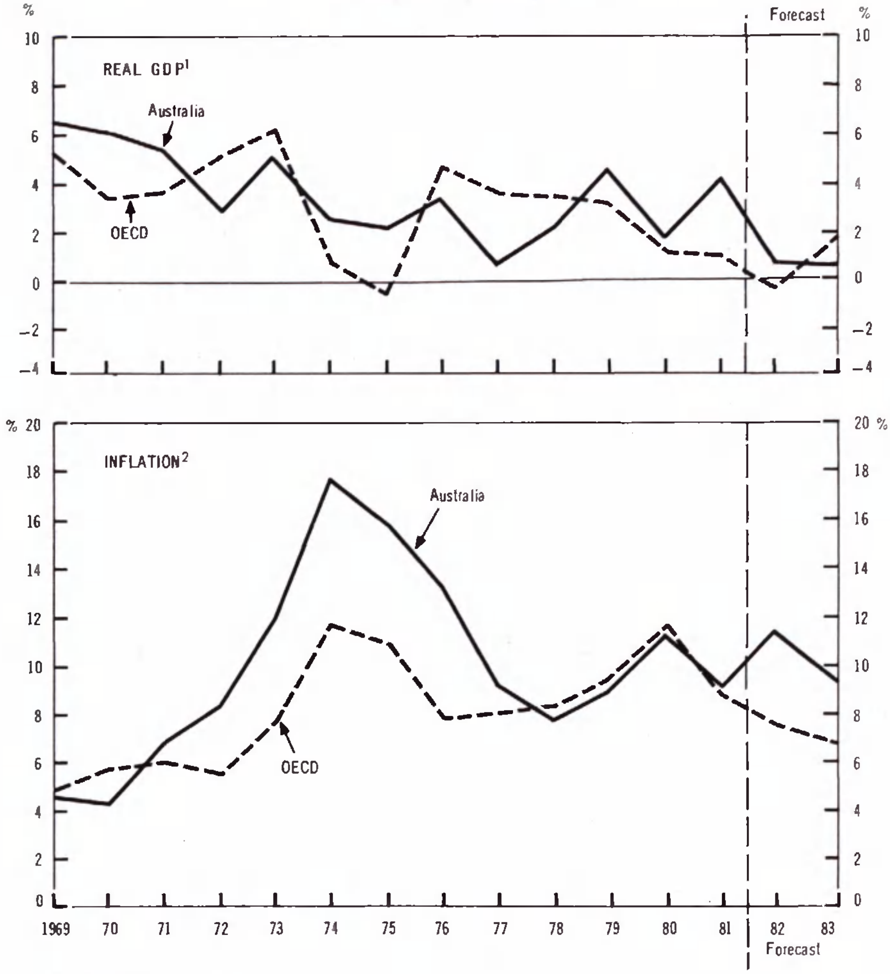
Economic performance in the last ten years has been less satisfactory in many respects than in the preceding decade, being characterised by slower growth of output and employment and higher inflation and unemployment. This experience is common in OECD countries and reflects the difficult adjustments to the large inflationary and other imbalances which built up in the late 1960s and early 1970s and which were compounded by the oil shocks of 1973 and 1979/80. Despite being one of the few net energy exporters in the OECD area and having a very different structure of foreign trade than the majority of Member countries[31], the change in Australia's growth and inflation performance has been fairly similar to those in the OECD area as a whole (Diagram 8). The imbalances in the Australian economy in the mid-1970s were particularly severe however. In 1974/75 Commonweath Government expenditures had risen by 46 per cent engendering an increase in the budget deficit from a position of approximate balance to 4 per cent of GDP and this was associated with a large wage-price inflation upsurge and a sizeable shift in factor incomes away from profits to wages. Unemployment increased by 141 000 to 303 000 between 1974 and 1975 to a rate of nearly 5 per cent.

The rapid increase in the size of the public sector between 1973 and 1976[32], the sharp acceleration in inflation, the factor income share imbalance and the change in relative prices following the oil price shock increased the impediments to sustained growth which had been emerging in the 1960s. By 1975, the authorities recognised that the imbalances in the economy needed to be reduced if conditions for renewed private sector growth were to be re-established. The broad policy objectives adopted since then have had two main strands; first, to bear down on inflation through non-accommodating macro-economic policies so as to create conditions for an expanding, efficient and competitive industry and, secondly, to pursue micro policies to put industry on an

31. Almost 80 per cent of merchandise exports are from the farming and mining sectors and 70 per cent of merchandise imports are manufactured goods.

32. Commonwealth budget outlays rose from 24 per cent of GDP in 1973/74 to 30 per cent in 1975/76.

Diagram 8. **Growth and inflation in Australia and the OECD area**
Annual percentage changes



1. Real GDP at market prices.
2. GDP implicit price deflator.

Source: *OECD Economic Outlook*, December 1982.

efficient and competitive basis by fostering through market forces the movement of labour and capital to their most productive uses. Similar objectives subsequently became widely accepted in Member countries and in June 1978, OECD Ministers agreed on general orientations for policies to facilitate the structural adjustments needed to sustain faster economic growth. In May 1982, OECD Ministers readopted the 1978 orientations and agreed that "in a situation of continuing unsatisfactory economic performance, the need for governments to pursue, in addition to appropriate macro-economic management, conscious policies for positive adjustment has lost none of its urgency."[33] A particular concern is that persistent slow growth of OECD economies

33. Statement on Positive Adjustment Policies, OECD Council Communiqué, 11th May, 1982.

risks increasing protectionist pressures and damaging mutually-beneficial international trade. This Part of the Survey, after outlining briefly the main changes in the structure of the economy since the 1960s, examines some aspects of macro and micro policies as they impinge on the impediments to faster growth.

The changing structure of the economy

The main changes in industrial structure over the 1970s were characterised by the relative decline in manufacturing and agriculture, the growth in the importance of the mining sector, and the rapid growth of the services sector. The manufacturing sector had accounted for less than 20 per cent of output at the outbreak of the Second World War. In the immediate post-war period an extensive network of tariffs and import controls allowed a rapid growth in manufacturing industry and the share of manufacturing in total output rose to around 30 per cent by the end of the 1950s. Meanwhile the share of agriculture declined from some 21 per cent in the immediate post-war period to 13 per cent in 1960 and only 8 per cent in 1970. The share of manufacturing fluctuated little during the 1960s but during the 1970s its importance declined steadily to about 20 per cent of GDP (Table 14). The decline does not seem to have been noticeably accelerated by the 1973 tariff cuts but seems to have been a longer-term phenomenon similar to the trend noticeable in many other OECD countries. Agriculture continued to decrease, so that it now represents little more than 5 per cent of output, whilst mining has moved above agriculture in importance as a result of the late 1960s and early 1980s expansions. There have been significant increases in finance and business services and community services, although the increase in the latter has eased in recent years.

Table 14. **Industrial composition of gross product and employment**

Percentage distribution	ASIC code	1966/67 to 1968/69	1969/70 to 1971/72	1972/73 to 1974/75	1975/76 to 1977/78	1978/79 to 1979/80	1980/81
Gross product[1]							
Rural	A	9.2	6.6	7.5	5.2	6.8	5.8
Mining	B	2.0	3.2	3.6	4.4	5.9	n.a.
Manufacturing	C	27.5	26.3•	24.2	22.4	20.8	n.a.
Utilities[2]	D	3.2	3.1	3.0	2.9	2.9	n.a.
Construction	E	7.6	7.7	7.5	7.4	6.5	n.a.
Distribution[3]	F, G, H	23.9	23.4	22.8	22.6	21.1	n.a.
Financial services	I	8.0	9.1	9.5	9.7	10.5	n.a.
Public administration[4]	J	3.6	3.8	4.2	4.5	4.1	n.a.
Community services	K	6.7	7.7	8.8	10.6	10.5	n.a.
Personal services	L	3.7	3.8	4.0	4.1	4.0	n.a.
Employment							
Rural	A	n.a.	8.3	7.4	6.7	6.6	6.6
Mining	B	n.a.	1.4	1.4	1.4	1.4	1.5
Manufacturing	C	n.a.	23.4	22.0	19.7	18.9	18.4
Utilities	D	n.a.	1.8	1.7	1.7	1.8	1.8
Construction	E	n.a.	9.2	9.1	9.0	8.6	8.5
Distribution	F, G, H	n.a.	26.9	27.2	27.6	27.8	27.7
Financial services	I	n.a.	7.3	7.6	7.8	8.1	8.3
Public administration	J	n.a.	4.8	4.9	5.3	5.3	5.3
Community services	K	n.a.	11.0	12.4	14.4	15.3	15.5
Personal services	L	n.a.	6.1	6.3	6.5	6.4	6.3

1. Percentages of GDP; does not sum to 100 because GDP also includes ownership of dwellings, customs duties and imputed bank service charges.
2. Electricity, gas and water.
3. Wholesale and retail trade plus transport, storage and communication.
4. Including defence.
Source: National Income and Expenditure, ABS.

These broad movements in output have been roughly mirrored by changes in employment. As Table 14 shows, shares of employment have declined in agriculture and manufacturing, while there have been very large increases in community services and much smaller increases in financial services. The employment share of mining has increased very little. Mining has never, at least directly, been a large employer of labour, and employment in 1980 was at 84 000 only 2 000 higher than in 1970[34]. Over the

Table 15. **Changes in the composition and direction of trade**

Percentage shares in total trade

	1950/51	1960/61	1970/71	1974/75	1978/79	1981/82	
I. Composition of trade							
Exports[1]							
Meat	3.1	7.5	9.8	5.1	12.0	7.1	
Cereals	12.7	15.5	13.6	16.7	8.2	12.8	
Wool	64.5	34.5	12.6	8.7	10.3	9.6	
Other rural	7.9	12.3	10.8	12.4	8.9	10.1	
Coal	—	0.8	4.7	8.4	10.8	11.7	
Iron ore	—	—	8.5	8.1	6.8	6.4	
Alumina[2]	n.a.	n.a.	2.2	3.4	5.1	5.6	
Other ores	1.2	3.0	5.8	5.7	5.6	5.2	
Metals	3.3	6.8	9.8	11.3	10.6	8.3	
Other[2]	7.3	19.6	22.2	20.2	21.8	29.6	
Imports[3]							
Food and tobacco	6.4	5.6	5.0	4.7	4.8	n.a.	
Crude materials	10.4	8.6	5.7	4.8	4.1	3.4	
Fuels, etc.	9.2	9.7	4.6	9.0	8.3	13.0	
Chemicals	n.a.	n.a.	9.9	9.7	8.7	7.9	
Manufactured materials	n.a.	n.a.	20.9	18.5	17.5	n.a.	
Electrical machinery	4.5	4.9	6.8	8.9	7.6	26.6	
Other machinery	n.a.	n.a.	19.0	16.8	18.9		
Transport equipment	n.a.	n.a.	13.8	12.2	15.2	14.1	
Miscalleneous manufactures	n.a.	n.a.	9.7	11.9	12.7	11.7	
Others	n.a.	n.a.	4.7	3.6	2.2	n.a.	
	1959/60	1969/70	1977	1978	1979	1980	1981
II. Direction of trade							
Exports to:							
Japan	14.4	24.8	33.2	30.4	27.8	26.6	28.2
United States	8.1	13.5	9.2	11.3	11.9	11.6	11.2
New Zealand	5.8	4.8	5.0	5.0	4.9	4.7	5.1
Korea	n.a.	0.3	1.7	2.8	2.7	2.2	3.5
United Kingdom	26.3	11.8	4.2	4.0	4.4	4.8	3.4
U.S.S.R.	n.a.	1.2	2.5	2.1	3.0	5.1	3.2
China	1.7	3.0	3.4	3.4	4.2	3.6	2.9
Other	43.7	40.6	40.8	41.0	41.1	41.4	42.5
Imports from:							
United States	16.2	24.9	20.7	22.2	22.8	21.8	23.0
Japan	4.5	12.4	19.5	19.2	15.6	17.0	19.7
United Kingdom	35.6	21.8	11.1	11.3	10.6	9.3	7.3
Germany	5.8	6.6	6.9	6.9	7.1	6.0	5.5
Saudi Arabia	0.7	1.1	2.9	2.9	3.0	4.7	5.5
New Zealand	1.7	2.2	3.2	3.1	3.3	3.4	3.3
Other	35.5	31.0	35.7	34.4	37.6	37.8	35.7

1. There was a reclassification of exports in 1966/77 which affects the comparisons between the earlier and later periods to a small extent. There were also minor changes in 1978/79 affecting wool, metals and other goods.
2. Alumina was shown separately only from 1970/71: before that date alumina exports were included in other goods.
3. There was a reclassification of imports from 1965/66 affecting the categories used in this table. Where broadly comparable groups are available prior to this date the figures are included in the first two columns.

Sources: Reserve Bank of Australia, Occasional Paper No. 8A, Sydney, May 1982; Australian Bureau of Statistics, *Overseas Trade*, AGPS.

34. Mining employment was 82 000 in 1970 and 84 000 in 1980. However, there was a large increase in employment in the late 1960s to a peak of 85 000 in 1971 followed by a slump to 70 000 by 1975.

period 1970 to 1980 there was a loss of about 20 000 jobs in agriculture and 85 000 jobs in manufacturing, in each case 6½ per cent of the respective workforces. Employment in other sectors picked up, the largest increase being the rise from 587 000 to just over 1 million employed in community services, the majority of the increase being female workers. Overall, employment increased by about 850 000 (18 per cent) over the decade.

The changes in the domestic structure of the economy have been accompanied by substantial changes in the commodity structure of foreign trade. Although compared with other industrialised countries Australia is not a particularly open economy, trade in goods and services in relation to GDP has increased from about 15 to 18 per cent over the 1970s. Exports are still dominated by rural goods and mining production – just under 80 per cent of the exports of goods. This is not much changed from the position in 1960 although rural goods have been of decreasing importance while mining exports have developed rapidly (Table 15). Rural goods nevertheless still provide over 40 per cent of goods exports, the main change being the declining importance of wool which now accounts for less than cereals production (abstracting from drought-affected seasons). Mining exports have risen rapidly – from 10 to 36 per cent of exports – the main change coming in the mining expansion of the late 1960s. The export of manufactured goods is still a small proportion of the total. This is in sharp contrast to the imports of goods where manufactures have always been the most important category, now representing about two-thirds of the total.

There have been fundamental changes in the direction of trade reflecting not only the compositional shifts noted above, but also changes in trading relationships. Australian exports are now directed far more importantly at Asian markets, over 40 per cent of the total, than at the traditional European markets (Table 15). Trade with the United Kingdom and the rest of the EEC is now a much smaller share than before, a trend that was already evident but was strenghtened by the United Kingdom's accession to the EEC. The fastest growing market has been Japan and Southern Asia, reflecting rising demand in those areas for rural and mining products. Japan has also been increasingly important as a source of Australian imports, while the role of the United Kingdom as a supplier has fallen sharply.

Macro-economic policy

The basic objectives of macro-economic policy since late 1975 have been to reduce the underlying rate of inflation and to generate moderate and non-inflationary growth in order to create jobs and reduce unemployment, the latter being dependent on success in lowering inflation through the maintenance of relatively tight demand management. The main interconnected strands of the anti-inflationary policy in the last seven years have been:

- *i)* Monetary restraint through a gradual reduction in the rate of growth of money supply as a necessary condition for reducing inflation. Conditional monetary projections for the growth of M3 have been announced in each budget since 1976.
- *ii)* The progressive reduction in the budget deficit as an adjunct to monetary restraint, the moderation of the flow of liquidity into the economy being seen as the necessary basis for achieving a monetary environment conducive to lower inflation.
- *iii)* Restraint on the growth of budget outlays and on the size of the public sector in order to foster and make room for private sector expansion.
- *iv)* Redressing the large imbalance between the growth of real wages and productivity as a consequence of the 1974/75 wage explosion (real wages rose by 8 per cent, 6 per cent more than productivity).

Each of these items are briefly discussed below.

Table 16. **Monetary projections and outcomes**

	Projection[1]	Outcome[1]	Comparison
1976-77	10-12	11.0	middle of range
1977-78	8-10	8.0	bottom of range
1978-79	6-8	11.8	3.8 points above top of range
1979-80	max. 10	12.3	2.3 points above ceiling
1980-81	9-11	12.7	1.7 points above top of range
1981-82	10-11	11.3	0.3 points above top of range
1982-83	9-11		

1. Expressed as percentage change through the financial year, e.g. June to June, with the exception of the 1982-83 projection which refers to an annual average growth rate—the change in average level of M3 in the financial year compared with the previous year.
Source: Reserve Bank of Australia.

Australia was one of the first OECD countries to set out target growth rates or projections for the money stock or domestic credit aggregates[35]. The broader measure of money stock (M3) was chosen as the indicator of the appropriate stance of monetary policy[36]. While not intended as a target but rather as a guide both to markets and for the operational control of the monetary system by the Reserve Bank, it was indicaed in the August 1976 Budget that the Budget outcome and the economic conditions foreshadowed in financial year 1976/77 suggested that a growth of M3 in the 10-12 per cent range during the year would be consistent with the reduction of inflation. Conditional monetary projections have been announced in each subsequent Budget and these with the outturns are shown in Table 16.

The deceleration in monetary growth in 1976/77 and 1977/78 was in line with the projections. During this period there was a marked reduction in the rate of inflation and, over the two years, in the size of the budget deficit relative to GDP. The marked reduction in the budget deficit in the next three financial years might have suggested a continuing reduction in monetary growth, but this was not attained. Factors contributing to the overrun included the reduction in the demand for government securities, the sharp increase in international interest rates and a turnaround in private sector foreign exchange transactions during 1979/80. Although many of the proximate causes were external to the Australian economy, the government delayed taking action until the second half of the financial year when interest rates were raised and monetary conditions generally were tightened. Nevertheless, it can be argued that monetary conditions in 1978/79 and in the two subsequent financial years were in conflict with the Government's anti-inflationary objective[37]. The experience of the period since 1977/78 indicates that the lack of flexibility on interest rates was inconsistent with the steady setting of monetary policy to which the authorities were committed. However as shown in Part I above, changes in interest rates since December 1980 have become increasingly more market-oriented and some progress has been made in moving towards a less-regulated monetary system more in line with the monetary goals.

35. For an account of the spread of monetary "targetry" see OECD, *Monetary Targets and Inflation Control*, Paris 1979.

36. The broadly defined money supply, M3, encompasses notes and coins held by the non-bank private sector, current accounts at the trading banks plus time deposits of the private sector at trading banks and saving banks.

37. In its June 1981 Annual Report, the Reserve Bank of Australia stated that "experience in the last three years has demonstrated weaknesses in the way policy has been implemented", that "policy settings were not kept appropriate for the task at hand" and that "on a broad view of these developments, it appears that monetary policy has been unduly accommodating to inflationary pressures".

While *ex post* the authorities' objective of steady monetary conditions bearing down on inflation has not been met, the budget deficit until the current financial year has been substantially reduced both absolutely and in relation to GDP from its peak level of about 5 per cent of GDP in 1975/76 (Table 17). The overall public sector borrowing requirement[38] started to fall later and less than for the Commonwealth. Nevertheless, as Table 17 shows, marked progress in reducing the public sector borrowing requirement was made between 1977/78 and 1981/82 (some 3¼ percentage points of GDP)[39]. Anti-inflation policy has been concerned not only with the reduction in the public sector borrowing requirement but also with reducing public sector outlays relative to the size of the economy. Over the period 1966/67 to 1973/74, Commonwealth outlays averaged about 24½ per cent of GDP, the proportion being 24 per cent in 1973/74. With the large rise in outlays in the following year, the proportion jumped by 5 percentage points to 29 per cent and peaked in 1975/76 at 30 per cent. As Table 17 shows, the authorities succeeded up to 1979/80 in restricting the growth of public outlays whose ratio to GDP fell by 2 percentage points to just under 28 per cent. The ratio was held at about that level for the next two years but it seems likely to increase again in 1982/83. What reduction there has been has been mainly achieved at the expense of capital outlays, Commonwealth current outlays growing in real terms by about 4 per cent per annum. Expenditure control in the State and local government sectors has not been as tight as by the Commonwealth; including their outlays, total public sector outlays in 1981/82 at 38.3 per cent represented about the same share of GDP as in 1975/76 though about 1½ percentage points below the 1977/78 peak.

While the public sector still absorbs about the same share of total resources as it did in the mid-1970s, the strong upward trend of the early 1970s has been halted and the fall in the Commonwealth share up to 1981/82 probably helped to limit the increase in inflationary pressures during the period of recovery and rapid growth between 1978 and the second half of 1981. And to finance public outlays, the public sector borrowed less

Table 17. **Public sector deficits**
(– Indicates surplus)

	Commonwealth Budget				Other public sector[1]		Total public sector	
	Domestic $m	Overseas $m	Total $m	As share of GDP %	Commonwealth non-Budget $m	State and local $m	Total $m	As share of GDP %
1972-73	202	494	696	1.6	–50	335	978	2.3
1973-74	–225	504	279	0.5	72	460	812	1.6
1974-75	1 923	618	2 546	4.1	–31	932	3 447	5.6
1975-76	2 854	712	3 566	4.9	–36	456	3 984	5.5
1976-77	1 844	875	2 719	3.3	310	1 025	4 055	4.9
1977-78	2 338	972	3 310	3.7	540	1 617	5 467	6.1
1978-79	2 235	1 220	3 455	3.4	164	1 934	5 554	5.4
1979-80	566	1 467	2 033	1.8	424	2 229	4 685	4.1
1980-81	–446	1 556	1 110	0.9	411	3 189	4 708	3.6
1981-82	–918	1 468	549	0.4[2]	501	2 978	4 027	2.7
1982-83[3]	–230	1 904	1 674	1.0	n.a.	n.a.	n.a.	n.a.

1. The deficits of Commonwealth non-Budget authorities and of State and local authorities are financed in part by advances from the Commonwealth Budget. The figures are shown here net of those advances.
2. Preliminary.
3. Budget estimates.
Source: Budget Statement No. 6, 1982-83.

38. Net borrowing of general government and public enterprises.
39. Details of fiscal developments in each of the financial years since 1975/76 can be found in earlier OECD Economic Surveys of Australia and in Part I above.

Table 18. **Commonwealth Budget transactions**

	Outlays			Receipts			Deficit	Shares of GDP		
	Actual	Nominal increase	Real increase[1]	Actual	Nominal increase	Real increase[1]	Actual	Outlays	Receipts	Deficit
	$m	%	%	$m	%	%	$m	%	%	%
1972/73	10 190	12.6	5.7	9 494	6.5	−0.2	−696	23.8	22.1	1.6
1973/74	12 229	20.0	5.5	11 950	25.9	10.7	−279	23.8	23.3	0.5
1974/75	17 838	45.9	19.5	15 293	28.0	4.8	−2 546	28.9	24.8	4.1
1975/76	21 861	22.6	4.9	18 295	19.6	2.4	−3 566	30.0	25.1	4.9
1976/77	24 124	10.4	−0.8	21 405	17.0	5.1	−2 719	29.0	25.7	3.3
1977/78	26 737	10.8	2.4	23 427	9.4	1.1	−3 310	29.6	25.9	3.7
1978/79	29 014	8.5	1.7	25 558	9.1	2.3	−3 455	28.4	25.0	3.4
1979/80	31 660	9.1	−0.5	29 627	15.9	5.7	−2 033	27.6	25.9	1.8
1980/81	36 291	14.6	4.2	35 181	18.7	8.0	−1 110	27.8	27.0	0.9
1981/82	41 339	13.9	2.0[2]	40 790	15.9	3.9	−549	27.9	27.5	0.4
1982/83[3]	47 067	13.9	2.6[2]	45 393	11.3	0.3	−1 674	28.7	27.7	1.0

1. Increase in outlays and receipts deflated by increase in the implicit price deflator for non-farm GDP.
2. If adjusted to remove the effects of an additional payday in 1981/82, these figures would be 1.1 per cent in 1981/82 and 3.6 per cent in 1982/83.
3. Budget estimates.

Sources: *Budget Statements*, Nos. 2 and 6.

from the private and overseas sectors than earlier thus easing pressure in financial markets. Nevertheless, the re-acceleration of the domestic sources of inflation from the latter part of 1976, illustrates the difficulties of relying mainly on one instrument of policy to reduce inflationary expectations. Related to the monetary slippage noted earlier, income determination has been an important factor contributing to persistent inflation and other impediments to faster growth.

Without direct powers over national wage determination, the Commonwealth relies on the stance of macro-economic policy to influence the pay climate and intervenes in wages hearings before the Arbitration Commission. Award wages were determined by reference to consumer price increases between April 1975 and July 1981[40] when the principle of indexation in wage fixation was abandoned. From 1976 the Commonwealth in these hearings argued on economic grounds for less than full-indexation of wages to rises in the Consumer Price Index so as to restore factor income shares through a reduction in real wage costs and an unwinding of inflation. The authorities have been particularly concerned about the real wage gap which emerged in 1974/75 as a result of the large rise in real labour costs relative to productivity in that year (Diagram 9). The consequent sharp squeeze on profits was seen to have adversely affected the growth of productive investment and hence employment prospects[41].

After the initial post-war period there were no significant changes in real wages relative to productivity before the early 1970s although there were inevitable short-term movements brought about by fluctuations in nominal wages and prices and by cyclical movements in the economy (Diagram 9). The marked increase in real unit labour costs[42] and the real wage gap in 1974/75 was accompanied by a fall in the share of profits in GDP[43] from over 16 per cent in the second half of calendar 1973 to little more than 12 per cent twelve months later. Partly reflecting the granting of less than full indexation in the majority of national wage case hearings, the real wage gap was reduced in subsequent years before rising sharply again in the first half of calendar 1982. The profit share in GDP increased gradually by about 2 percentage points in the seven years to the second half of calendar 1981 as the wage share came down but these trends have been substantially reversed during 1982. The reduction in the real wage gap and the improved profit share coincided with a strenghening of growth and the fall in unemployment into 1981 although other factors such as the marked rise in resource-related investments also contributed to the strength of the recovery.

The recent fall in the profit share in GDP is partly attributable to the world recession and depressed commodity prices but as in 1974 the main problem rests with the acceleration in nominal wages discussed in Part I above. To that extent it seems that the authorities' macro-economic policies aimed at reducing the impediments to sustained non-inflationary expansion and structural change have been substantially hindered by the lack of realism in pay bargaining. Moreover, the medium-term

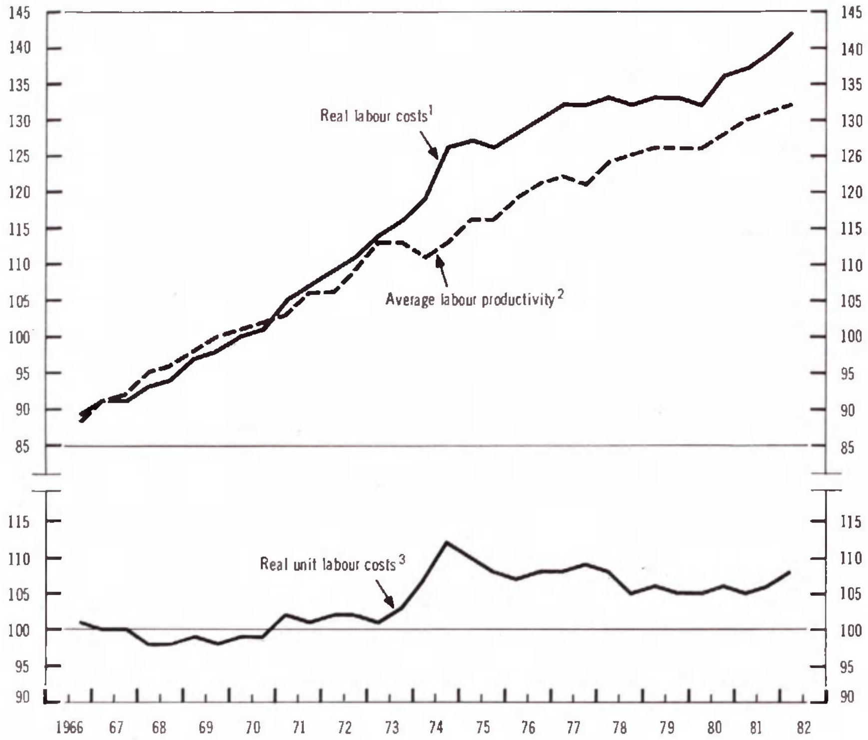
40. Between April 1975 and June 1978 national wage case hearings were held quarterly and thereafter half-yearly.

41. The Melbourne Institute's special issue on "Macroeconomic Policy in Australia – Issues and Evidence" *Australian Economic Review*, 1st quarter 1979, included several contributions on this topic. Whether real wage effects are found in empirical work may depend on the time horizon considered. In the short run, higher real wages may lead to a Keynesian effect via higher consumption but in the longer run neoclassical effects operating via factor substitution and a squeeze on profit shares may reduce output.

42. The definitive official account of the measurement of real unit labour costs is given in a special supplement to Treasury *Round-up of Economic Statistics*, September 1978. The OECD had discussed the measurement issues in the *Economic Survey of Australia*, April 1978, pp. 17-20 and Annex I. There remain some minor statistical problems concerning the measurement of labour productivity relating to first, the growth of self-employment since the mid 1970's and, secondly, the treatment of the activities of financial enterprises.

43. Measured as the ratio of gross operating surplus of trading and financial enterprises to non-farm GDP at factor cost (less imputed bank service charge).

Diagram 9. **Movements in real labour costs and productivity**
Index: average 1966/67 – 1972/73 = 100



1. Non-farm wages, salaries and supplements deflated by the implicit price deflator of gross non-farm product per hour worked by non-farm wage and salary earners.
2. Gross non-farm product at average 1979/80 prices per hour worked by persons employed in the non-farm sector.
3. Real labour costs divided by average labour productivity and indexed.
Source: Treasury.

macro-economic approach has – as argued in earlier OECD Economic Surveys of Australia – necessarily been non-accommodating to inflation because of the wage problem.

Aspects of micro-economic industrial adjustment

Table 14 shows the substantial changes in the structure of the economy in the post-war period. One important feature has been the increasing importance of manufacturing industry up to the mid-1960s and then the decline in its relative importance. Until the mid-1960s industrial policy was concerned with the expansion and diversification of manufacturing industry both for balance of payments reasons and to provide employment for the rapidly growing population. Behind barriers of import quotas and tariffs, import replacement was an important aspect of policy. But in the second half of the 1960s – in the face of growing international and domestic structural pressures – it became accepted that import replacement was increasingly less appropriate than earlier and emphasis shifted towards the encouragement of a more specialised and internationally competitive manufacturing sector. The pressures for adjustment in the manufacturing sector were strengthened by the mid-1970s recession, revaluations of the Australian dollar in 1972 and 1973, a 25 per cent across the board tariff cut in 1973 and the acceleration in labour costs in 1974/75.

Since 1974 the authorities have paid increasing attention to the possibilities of fostering structural change in manufacturing[44]. The Jackson Report, the White Paper on Manufacturing Industry, the Crawford Report and numerous Industries Assistance Commission (IAC) reports have all underlined the need to allow industry to be responsive to changing economic conditions. A lower level of protection has been an important aspect of all these reports, being regarded as an essential way to reduce costs and increase efficiency and competitiveness. From the mid-1960s until 1974 substantial progress was made in reducing the level of protection, the average effective rate of assistance to manufacturing industry falling from 36 per cent in 1968/69 to 27 per cent in 1973/74 mainly as a result of the 25 per cent reduction in tariffs in July 1973. Since then there has been little change: following the November 1976 devaluation some already low tariff rates were reduced but these were relatively minor and did not greatly affect the average effective rate[45]. On the other hand, for some of the most protected industries, temporary assistance in the form of quantitative restrictions was introduced from 1974 onwards. Effective assistance of the textiles industry rose from 39 per cent in 1974/75 to 57 per cent in 1977/78 and from 87 per cent to 149 per cent in clothing and footwear (Table 19). There have been no major changes since then.

After the large 1973 tariff cut, protection policy continued by way of industry studies under the Tariff Review which was designed to examine high tariffs of long standing, covering about 35 per cent of manufacturing industry. Substantial reduction occurred in some industries and action has been taken in several industries in the direction of more uniform rates of protection within industries. The 1977 White Paper on Manufacturing Industry repeated the Government's commitment "to achieve a less complicated tariff structure based on gradual progress towards lower and more stable tariff levels" and the Crawford Report in 1979 recommended a reference to the IAC seeking advice on approaches to general reductions in protection. It also recommended that, once the IAC had reported, the chosen method of reducing long-term protection should be implemented as soon as possible. The Government accepted the Crawford Report's recommendation, but indicated that a reference would not be sent to the IAC until after completion of the Tariff Review programme. In the event such a reference was forwarded in August 1981 before that programme was completed. Two particularly important reports on cars and textiles, clothing and footwear were published during 1981 leading to a programme of gradual adjustment over the 1980s. A reference to the IAC on budgetary assistance to industry was made at the same time and the IAC was urged to report on both references within six months. The reports were published in March 1982[46]. The Report on general reductions in protection outlined three different

44. See R.G. Jackson et al., *Policies for Development of Manufacturing Industry; A Green Paper*, AGPS, October 1975; *White Paper on Manufacturing Industry*, AGPS May 1977; J.G. Crawford et al. *Study Group on Structural Adjustment*, AGPS, 1979.

45. The average effective level of protection has changed hardly at all since 1973/74 when weighting different industries using fixed production weights, but it has fallen by about 3 per cent when using changing production weights to reflect the changing structure of industry. The structure of industry between 1974/75 and 1980/81 apparently moved in favour of those industries with a lower than average level of protection – itself a significant factor – so that the average effective rate of protection moved from 27 per cent in 1974/75 using 1974/75 production weights to 24 per cent in 1980/81 using 1977/78 production weights. Other reductions in protection (e.g. in the context of the Multilateral Negotiations) were effectively offset by the increased protective effect of quantitative restraint.

46. Industries Assistance Commission, Reports No. 301, *Approaches to General Reductions in Protection*, and No. 303, *Certain Budgetary Assistance to Industry*, AGPS March 1982. Another general report on export incentives was published in February 1982.

Table 19. **Average effective rates of assistance in manufacturing**[1]

Per cent

ASIC[2] Code	Industry	1971-72 weights		1974-75 weights				1977-78 weights			
		1968-69	1973-74	1974-75	1975-76	1976-77	1977-78	1977-78	1978-79	1979-80	1980-81
21	Food, beverages and tobacco	16	18	21	20	16	13	8	12	9	9
23	Textiles[3]	43	35	39	50	51	57	48	49	51	57
24	Clothing and footwear[3]	97	64	87	99	141	149	140	140	144	144
25	Wood, wood products and furniture	26	16	18	19	18	18	18	17	15	14
26	Paper, paper products, printing and publishing	52	38	31	30	30	29	25	28	26	25
27	Chemical, petroleum and coal products	31	25	23	23	21	18	19	19	18	15
28	Non-metallic mineral products	15	11	11	10	7	5	6	6	6	6
29	Basic metal products	31	22	16	16	15	14	11	12	11	10
31	Fabricated metal products	61	44	39	38	34	32	31	32	32	34
32	Transport equipment[4]	50	39	45	59	54	61	71	76	91	94
33	Other machinery and equipment	43	29	24	25	22	21	16	19	20	27
34	Miscellaneous manufacturing	34	24	27	26	25	27	24	25	26	29
	Total manufacturing	36	27	27	28	27	26	23	24	24	24
	(Average nominal rates)	(24)	(17)	(15)	(16)	(15)	(15)	(15)	(15)	(15)	(14)

1. Net assistance provided to an activity, industry etc. after making allowance for the effects of tariffs and other forms of protection which increase the costs of the activities concerned.
2. Australian Standard Industrial Classification system.
3. Assistance afforded by quotas for 1976-77, 1977-78 and 1978-79 was estimated from the results of a price disadvantage survey. Estimates of assistance afforded by quotas in 1979-80 and 1980-81 were based on a survey of quota transfer prices and on official tender sale prices. Hence, care needs to be exercised when comparing estimates for these two periods.
4. Estimates based on 1977-78 production weights include an estimate of the effects of the local content scheme for passenger motor vehicles.

Sources: Industries Assistance Commission, *Annual Reports*, and *Approaches to General Reductions in Protection*, AGPS, March 1982.

options for long-term reductions in protection[47] but the Government announced in July 1982 that general reductions in protection were precluded for the time being[48].

The limited changes in protection in recent years –despite the long-standing and frequently-stated commitment to seek lower tariffs – and the decision not to proceed at present reflect several considerations. Important among these are the slow growth and high unemployment since the first oil crisis and the current world recession. Indeed, the 1979 Crawford Report argued that the general programme of reducing protection should "not be implemented while unemployment remains above, say, 5 per cent" (as it has been since 1977). Another factor is the increasing restrictions on access to overseas markets, about 50 per cent of Australia's export trade being affected by non-tariff restrictions. In these circumstances, the official position is that no unilateral action will now be taken but that the Government will pursue its GATT initiative aimed at acceptance by the world trading community of the need to wind back trade distorting measures of all kinds. Concern about the possible short-term impact on employment of lower protection in periods of high unemployment is understandable but there are also long-term costs and OECD Ministers in 1982 stressed that over time, there is likely to be a deterioration in the trade-off between the short-term benefits and the longer-run costs of measures to preserve existing inefficient structures. Defensive policies should therefore be subject to strict criteria, be temporary and wherever possible be reduced according to pre-arranged timetable.

There have been substantial changes in financial institutions and practices in recent years and others seem likely as the Campbell Enquiry recommendations are followed up. This Enquiry[49], the first into the financial system for over forty years, was established in January 1979 to inquire into and report on the structure and methods of operation of the Australian financial system and to make recommendations for improving its regulation and control. In summary, the Committee concluded that a competitive market system subject to a minimum of regulation and government intervention was the most efficient way to organise economic activity. Within prudential limits, the Committee recommended considerable deregulation in the financial system. Annex I contains a summary of the Final Report. As noted above, the authorities have already acted to implement some of the Committee's recommendations both before and after the Report was tabled thus moving to a less regulated financial system. A number of regulations, which the Committee suggested could be reduced or eliminated, remain and are being considered by the authorities but substantial progress has already been made over the last few years. This is evidenced by the increased sophistication of financial markets – with the development of forward markets and cash management trusts – as well as by the recent move to a tender system for selling government bonds. These developments in the financial markets form a significant part of the general process of structural change and maturation and are important in providing the potential for greater flexibility in other parts of the economy.

Australia has a considerable range of measures designed to increase the competitiveness, export-orientation and innovativeness of manufacturing industry. These include an export promotion scheme, investment allowances, accelerated depreciation for plant and an industrial research and development scheme. In general, it seems that the nature of most industrial development measures which are kept under constant review accord broadly with the Government's commitment to structural adjustment and with OECD Ministers' agreement to promote competitiveness, a

47. See Annex II for details of recent IAC Reports.

48. For details see Annex III which includes a Statement by the Prime Minister; *Taxation and Industry Assistance Measures*, 19th July 1982.

49. *Final Report of the Committee of Enquiry into the Australian Financial System*, AGPS, November, 1981; see Annex I.

climate favourable to innovation, the development of new technologies, capital formation, investment and risk taking. However, it is important to recognise that measures such as different forms of protection which hinder structural change can reduce the effectiveness of other aspects of policy designed to encourage it. The impact of micro-policies can also be adversely affected by macro-economic impediments to faster growth, the most important in Australia's case – as noted earlier – being continuing high inflation related to the persistent problems of income determination.

III. CONCLUSIONS

The medium-term strategy, the course and origin of which are described in more detail in Part II of the Survey, has from the outset been concerned to restore the conditions necessary for steady, non-inflationary, self-sustaining growth. The point of departure was not a favourable one. In the aftermath of the oil shock and the wages explosion of 1974/75, the economy at the beginning of 1976/77 displayed a number of large imbalances – in factor shares, international competitiveness, excessive growth in the size of the public sector, a protected manufacturing sector, a high rate of both actual and expected inflation and a level of unemployment substantially higher than that previously experienced. Acting in concert, the instruments of policy were intended to bring down the rate of inflation by reductions in the size of the public sector and public sector deficits and constraint on the growth of the money supply. A more efficient and competitive industrial structure was to be sought through structural adjustment measures. It was recognised that the success of the strategy depended on the adherence to all the basic objectives; it was also recognised that the correction of the imbalances would take some time. But it was considered that there was no alternative to low growth and high unemployment in the short run if the longer-term gains expected to accrue from an adjustment of the fundamental parameters of the economy, in particular those relating to wage formation and the propensity to invest, were to be realised.

In the four years to 1979/80 – when the recent investment cycle first began to be felt – the record was one of partial success, both for the instruments and for the aims of policy. Budget deficits were cut and, for the first two years monetary growth was substantially lowered. Real unit labour costs and the wage share of factor incomes were reduced. The rate of inflation was lowered, international competitiveness improved and, on grounds of resource allocation, the Government adopted the principle that domestically-produced oil should be priced on a parity with imported oil. On other counts, however, implementation, co-ordination and results were less than had been hoped. Budgetary slippage led to wider deficits than intended in 1977/78 and 1978/79 and partly as consequence, partly because of a reluctance to reinforce fiscal policy with higher real interest rates, the growth of the money supply was allowed to accelarate in 1978/79 and 1979/80, exceeding the target range by several points. The size of the public sector in relation to GDP remained much as it had been in 1975/76 and moves to further reduce protection were impeded at several points by a desire to safeguard industrial employment. Moreover, it proved impossible to achieve sufficient acceptance of less than full wage indexation through the Arbitration Commission. Inflationary pressures began to re-emerge in 1979/80, although the unemployment rate had increased from 4 per cent in 1975/76 to 6 per cent in 1979/80, and there did not appear before 1980 any sign of a sustained acceleration in productive investment.

The surge in private fixed investment, which began in the first half of 1980, dramatically increased expectations of a higher and sustainable rate of growth and at the same time intensified concerns about the settings of macro-economic policy and the extent to which the public sector should free resources for private sector growth. The investment was concentrated in the export-orientated resource-based industries. Exploration and surveying had been under way for many years, but the movement to import parity pricing, the favourable tax treatment of new oil production and the rise in world energy prices following the second oil shock tipped the scales in favour of immediate exploitation. Private investment accelerated very rapidly and it was widely and confidently expected that its continued expansion would underpin a strong growth of real incomes for some time to come.

The problem for policy was to prevent this lift in demand and expectations adding unacceptably to inflationary pressures which already existed, a task complicated by large inflows of private capital and wide fluctuations in farm output and incomes. Fiscal policy was tightened sharply in both 1980/81 and 1981/82 and the Budget deficit brought back to less than ½ per cent of GDP. However, as in the earlier years of the strategy, slippage and lack of co-ordination with other elements of policy reduced the effectiveness of the fiscal tightening. Real interest rates were not significantly raised until mid-1981 and the volume of money was allowed to expand by 12½ per cent in 1980/81 and 11 per cent in 1981/82. In 1980/81 the cuts in the Commonwealth Budget were effectively neutralised by an expansion of the borrowing requirement of States and local authorities, and in 1981/82 the pattern of State and Commonwealth expenditures reinforced the weakening of expenditure in the second half of the year. Up to mid-1981 employment grew strongly, unemployment declined and productivity growth accelerated as output gathered momentum. But there was little further acceleration in consumer prices – then increasing at about 10 per cent per annum – mainly because of an appreciation of the Australian dollar and a weakening of world import prices. However the underlying inflationary pressures increased. Real unit labour costs rose, the wage share of total incomes increased and international competitiveness declined. During 1982, the rate of inflation has considerably accelerated.

A principal aspect of the last two years has in fact been the acceleration of wage costs associated with the markedly improved labour market conditions apparent up to around mid-1981. There seems little evidence to indicate that the responsiveness of wages to price and output movements has changed over the last six years. The increased demand for labour in particular areas of the economy led to pressures for larger wage increases, under various headings of work-value awards, productivity agreements and shorter hours, which quickly flowed to the workforce as a whole. Being incompatible with a simple one-for-one compensation for price increases, these pressures led to the demise of indexation by the Arbitration Commission. Although some reduction in real wages and redressment of the factor share imbalance was obtained in the period 1975 to 1981, experience of the recent upsurge suggests that the pressures were dormant rather than modified and that the trade-off between faster growth and wage inflation has altered very little.

Following the downturn in the economy in the first half of 1982 and in response to the high and rising level of unemployment, the Commonwealth Budget for 1982/83 envisages increased growth in public expenditure, reduced rates of direct taxation and a widening of the fiscal deficit by ½ per cent of GDP. The proposed relaxation is a modest one and is the first occasion since 1975/76 when policy has intentionally sought short-term support for the level of activity. Given the decline in activity and the abrupt timing of events over the past year, the move is understandable. But it involves substantial risks to inflation particularly as there is likely to be considerable slippage from the Budget estimates. The rapid growth of earnings, wages and prices during 1982 was inconsistent with the aims of the medium-term strategy; and although inflationary pressures may ease during the course of 1983, in the absence of firm anti-inflationary policies, they are likely to return with renewed vigour if output recovers. In these circumstances it is important that the current relaxation of policy is only a temporary one.

The eventual tightening of macro-economic policies – even if it is characterised by a greater degree of co-ordination between fiscal and monetary policy, a contraction of the public sector and a reduction in protection – will face severe problems if it is not also accompanied by fundamental reforms in the processes of income determination. The economy in 1983 does not face as many major imbalances as in 1975/76. But the level of unemployment is now much higher – approaching 9 per cent – and the balance of payments may act as a greater constraint on growth than has been the case in recent years, particularly if a reduction in capital inflows should occur. In this environment and as argued in the last OECD Economic Survey of Australia it is essential that progress 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. Such an understanding needs to be reinforced by appropriate demand management and progress in reducing protection.

Annex I

FINAL REPORT OF THE COMMITTEE OF INQUIRY INTO THE AUSTRALIAN FINANCIAL SYSTEM

Background

The Committee of Inquiry into the Australian Financial System was established by the Federal Government on 18th January 1979 to examine and make recommendations on the structure and operations of financial markets in Australia.

On 28th August 1980 the Treasurer released an interim report prepared by the Committee. The interim report surveyed the structure and operation of the financial system, the existing regulatory framework and identified the principal issues before the inquiry. The interim report contained no recommendations but provided a basis on which these could be addressed by the Committee in its final report.

On 17th November 1981 the Treasurer tabled in Parliament and released to the public the final report of the Committee.

Summary of the Final Report

The following brief summary is necessarily very selective.

The Committee's Report concentrates on the aims and methods of direct government intervention in the financial system, examines how government intervention has impacted on the operations of various areas of the financial system and makes recommendations for promoting greater efficiency, competitiveness and stability in the financial system.

The Role of Government

The Committee notes that there is a clear justification for Government intervention in financial markets where it is necessary to ensure free, fair and competitive markets. The Committee also acknowledges a role for governments in safeguarding the underlying stability of the financial system and in the pursuit of macroeconomic policy objectives. It is recognised that governments have legitimate social objectives, but the Report concludes that these may be better achieved by means other than through intervention in the financial system, particularly through fiscal means.

Role of the Reserve Bank

The principal conclusion of the Report in this area is that the existing provisions of the Reserve Bank Act which define the relationships between the Reserve Bank, the Government and the Parliament and which provide for its operational independence should be retained. It recommends, however, that the Reserve Bank should seek where practicable to charge for the services it provides to banks and governments and that some functions of the Reserve Bank, namely the Bank's lending to primary produce marketing organisations, should be phased out.

Government-owned financial institutions

The Committee addresses the role of particular government-owned financial institutions. The main focus is on the commercial functions of such institutions although the conduct of non-commercial functions (including the means by which governments pursue sectoral assistance objectives) is also discussed. The Committee concludes that each existing government-owned financial institution should be carefully evaluated to ensure that it is filling a market gap in the most cost-effective way. The conduct of commercial functions should be reviewed to ensure they are economically viable, operationally efficient and are not causing market inefficiencies or distortions as a consequence of unequal competition with private sector competitors or, more generally, by inhibiting the development of a vigorous private sector. Where these conditions are not substantially met consideration should be given to the sale or winding up of the commercial operation, unless continuing government ownership of the institution is judged by the Government to generate overriding economic externalities or social benefits which could not be achieved more cost-effectively in any other way.

In all essential respects, the operations of government-owned financial institutions should, as far as possible, be placed on an equal footing with those of private sector competitors. If there are benefits in terms of borrowing status arising from government ownership, these benefits should be assessed and treated as an operating expense. (However, the imprecise character of any such assessment is recognised.)

The Committee concludes that new government-owned financial institutions should not be established unless they meet the foregoing criteria.

Domestic economic policy

The Report recommends that the Australian Government should continue to announce and seek to achieve a monetary target. The principal policy instrument which should be used to achieve the monetary target should be open market operations. In exceptional circumstances, however, it may be necessary to use some form of direct control on banks and, to that end, the Report recommends the retention of a modified variable reserve ratio on banks. This Committee considers that a wider application of this variable reserve ratio to non-bank financial institutions would pose complex administrative problems and its effectiveness would be doubtful in the long term. It recommends that bank lending guidance and all controls on bank interest rates and the maturity of bank deposits should be abolished.

The Committee recognises the need for a general cashing facility, at the market's discretion, to provide a "safety valve" for the financial system. In this regard, the Committee recommends that there should be an increase in the types of securities which can be rediscounted at the Reserve Bank. It favours the limiting of central bank credit facilities. In particular, the Committee recommends that banks should not have right of access, at their discretion, to Reserve Bank credit and that the provision of contingency liquidity support to viable individual institutions should be provided only at the Reserve Bank's discretion.

The Committee recommends that steps should be taken to reduce the size of the seasonal swings in liquidity in the financial system. The preferred means of achieving this is by spreading tax payments more evenly over the financial year.

Public sector finance

The Report makes a large number of recommendation which would reflect on the market for Government securities. The suggested changes include:

- the introduction of a tender system for selling Commonwealth Government bonds;
- the abandonment of captive market arrangements which require trading banks, savings banks, life insurance offices and superannuation funds to hold varying proportions of their assets in government securities;
- consideration to be given to the introduction of various new types of government securities, including an indexed security; and
- a relaxation of borrowing restrictions for selected semi-government authorities, provided that they are responsive to market disciplines and operate on commercial lines.

Exchange rate arrangements

The Committee has recommended that the present institutional arrangements for fixing the exchange rate should be terminated at an early date. Thereafter the exchange rate should be determined in the market and the authorities should deal in the market if they wish to promote a particular rate. The Committee accepts that it may be necessary to maintain a significant level of intervention in the early stages of development of the foreign exchange market but, after this transitional period, considers that any official intervention (apart from technical smoothing) should be relatively light, infrequent and only for short periods. It proposes that forward market arrangements reflect and be consistent with spot market arrangements, and that foreign exchange licences be restricted to banks.

The progressive dismantling of the present exchange control mechanism is also recommended. However, the Committee recognises that it will take time for the foreign exchange market to develop and until then some controls may need to be retained. Moreover, it proposes that during the transitional period the authorities should retain a reserve power to apply, as a last resort measure, a price-related control (such as the variable deposit requirement).

Entry to banking and the domestic payments system

The Committee sees a continued distinctive role for banks as a safety haven for depositors and in the payments system.

Freedom of entry was seen by the Committee as necessary to promote competition and efficiency, particularly in banking. To this end, it is proposed that banks should not have to provide the full range of banking services, should have flexibility in their capital and operational structures and should not be subject to maximum shareholding limitations or to restrictions on the type of business they conduct or the sources from which they borrow. The Report recommends improved access by non-banks to the payments system, but with banks continuing to have the sole right to issue and clear cheques. Carefully managed foreign bank entry is recommended. The economic benefits from foreign bank entry are seen to be greatest where no Australian participation is mandatory.

Prudential supervision

The Report proposes significant changes to the prudential supervision of banks, other deposit-taking institutions, long-term savings intermediaries and companies and the securities industry.

In relation to banks the Committee recommends that each should be required to meet a liquidity ratio for prudential purposes and be subject to appropriate capital requirements. For the purposes of prudential regulation (and monetary policy) it is also recommended that banks be required to consolidate the operations of intermediaries which are subsidiaries.

While the trend in some areas, particularly banks, is towards more formal prudential regulation, the emphasis is on facilitating new entry and enabling greater flexibility in operations. Particular emphasis is placed on improved disclosure and the education of investors, as well as on the need for uniformity where intermediaries are regulated by the states.

Sectoral assistance

The Committee concludes that intervention in the financing system may not be the most cost effective means of delivering assistance to particular groups or sectors in the economy including the housing, small business and rural sectors. Where the need for sectoral assistance arises from market failure the Report concludes that this should be approached by action directed at removing the cause (e.g. barriers to entry or competition or inappropriate regulation). In those other cases where sectoral assistance is to be given it should be effected, as far as practicable, directly through the budget process rather than indirectly through intervention in the financial system.

Housing finance – the Report concludes that the housing sector should not be insulated from general monetary conditions since this would place a disproportionate share of the burden of monetary policy onto other sectors of the economy. The Report notes that interest rate controls on housing finance intermediaries tend to magnify the effect of general instability on housing finance flows and have had significant perverse and regressive distributional effects.

Small businesses – the Report notes that small firms are not equal to large firms in their access to financial markets. The Committee believes that the problems encountered by small businesses basically derive from the higher costs and risks involved and the inability of small business proprietors to take full advantage of the opportunities available whether due to lack of financial sophistication or a reluctance to dilute control.

Rural finance – the Committee notes that the rural sector has some special requirements in respect of long-term finance, flexibility and structural adjustment. The Committee makes no judgement on whether governments should assist rural borrowers but argues that assistance is not always effectively or best given by direct government intervention in the financial system. In particular, the Committee recommends that assistance to the rural sector should be effected by means other than controls over the direction, volume or cost of lending by banks and other intermediaries.

Taxation

The Report concentrates on those taxation arrangements which have a non-neutral impact on financial markets and on funds flows.

On company taxation the Report recommends that the Government should work towards the introduction of a system of full integration of company and personal income tax. As an interim step the minimum personal tax applying on a shareholder's "allocated" share of corporate income should be set at the existing company rate. A shareholder whose personal tax is less than the company rate would pay no additional tax on his dividend income. In contrast, such a taxpayer is (or may be) taxed on dividend receipts under the present system.

The Report makes a number of recommendations for rationalising the existing taxation arrangements in respect of life insurance offices and superannuation funds.

Security markets

Individual investors and the stock market – the Committee notes the declining participation by individuals in the share market and an increase in the relative importance of institutions. A similar decline in individual share ownership has also occurred in other countries. While it recognises that governments may have other, non-economic, reasons for wishing to see greater individual participation in equity investment, the Committee is unconvinced of the need, on efficiency grounds, for government measures to discriminate in favour of direct share investments by individuals.

Brokerage rules and entry barriers – the Committee considers a qualified case exists, on efficiency grounds, for the deregulation of brokerage rates although it notes the possibility that deregulation would fragment the market for securities.

The Committee notes that because membership of the exchanges is regulated by member brokers and there is no right of appeal, there is a risk that the level and pace of entry may at times be incompatible with the public interest. It recommends that the authorities keep stock exchange business rules under review to ensure that they do not operate unreasonably to exclude applicants for membership and that an appeal process should exist. The Committee believes that the inability of stockbrokers to incorporate has impeded their ability to develop a flexible financial structure and recommends that stock exchange rules be amended to allow members to incorporate subject to certain restrictions in respect of "outside" shareholdings. The Committee reaches no firm conclusion on the issue of admission of corporations to stock exchange membership.

Annex II

A SUMMARY OF SOME RECENT INDUSTRIES ASSISTANCE COMMISSION REPORTS

The following material summarises three of the more important general reports published by the Industries Assistance Commission in February and March 1982. The Government's response to these reports was given in a Prime Ministerial statement on 19th July 1982, part of which is reproduced in Annex III.

Export Incentives

Report No. 300, 28th February 1982.

Reference date: 17th June 1981.

Terms of reference: that the Commission inquire and report by 31st December 1981 on what changes should be made to current methods of assisting the development of the export of goods and services through the Export Market Development Grants Act 1974 and the Export Expansion Grants Act 1978, and what alternative measures to the existing schemes, if any, should be introduced.

Recommendations:

a) the Export Expansion Grants scheme be terminated on 30th June 1983; and

b) the Export Market Development Grants scheme be terminated on 30th June 1985 but that, in the interim, the scheme be continued subject to the following modifications:

- *i)* the disposition between Government Sponsored Promotions and other promotions be removed for the purpose of setting the grant ceiling;
- *ii)* the grant ceiling be set at $125 000;
- *iii)* the performance test be abolished, but the Export Development Grants Board be empowered to exclude applicants currently subject to the performance test whom it regards as not being genuine exporters;
- *iv)* approved regional tourist associations be subject to the same requirements as other approved tourist bodies; and
- *v)* the cost of preparation of special tenders and quotations be classed as eligible expenditure for the tourist industry as for other exporters.

Approaches to General Reduction in Protection

Report No. 301, 2nd March 1982.

Reference date: 20th August 1981.

Terms of reference: that the Commission inquire and report within 180 days on what options are available which could be adopted to achieve further general reductions in protection, having regard to the Government's desire:

a) to pursue policies to encourage the development of competitive Australian industries which rely less on government assistance;

b) to achieve a less complicated, lower and stable structure of protection;

c) to ensure that any changes are within the community's capacity to absorb; and

d) that the benefits of any assistance reductions are available sufficiently early to contribute to the achievement of the Government's economic goals, in particular through lower prices and the increased availability of real resources.

The Commission should, in respect of each option:

a) include advice on

- *i)* the likely short and medium term effects on prices, employment opportunities generally and in particular regions, and the structure of industry;
- *ii)* the capacity of Australian industry to adjust;

b) take into account recent reports it has submitted to the Government and recent decisions on industries' assistance taken by the Government in respect of industries for which phased reductions in assistance or sectoral policies have been determined; and include advice on special arrangements, if any, which should apply in such cases or in respect of any other particular industries, including industries subject to temporary assistance.

Findings; given the nature of the reference there were no recommendations as such in the Report but an analysis of various different options was given. The options considered were as follows:

- All rates of protection above 20 per cent to be reduced to 20 per cent with equal annual reductions over 10 years. (Identified in the Report as Option IA).
- All rates of protection to be reduced by 35 per cent over 10 years (IIA).
- All rates of protection above 30 per cent to be reduced by half, rates between 30 and 15 per cent reduced to 15 per cent over 10 years (IIIA).
- All rates of protection above 20 per cent except those for the Textiles, Clothing, Footwear and Passenger motor vehicle industries to be reduced to 20 per cent over 10 years. Protection to Textiles, Clothing, Footwear and Passenger motor vehicle industries to be reviewed before their current assistance arrangements expire (IC).
- All rates of protection except those for the Textiles, Clothing, Footwear and Passenger motor vehicle industries to be reduced by 35 per cent over 10 years. Protection to Textile, Clothing, Footwear and Passenger motor vehicle industries to be reviewed before their current assistance arrangements expire (IIC).
- All rates of protection except those for the Textiles, Clothing, Footwear and Passenger motor vehicle industries to be reduced by 35 per cent over 10 years. Current assistance arrangements for Textiles, Footwear, Clothing and Passenger motor vehicle industries to be continued until their expiry dates. Rates for these industries to be reduced by 35 per cent over the remainder of an overall 15 year programme (IID).
- All rates of protection above 30 per cent except those for the Textiles, Clothing, Footwear and Passenger motor vehicle industries to be reduced to 15 per cent over 10 years. Current assistance arrangements for Textiles, Clothing, Footwear and Passenger motor vehicle industries to be continued until their expiry dates. Rates for these industries to be subject to the above reductions over the remainder of an overall 15 year programme (IIID).

The Commission attempted to assess the effects of each of these options and their consistency with the Government's industry policy objectives. The Commission's analyses indicated that the adjustment associated with any of these options would be small relative to changes which have occurred throughout the economy in the past. Options IA, IIA and IIIA would make the greatest contribution to the development of competitive industries. All options, except IC and IIC, have similar effects on the average level of protection, reducing it by about 35 per cent. Options IID and IIID take longer than Options IA, IIA and IIIA to achieve this reduction and concentrate reductions in the last five years. Options IC and IIC make a relatively small contribution to reducing the average level of protection and to achieving a less complicated and more stable structure of protection. They make only a small contribution to the achievement of lower prices and an increased availability of real resources. They involve least adjustment because they imply relatively minor changes. A dissenting opinion was given by two IAC members who did not support any of the options outlined above. They expressed a preference for a limited industry by industry review in which the Commission would make recommendations on the time appropriate for individual industries to reach some lower level of protection. They also put forward a formula approach as an alternative. The Commission noted that if any option for general reductions in protection canvassed in this Report were to be implemented successfully, it would require a fundamental departure from the practice of assistance being adjusted to the changing needs of individual industries and activities. This would result in a significant change in the nature of the Commission's role with the emphasis shifting towards more broadly based reviews of protection and other forms of assistance.

Certain Budgetary Assistance to Industry

Report No. 303, 26th March 1982.

Reference date: 23rd August 1981.

Terms of reference: that the Commission inquire and report within 6 months on whether the industrial research and development incentives programmes and the investment allowance make a sufficiently effective contribution to the achievement of the Government's industry policy objectives and what changes, redirections, or alternative means, including improvements in depreciation provisions, would be more effective, having regard to:

a) the Government's desire to encourage the development of more efficient and internationally competitive industrial activities; and

b) the Government's policy of fiscal restraint. The Commission should advise on whether the assistance provided through measures covered by both the above and the reference currently before it on export incentives might be more effectively redirected.

Findings: the Report gave detailed consideration to each of the programmes under review and is difficult to summarise, particularly as alternative views on each issue were expressed by several Commission members.

The Commission considered that in periods of relatively high inflation, the existing taxation treatment of investment income has an undesirable impact on the pattern of investment. It considered that improving the neutrality of the current taxation system, particularly in relation to the treatment of investment income under inflation, would be a most effective industry policy measure. In the absence of significant tax reform, the Commission concluded that the existing investment allowances make a relatively effective contribution to the achievement of industry policy objectives by alleviating to some extent the undesirable effects on investment of the interaction of inflation and the tax system. However, whilst it was of the view that the investment allowance had had a positive effect on the level of investment, it was uncertain as to the size and importance of the effect. Nor was it clear to the Commission that extending or contracting the investment allowance, or changing depreciation provisions, would enable them to make a more effective contribution to achievement of industry policy objectives.

While the Commission was not able to quantify the extent to which industrial research and development activity generates external benefits, it concluded that market failure is significant and that the Australian Industrial Research and Development Incentives Scheme programme is making a sufficiently objective contribution to the achievement of industry policy objectives. It considered that greater emphasis should be placed on correcting for market failure in the Australian Industrial Research and Development Incentives Scheme guidelines and that this should be predominantly in terms of the presence of externalities and not risk. Because of the uncertainties about its impact, and the early stage of development of the current scheme, the Commission judged that there were not clear gains from increasing the funds available to the programme.

Annex III

STATEMENT ON TAXATION AND INDUSTRY ASSISTANCE MEASURES, 19th July 1982

The following is part of the text of a statement by the Prime Minister, the Rt. Hon. Malcolm Fraser, in Canberra on 19 July 1982. The text was published in booklet form entitled "Taxation and Industry Assistance Measures" together with six other Ministerial Statements outlining the detailed changes being made in different sectors of the economy. The excerpts below reproduce the Prime Minister's summary of the measures announced in the various statements, report part of the section on the background to the decisions and reproduce in toto the section of the statement on protection.

"The Commonwealth Government has completed a major review of its industry and related policies. It has done so against the background of deteriorating economic conditions abroad and in Australia; and against the background of the Government's responsibility to provide an overall policy environment conducive to the development of Australian industries, the expansion of employment opportunities and improvement in living standards.

Private investment is fundamental to the achievement of those objectives and to improve the climate for investment the Government has decided that:

- under the general depreciation provisions, plant ordered after today will, subject to certain exclusions, be eligible for accelerated depreciation over either three or five years;
- mining and petroleum companies will benefit by continuing to have the option to depreciate their plant under the general depreciation provisions or under the mining and petroleum provisions in Divisions 10 and 10AA of the Income Tax Assessment Act;
- allowable capital expenditure by mining companies will be deductible by reference to the lesser of the life of the mine or ten years, on a straight line basis;
- new primary production plant will generally be depreciable over three years;
- where applicable, the investment allowance will continue to be available;
- new non-residential income producing buildings, the construction of which commence after today, will be eligible for depreciation at a prime cost rate of 2.5 per cent.

The Government had also decided:

- that the Industrial Research and Development Incentives Scheme should continue without any major changes
- the Export Market Development Grants Scheme should be significantly strengthened
- the Export Expansion Grants Scheme will be allowed to lapse on 30th June 1983
- not to proceed at the present with a programme of further reductions in protection.

Background to the decisions

Last year the Government forwarded three important references to the IAC. In line with normal practice, the Commission's reports are now being released to the public.

Two of those references – on export incentives and certain budgetary assistance – sought advice from the IAC on the effectiveness of present budgetary assistance to industry development, and whether changes, including improvements in depreciation provisions, would lead to more effective use of the community's resources devoted to industry development.

The other major reference sought the IAC's advice on approaches to general reductions in protection. That reference had been foreshadowed when the Government announced its response to the Report of the Study Group on Structural Adjustment.

The prospective economic environment has changed markedly since the IAC was asked to report on the three references and no government could responsibly ignore this reality in reaching its decisions on these reports."

Protection

"The Government's broad approach to protection policy is based on its recognition that, together with the provision of industry development assistance, gradual reductions in protection have a part to play in encouraging the development of a stronger, more specialised and competitive manufacturing sector. The Government remains committed to those objectives – the more so in view of the difficult economic times ahead.

After giving the most careful consideration to the options for further reductions identified by the IAC, the Government has come to the view that these objectives would not be best served by proceeding at present with a programme of further reductions in protection.

While recognising the role that reductions in protection can play in improving the structure and competitiveness of industry, the Government was also conscious of the significant reductions in protection that a wide range of industries have experienced over the past decade.

This process is continuing, with further reductions already in train as a result of decisions that have been taken on IAC reports in recent years, including those arising from the recent completion of the Tariff Review Programme. More than twenty separate product groupings are currently subject to phasing down of tariff, quota or bounty assistance. In addition, the sectoral policies for the textile, clothing and footwear industries and passenger motor vehicle industry – which have been separately determined by the Government after careful and detailed review – contain built-in pressures for structural changes, including increased market access for imports. Those established programmes of adjustment for these industries will continue.

In concluding that no further general reductions in protection are practicable at this time, the Government was also conscious that the capacity of the community to accommodate the economic and social consequences of such unilateral reductions is necessarily reduced in periods of subdued economic activity – and at a time when our own exporters are facing increasing restrictions on their access to overseas markets. Non-tariff restrictions on trade in particular have proliferated in the last three years, and as much as 50 per cent of Australia's export trade is now estimated to be affected by such measures.

The Government's concern about the international economic situation, and these increasing impediments to trade, prompted it earlier this year to promote an initiative aimed at acceptance by the world trading community of the need to wind back trade distorting measures of all kinds. The Government made it clear that it did not have in mind unilateral action by Australia, nor did it look to any other country to act on its own. Rather, it promoted the concept of broad international action with a view to providing a stimulus to world trade.

The decisions I have announced today are compatible with that initiative. They involve a winding down of direct assistance to exporters, and, as noted earlier, decisions already taken will lead to some further gradual reductions in protection in certain areas.

The Government is firmly committed to the pursuit of its initiative, and will press its views in the GATT ministerial meeting in Geneva in November. Our initiative has already gained support in the preparatory meetings now in progress.

It is up to countries meeting at the GATT ministerial in November to decide whether they wish to act together and take the necessary steps to implement the proposals. In the event that the major industrialised countries do so, Australia has made it clear that it will support them."

Annex IV

CALENDAR OF MAIN ECONOMIC EVENTS

Details of main economic events between May 1980 and November 1981 were given in the OECD Economic Survey of Australia, January 1982.

1981

17th November

The Campbell Committee's final report on the Inquiry into the Australian Financial System was tabled in the Commonwealth Parliament (see Annex I for details).

18th December

The Conciliation and Arbitration Commission ratified a negotiated agreement for a pay increase and a reduction in working hours for around 500 000 people employed in the metal industry. The agreement included immediate base rate pay rises of between $20 and $31 per week, a reduction in standard hours to 38 hours per week as from 18th March 1982 and an increase of $14 per week on 1st June 1982 in lieu of any National Wage Case increase granted in the first half of 1982. The award, covering the 12 months to 18th December 1982, included a union undertaking that no further claims for award or over-award pay increases will be made during this period, provided that, in the event of an unforeseen change of an extraordinary nature which is so significant that employees are seriously disadvantaged, the agreement may be reopened for further negotiation.

21st December

The Ministers for Industry and Commerce and Business and Consumer Affairs announced new assistance arrangements for the passenger motor vehicle industry, to operate from 1st January 1985 to the end of 1992. The main elements of these arrangements are:

- retention of the 85 per cent Australian Content Manufacturing Plan;
- the export facilitation ceiling of 7.5 per cent to be progressively expanded to reach 15 per cent in 1987;
- import quotas and the 80 per cent market sharing arrangements to be replaced by tariff quotas which will provide for imports of 105 000 vehicles in 1985 at present tariff levels (57.5 per cent). Tariff quota levels to be increased annually thereafter;
- an increasing proportion of the tariff quotas to be allocated through a competitive tender process;
- imports above the tariff quota level to be initially subject to a duty rate of 150 per cent which will be progressively reduced in steps beginning in 1988 to 125 per cent by 1992;
- from the end of 1992 the industry to be expected to be able to operate under tariff only protection against completely built-up imports;
- the IAC to be requested in 1990 to advise on the level of tariffs that would be appropriate after 1992.

1982

20th January

The Treasurer announced that the Government had completed a review of its foreign investment policy and had decided that the fundamental features and objectives of the existing policy were appropriate and should be maintained. The Government however modified policy to ensure that maximum opportunities are made available for significant Australian participation in the ownership and control of new developments in the minerals processing industry. The Government also decided that a more restrictive approach should be adopted towards foreign acquisitions of rural properties, primarily by way of strengthening the test of benefits from a proposal before approval is given.

26th January

An agreement was ratified by the Conciliation and Arbitration Commission covering tradesmen employed in the building industry. The agreement, covering around 100 000 tradesmen across Australia, involved the introduction of a 35 hour week and a pay rise of $31.30 per week, to be accounted for by the payment of $25.00 immediately and $6.30 per week additional in February 1982. A further $14.00 per week is to be payable from June 1982, although this figure is subject to upward adjustment to allow for any National Wage Case increase awarded prior to June 1982. The agreement included an undertaking by the unions involved to minimize industrial disputation on award-related matters during the term of the agreement.

23rd February

The Conciliation and Arbitration Commission convened a National Wage Case to consider ACTU claims for wage increases and for changes to the wage fixing system.

18th March

The Treasurer announced a housing policy package which included an agreement by the banks to lend an extra $400 million for housing over the next twelve months in response to the following measures designed to improve the banks' ability to attract deposits and to lend for housing purposes:

- a one percentage point increase to 13½ per cent in the interest rate on owner-occupied home lending and to 14½ per cent on overdrafts drawn under limits of less than $100 000;
- amendment of the savings bank regulations to remove existing asset requirements which serve to limit lending for housing; and
- greater flexibility in the deposit instruments banks can offer.

The package also included additional arrangements with the banks and other Government initiatives designed to cushion the impact of the increase in housing loan interest rates for certain existing and new borrowers. The Treasurer also referred to a possible increase in the interest rate paid on trading banks' statutory reserve deposits with the Reserve Bank and possible abolition of quantitative guidance in relation to trading bank lending.

30th March

The Treasurer announced that a new series of Australian Savings Bonds – Series 21 – would be on issue from the commencement of business 31st March 1982. The new series would be issued with an interest rate of 13.25 per cent, and would have a maturity date of 1st October 1989.

5th April

The Treasurer announced that the 14.0 per cent April 1984 (tap stock No. 17) and the 14.5 per cent April 1988 stock (tap stock No. 19) had been withdrawn from sale as from close of business, 5th April 1982.

7th May

The 14.5 per cent November 1985 tap stock (Tap Stock No. 20) was withdrawn from sale.

12th May

The Reserve Bank, with the approval of the Treasurer, increased the interest rate paid on Statutory Reserve Deposit accounts maintained with it by trading banks from 2.5 per cent per annum to 5 per cent per annum.

14th May

The Full Bench of the Commonwealth Conciliation and Arbitration Commission handed down its National Wage Case decision. The Commission rejected the claim that recent agreements had established a community standard for wage increases which might be applied to award wages generally. The Commission indicated that it would review future wage fixing procedures and called for a conference on 17th August 1982 to discuss the programme for the review. In the meantime, the case-by-case system of wage fixation that had been adopted since the abandonment of wage indexation on 31st July 1981 was to continue.

The Treasurer announced that the Loan Council had agreed to the issue of two new tap stocks, Tap Stock No. 21 with a maturity date of 15th February 1984 and an initial yield of 16.4 per cent and Tap Stock No. 22 with a maturity date of 15th August 1985 and an initial yield of 16.4 per cent.

25th June

The Loan Council decided to introduce (as soon as practicable) a tender system for selling Treasury Bonds to replace the tap system and to delegate to the Treasurer, as chairman, the power to:

- decide the maturities, coupons and quantities of stock to be offered at, and to the timing of, each tender; and
- allot up to the full amount offered at each tender, at yields bid in the tender.

Consistent with the approach adopted in respect of the bond tender system, Loan Council also decided to delegate to the Treasurer, as Chairman, the power to determine terms and conditions of Australian Savings Bonds.

The Loan Council also decided that the major electricity authorities be allowed to borrow outside of Loan Council constraints. Overseas borrowings by these and other State authorities, however, will continue to be subject to case by case examination by Loan Council and the Commonwealth's agreement will still be required before such borrowing can proceed.

The Treasurer announced that the Premiers' conference had adopted new relativities for the distribution of tax sharing grants among the States, following consideration of the Commonwealth Grants Commission's May 1982 Report on Tax Sharing and Health Grants. The new tax sharing relativities are to be phased in over three years and during this period the Commonwealth will guarantee that each State's tax sharing grant will increase by at least two per cent in real terms in 1982-83 and one per cent in real terms in each of 1983-84 and 1984-85.

29th June

The Reserve Bank announced that it had withdrawn its request to trading banks to observe a ceiling on the rate of growth of their advances with effect from the end of June 1982.

5th July

A new series of Australian Savings Bonds – Series 22 – offering an interest rate of 14.75 per cent was introduced, replacing the ASB Series 21 which was withdrawn from sale on Friday 2nd July 1982.

7th July

The ACTU, CAI and the Government, led by the Prime Minister, met in a tripartite conference to discuss the state of the Australian economy and related matters.

16th July

Tap stocks Nos. 21 and 22 were withdrawn from sale except for holders of maturing July 1982 Commonwealth securities, who were allowed until 22 July 1982 to reinvest the proceeds of their maturing bonds into the stocks if they wished.

19th July

The Prime Minister announced that the Government had decided to amend the income tax law to make depreciation allowances available for new non-residential income producing buildings and to introduce a new system of plant depreciation allowances under which plant is generally depreciable over 3 or 5 years. In addition, the Government has decided to introduce a new basis of deduction for capital expenditure incurred in developing a mining property or oil field, under which deductions will be available on a straightline basis over the lesser of the remaining life of the mine or 10 years. The Government also decided:

- that the Industrial Research and Development Incentives Scheme should continue without any major changes;
- the Export Market Development Grants Scheme should be significantly strengthened, with the new arrangements to operate from 1st July 1982 to 30th June 1988;
- the Export Expansion Grants Scheme will be allowed to lapse on 30th June 1983; and
- not to proceed at the present with a programme of general reductions in protection along the lines recommended by the Industries Assistance Commission on the basis of the reference announced in the 1981-82 Budget (see Annex III for further details).

29th July

Details of the securities and amounts offered in Treasury Bond Tender No. 1 were announced. Bids were invited for $200 million, 16.0 per cent April 1984 bonds; $100 million 16.0 per cent April, 1986 bonds; and $80 million, 16.0 per cent April, 1988 bonds. It was expected that details of securities to be offered in Treasury Bonds Tender No. 2 would be announced on Thursday 9th September 1982 and that bids would close on Thursday 16th September 1982 to be settled by Friday 15th October 1982.

17th August

The Treasurer presented the 1982/83 Budget. The main features were:

- an increase in outlays of 13.9 per cent (to $57 067 million) in 1982/83, the same as the increase in 1981/82;
- an increase in receipts of 11.3 per cent (to $45 393 million) in 1982/83 compared with an increase of 15.9 per cent in 1981/82;
- a deficit of $1 674 million in 1982/83, equivalent to 1 per cent of GDP; this was $1 125 million more than the outcome in 1981/82; after taking account of a large overseas deficit an estimated domestic surplus of $230 million;

- the main changes included:
  a) an emphasis on capital expenditure;
  b) increased social welfare provisions, especially for families;
  c) reduction in the standard rate of personal income tax from 32 to 30 per cent plus increases in tax free allowances and the top of the standard rate step;
  d) increase in personal income tax dependent rebates where there is a dependent child;
  e) increases in sales tax rates by 2½ percentage points and in beer and tobacco excise, and a modest broadening of the indirect tax basis.
- the announcement of a projected range of M3 growth of 9-11 per cent for 1982/83 as a whole.

26th August

The Acting Minister for Industry and Commerce announced that tariff quotas would apply to certain flat steel products, pipes and tubes of iron or steel to allow individual importers to continue importing at their 1981-82 levels at current duty rates. Imports above the quota level would be subject to an additional temporary duty of 150 per cent. The decision was designed as a holding action pending the Industries Assistance Commission report on Certain Steel Products in May 1983.

31st August

The Minister for Primary Industry announced two new drought aid measures involving interest subsidies on debt where interest rates exceed 12 per cent and a subsidy on fodder purchased to feed drought affected sheep and cattle based on 50 per cent of the price of feed wheat.

9th September

A conference called by the President of the Conciliation and Arbitration Commission to consider a program for review of wage fixing principles was abandoned following the withdrawal of the ACTU from the proceedings.

30th September

Metal industry unions served a log of claims on the Metal Trades Industry Association for a new agreement when the current agreement expires on 17 December. The claims include full real wage maintenance and a further reduction in hours. Employers responded by proposing that the agreement be extended by six months until mid-1983.

19th October

The Minister for Primary Industry announced that the Government would empower the Australian Wheat Board to import wheat.

25th October

The Treasurer announced the introduction of a new series of Australian Savings Bonds, Series 23, offering an interest rate of 13.75 per cent and replacing ASB Series 22 which was withdrawn from the close of business on Tuesday, 19 October, 1982.

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STATISTICAL ANNEX

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

Year ended 30th June	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Expenditure										
1. Private consumption	25 422	30 039	36 441	43 519	49 785	55 187	62 119	69 711	78 434	88 754
Durables	3 330	4 188	5 198	6 112	6 894	7 147	7 692	8 367	9 555	10 827
Other	22 092	25 851	31 243	37 407	42 891	48 040	54 427	61 344	68 879	77 927
2. Government current expenditure	5 452	6 846	9 219	11 462	13 411	15 106	16 735	18 732	22 180	25 454
3. Gross fixed capital formation	10 167	11 743	14 188	17 028	19 015	20 650	23 299	25 528	31 710	37 192
Private	6 684	7 764	8 536	10 331	11 860	12 701	15 139	16 668	21 642	26 781
Public enterprises	1 815	2 071	2 884	3 303	3 717	4 238	4 295	4 810	5 717	5 836
General government	1 668	1 908	2 768	3 394	3 438	3 711	3 865	4 050	4 351	4 575
4. Change in stocks	–286	1 171	1 016	111	1 131	–480	1 255	576	187	1 548
5. Exports of goods and services	6 944	7 810	9 921	11 005	13 206	13 999	16 503	21 572	22 151	22 807
6. Imports of goods and services	5 353	7 782	10 246	10 836	13 788	15 030	17 889	20 917	24 761	28 582
7. Statistical discrepancy	557	1 520	1 209	536	384	868	28	–677	596	1 062
8. **Gross domestic product at purchasers' values**	42 903	51 347	61 748	72 825	83 144	90 300	102 050	114 525	130 497	148 235
Origin										
1. Agriculture, hunting, forestry and fishing	3 244	4 363	3 910	3 998	4 483	4 247	6 839	7 799	n.a.	n.a.
2. Manufacturing	10 582	12 481	14 484	16 665	18 521	19 823	21 435	23 594	n.a.	n.a.
3. Other industry	6 028	7 043	8 906	10 732	12 211	13 361	15 210	18 092	n.a.	n.a.
4. Services	18 807	22 158	27 834	32 906	38 181	42 549	46 588	50 959	n.a.	n.a.
5. Indirect taxes less subsidies	4 242	5 302	6 614	8 524	9 748	10 320	11 978	14 081	16 112	18 591
6. **Gross domestic product at purchasers' values**	42 903	51 347	61 748	72 825	83 144	90 300	102 050	114 525	130 497	148 235

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

Table B. **Gross domestic product**
$ million, average 1979-1980 prices

Year ended 30th June	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Expenditure										
1. Private consumption	57 051	60 068	61 859	63 770	65 340	66 248	68 408	69 711	71 789	74 374
Durables	6 381	7 405	7 814	8 074	8 327	8 022	8 228	8 367	8 969	9 441
Other	50 670	52 663	54 045	55 696	57 013	58 226	60 180	61 344	62 820	64 933
2. Government current expenditure	12 995	13 972	15 157	16 235	16 921	17 581	18 290	18 732	19 768	20 333
3. Gross fixed capital formation	23 966	24 472	23 736	24 605	24 595	24 500	25 684	25 528	28 485	30 260
4. Change in stocks	–650	2 117	1 964	101	1 554	–786	1 720	576	318	1 406
5. Exports of goods and services	16 503	15 571	16 496	17 161	18 459	18 850	20 058	21 572	20 525	20 588
6. Imports of goods and services	14 883	18 962	19 474	18 471	20 317	19 388	21 019	20 917	22 722	25 555
7. Statistical discrepancy	1 313	3 163	2 112	833	557	1 071	79	–677	573	931
8. **Gross domestic product at purchasers' values**	96 295	100 401	101 850	104 234	107 109	108 076	113 220	114 525	118 736	122 337

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	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Compensation of employees	22 966	28 127	36 115	41 580	46 926	51 488	55 415	61 720	71 684	82 390
Wages and salaries	22 026	26 893	34 472	39 541	44 612	48 840	52 579	58 408	n.a.	n.a.
Supplements to wages and salaries	940	1 234	1 643	2 039	2 314	2 648	2 836	3 312	n.a.	n.a.
Income from property and entrepreneurship	8 599	10 723	11 701	13 359	15 542	17 199	21 309	23 568	25 651	29 084
Farm	..	2 736	2 034	1 902	2 165	1 876	4 165	4 731	4 125	4 047
Non-farm	..	7 987	9 667	11 457	13 377	15 323	17 144	18 837	21 526	25 037
Current transfers from government	2 684	3 301	4 586	6 400	7 735	8 670	9 517	10 349	11 678	13 593
Third party insurance transfers	94	118	155	178	212	223	282	350	436	523
Current transfers from the rest of the world	265	285	361	360	276	402	412	588	711	798
Income	34 608	42 555	52 916	61 876	70 690	77 980	86 936	96 573	110 160	126 388
less: Direct taxes paid ou income	4 084	5 485	7 709	9 213	11 047	12 122	12 797	15 040	17 543	21 224
Consumer debt interest	245	377	509	587	722	845	925	1 052	1 292	1 684
Other direct taxes, fees, fines, etc.	488	559	588	683	785	842	850	816	840	963
Current transfers to the rest of the world	217	261	266	313	290	367	398	347	439	491
Disposable income	29 575	35 872	43 846	51 080	57 846	63 803	71 966	79 318	90 046	102 026
Consumption expenditure	25 422	30 039	36 441	43 519	49 785	55 187	62 119	69 711	78 434	88 754
Food	4 569	5 393	6 213	7 104	8 203	9 339	10 585	12 083	13 821	15 420
Clothing	2 255	2 670	3 156	3 547	3 956	4 394	4 749	5 099	5 766	6 471
Rents	3 502	4 080	5 017	6 215	7 569	8 865	10 132	11 420	12 880	15 033
Other	15 096	17 896	22 055	26 653	30 057	32 589	36 653	41 109	45 967	51 830
Saving[1]	4 153	5 833	7 405	7 561	8 061	8 616	9 847	9 607	11 612	13 272
(Per cent of disposable income)	14.0	16.3	16.9	14.8	13.9	13.5	13.7	12.1	12.9	13.0

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	1972		1973	1974	1975	1976	1977	1978	1979	1980	1981
	Thousand persons										
Total employment	5 682.7		5 838.5	5 959.1	5 935.3	6 014.9	6 070.2	6 067.0	6 145.2	6 321.1	6 452.9
Non-farm	5 269.7		5 454.5	5 539.5	5 530.3	5 596.1	5 682.5	5 686.4	5 735.8	5 940.2	6 044.1
Farm	421.8		401.5	383.1	380.3	370.5	383.3	353.0	375.7	378.3	384.7
Unemployment[1]	150.1		136.3	161.6	302.5	298.1	358.1	402.1	404.7	405.6	390.4
Unfilled vacancies[2]	32.4		64.0	62.0	30.1	24.2	22.0	19.5	19.8	19.8[4]	n.a.
	Per cent										
Unemployment rate	2.6		2.3	2.7	4.9	4.8	5.7	6.3	6.2	6.1	5.8
Participation rate: Male	82.7		82.3	81.8	81.1	80.7	80.1	78.9	78.5	78.4	78.1
Female	40.6		41.8	42.9	43.7	43.6	44.2	43.8	43.6	44.8	44.7
	Hours										
Average weekly hours paid for[3]	Old basis	New basis									
All industries	42.9	42.0	42.3	41.3	40.6	40.7	40.7	40.6	40.9	40.9	40.9
Manufacturing	43.2	43.1	43.6	42.2	41.3	41.3	41.3	41.6	42.2	41.7	42.7

1. 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.
2. Registered with Commonwealth Employment Service.
3. 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. Figures for 1981 are not strictly comparable with those for earlier years as sample surveys were selected from a broader framework.
4. Average of seven monthly figures.

Sources: Survey of Weekly Earnings and Hours; Australian submission to the OECD; *The Labour Force, Australia (6204.0).*

Table E. Prices and wages

Year ended 30th June	1972		1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
						1979-1980 = 100.0						
Implied GDP deflator, total		40.7	44.6	51.1	60.6	69.9	77.6	83.6	90.1	100.0	109.9	121.2
Private consumption		41.9	44.6	50.0	58.9	68.2	76.2	83.3	90.8	100.0	109.3	119.3
Gross fixed capital formation		39.7	42.4	48.0	59.8	69.2	77.3	84.3	90.7	100.0	111.3	122.9
Consumer prices: Total		..	..	51.0	59.6	67.3	76.7	84.0	90.8	100.0	109.4	120.8
Food		..	..	52.7	57.8	63.6	70.9	78.7	87.7	100.0	110.3	120.2
Foreign trade prices[1]: Exports		35.2	42.1	50.2	60.1	64.1	71.5	74.3	82.3	100.0	107.9	110.8
Imports		35.6	36.0	41.0	52.6	58.7	67.9	77.5	85.1	100.0	109.0	111.8
Terms of trade		98.9	116.9	122.4	114.3	109.2	105.3	95.9	96.7	100.0	99.0	99.1
						Dollars						
Hourly wage rates[2]												
All activities[3]		1.54	1.69	1.99	2.61	3.00	3.39	3.71	3.95	4.30	4.76	5.35
of which: Manufacturing		1.49	1.64	1.92	2.51	2.86	3.23	3.54	3.78	4.13	4.58	5.13
Hourly earnings[4]	Old basis	New basis										
All industries	2.24	2.35	2.72	3.58	4.05	4.61	5.10	5.46	5.93	6.70	7.61	n.a.
Mining and quarrying	2.88	2.90	3.28	4.40	5.32	6.11	6.84	7.45	8.22	9.37	10.82	n.a.
Manufacturing	2.21	2.20	2.58	3.44	3.82	4.33	4.79	5.11	5.66	6.37	7.13	n.a.
Building and construction	2.42	2.27	2.66	3.55	3.97	4.54	4.98	5.30	5.74	6.44	7.65	n.a.

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) excluding rural industries and private domestic service, as at a pay-period in October each year. Figures from 1981 onwards are not strictly comparable to those for earlier years as sample surveys were selected from a broader framework.

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]				Commonwealth Government			
	1979	1980	1981	1982	1979	1980	1981	1982
Current receipts	32 068	37 384	43 744	51 230	25 910	30 186	35 535	41 381
Direct taxes	15 913	18 542	22 344	26 441	15 913	18 542	22 344	26 441
On income households	12 797	15 040	17 544	21 224	12 797	15 040	17 544	21 224
On income corporations	3 002	3 361	4 639	5 012	3 002	3 361	4 639	5 012
Withholding taxes	114	141	161	205	114	141	161	205
Indirect taxes	12 605	14 886	17 115	19 671	7 355	8 893	10 222	11 436
Income from property and entrepreneurship	2 700	3 140	3 445	4 154	2 473	2 607	2 850	3 386
Compulsory fees, fines, etc.	850	816	840	963	168	144	119	119
Current disbursements	30 434	33 928	39 584	45 653	26 180	28 893	33 433	38 119
Goods and services	16 735	18 732	22 180	25 454	5 685	6 141	7 500	8 619
Subsidies	627	805	1 003	1 079	526	691	858	947
Interest on public debt	3 040	3 476	4 096	4 796	2 075	2 363	2 753	3 139
Current transfers to domestic sectors	9 517	10 349	11 678	13 593	17 379	19 132	21 695	24 683
Current transfers to the rest of the world	515	566	627	731	515	566	627	731
Surplus on current transactions	1 634	3 457	4 159	5 576	–270	1 294	2 100	3 262
Gross fixed capital formation	8 160	8 860	10 068	10 411	1 513	1 670	1 906	2 058

1. Combined Commonwealth, 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	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Current account										
Exports, fob	5 991	6 709	8 442	9 446	11 446	12 025	14 072	18 589	18 867	19 094
Imports, fob	3 808	5 754	7 652	7 922	10 350	11 170	13 490	15 853	19 188	22 451
Trade balance	2 183	956	790	1 524	1 096	856	581	2 736	–321	–3 357
Invisibles, net	–1 473	–1 875	–2 028	–2 933	–3 519	–3 904	–4 400	–4 857	–4 972	–5 847
Current balance	710	–919	–1 237	–1 409	–2 423	–3 049	–3 819	–2 121	–5 293	–9 203
Capital account										
Government	–60	30	–21	–93	232	1 549	1 357	–80	–67	489
Trade credit n.e.i.[1]	60	–53	–75	100	242	–284	21	–758	–41	234
Other private capital	344	392	919	585	1 296	1 139	1 845	2 710	5 342	8 914
Balancing item[2]	22	127	–44	–202	163	102	472	–52	1 208	921
Apparent capital balance	366	495	779	390	1 933	2 506	3 695	1 821	6 443	10 557
Official monetary movements										
Change in official reserve assets	1 079	–384	–460	–1 053	–190	–474	–167	–348	1 101	1 364
Allocation of SDR	–	–	–	–	–	–	–94	–98	–86	–
Other transactions[3]	–3	–41	2	33	–301	–68	137	145	134	–10
Net official monetary movements	1 076	–425	–458	–1 019	–491	–542	–124	–301	1 149	1 354
Changes in market value of official reserve assets[4]										
a) Gold[5]	–13	–10	28	511	198	278	714	2 178	–933	–740
b) Currency assets	539	–633	–41	–865	19	–456	–143	–210	868	1 842
c) IMF gold tranche	–7	6	7	–1	19	5	7	–7	77	–256
d) Special Drawings Rights	–9	–50	–61	–52	–10	86	82	–165	16	–38
Total	510	–687	–67	–407	226	–87	660	1 796	28	808

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			Exports		
	1979	1980	1981	1979	1980	1981
SITC sections:						
Food and live animals chiefly for food	4.0	3.8	3.3	32.5	33.7	29.9
Beverages and tobacco	0.9	0.9	0.8	0.2	0.2	0.3
Crude materials, inedible, except fuels	4.3	4.4	3.7	25.7	28.7	30.2
Mineral fuels, lubricants and related materials	10.7	13.8	13.5	12.3	11.1	15.1
Animal and vegetable oils, fats and waxes	0.5	0.4	0.4	0.8	0.5	0.4
Chemicals and related products, n.e.s.	9.7	9.0	8.2	2.1	2.2	2.0
Manufactured goods classified chiefly by material	17.9	17.8	16.8	11.8	11.7	10.9
Machinery and transport equipment	38.4	36.3	39.3	4.8	5.4	5.4
Miscellaneous manufactured articles	12.6	12.2	11.9	1.7	1.8	1.9
Commodities and transactions not classified according to kind[1]	1.0	1.4	2.1	8.1	4.7	3.9
Total (merchandise and non-merchandise)	100.0	100.0	100.0	100.0	100.0	100.0
OECD countries	74.5	71.6	72.0	61.8	60.0	59.3
North America	25.8	24.6	25.6	13.7	13.8	13.2
Japan	15.6	17.1	19.7	27.7	26.6	28.2
EEC	25.2	22.2	19.5	14.0	13.4	11.8
Other	7.9	7.7	7.2	6.4	6.2	6.1
Non-OECD countries	25.0	28.0	27.6	37.7	39.4	39.7
Sino-Soviet area[2]	1.9	1.7	2.0	8.6	10.0	7.3
Other developed countries	0.6	0.6	0.5	0.5	0.6	0.8
Developing countries	22.5	25.7	25.1	28.6	28.8	31.6
Unspecified	0.5	0.4	0.4	0.5	0.6	0.9
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	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia[1]
Population	Mid-1980	Thousands	14 616	7 509	9 857	23 959	5 125	4 780	53 713	61 566	9 599	229	3 401	57 042[2]	116 782	365	14 144	3 131	4 087	9 966	37 381	8 316	6 373	45 078	56 010	227 658	22 340
Inhabitants per sq. km of land area	»	Number	2	89	323	2	119	16	97	248	73	2	48	189	309	141	418	12	13	108	74	18	154	58	230	24	87
Net average annual increase	Mid-1970 to Mid-1980	%	1.4	0.1	0.2	1.2	0.4	0.4	0.6	0.1	0.9	1.1	1.4	0.6	1.2	0.7	0.8	1.1	0.5	1.0	1.1	0.3	0.2	2.4	0.1	1.1	0.9
Employment Total civilian	1980	Thousands	6 242	3 070	3 751	10 655	(2 470)	2 192	21 142	25 265	(3 347)	(101)	1 149	20 572	55 360	159	4 677	1 270	1 914	3 951	11 254	4 232	3 012	14 610	24 397	97 270	9 690[3]
of which: Agriculture, forestry, fishing	»	% of total	6.5	10.5	3.0	5.5	(8.1)	11.6	8.8	6.0	(29.7)	(11.9)	19.1	14.2	10.4	5.7	6.0	11.0	8.5	28.3	18.9	5.6	7.2	60.4	2.6	3.6	..
Industry[4]	»	»	31.0	40.3	34.8	28.5	(28.6)	34.4	35.9	44.8	(30.0)	(37.6)	32.4	37.8	35.3	38.2	31.8	33.6	29.7	35.7	36.1	32.2	39.5	16.3	38.0	30.6	22.3
Other	»	»	62.5	49.2	62.2	66.0	(63.3)	54.0	55.3	49.2	(40.3)	(50.5)	48.5	48.0	54.3	56.1	62.2	55.4	61.8	36.0	45.0	62.2	53.3	23.3	59.4	65.8	41.9
Gross domestic product at market prices	1980	US $ billion[11]	140.0	77.0	116.5	253.3	66.4	49.9	651.9	819.1	40.4	2.8	17.8	394.0	1 040.0	4.6	167.6	23.3[9]	57.3	24.1	211.1	122.8	101.5	52.9	522.9	2 587.1	56.2[5]
Average annual volume growth[6]	1975 to 1980	%	2.5	3.5	2.9	3.0	2.6	3.1	3.3	3.6	4.4	3.7	3.9	3.8	5.1	2.3	2.5	0.7	4.6	5.2	2.2	1.2	1.6	2.8	1.6	3.9	5.6
Per capita	1980	US $[11]	9 580	10 250	11 820	10 580	12 950	10 440	12 140	13 310	4 210	12 410	5 190	6 910	8 910	12 570	11 850	7 442	14 020	2 430	5 650	14 760	15 920	1 170	9 340	11 360	2 516
Gross fixed capital formation	1980	% of GDP	22.8	25.3	21.4	23.1	18.3	24.6	21.6	23.6	23.5[8]	26.5	27.9	20.0	31.7	25.3	21.0	17.8	25.0	20.9	19.6	20.3	23.8	18.0	17.8	18.2	35.5
of which: Transport, machinery and equipment	1979	»	..	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	9.2[22]	8.7	7.8	9.9	7.1	6.9[19]	7.3	7.1	..	9.3	7.4	..
Residential construction	»	»	4.2[10]	14.2	6.5	5.3	6.9	6.3	6.4	6.5	9.2	5.7	6.4[19]	5.1	7.4	6.6[22]	5.8	3.3	5.3	3.7	..	5.0	..	3.8	3.0	4.8	7.2
Average annual volume growth[6]	1975 to 1980	%	1.6	2.2	1.6	2.3	–0.3	–2.2	2.0	5.2	3.8	2.3	7.6	3.5	4.7	1.1	1.4	–7.7	–0.5	4.7	–0.9	–0.2	2.2	–0.2	0.3	3.3	5.7
Gross saving ratio[12]	1980	% of GDP	21.4[10]	26.2	16.3	21.5	14.4	24.8	21.7	23.1	25.6	24.5	19.8	22.3	30.7	50.1	20.1	19.3[9]	29.9	20.5	18.9	17.3	26.7	16.6	19.2	18.3	37.0
General government																											
Current expenditure on goods and services	1979	% of GDP	16.2	18.0	17.7	19.4	25.2	18.4	14.9	20.0	16.3	11.7	20.0	16.1	9.8	15.9	18.1	16.0[9]	19.7	14.8	10.8	28.4	12.9	13.7	20.0	17.4	17.6
Current disbursements[13]	»	»	29.6[10]	42.2	46.2	35.8	49.4	34.6	42.1	40.9	29.7	25.0[22]	41.7[19]	41.1	24.2	43.5	55.1	..	47.1	30.7	26.7	56.8	29.9	23.4	40.0	31.5	..
Current receipts	»	»	32.5[10]	44.2	43.2	35.8	50.3	38.2	43.4	42.9	30.6	34.0[22]	37.8[19]	35.7	26.6	52.2	55.8	..	52.2	26.9	27.5	57.4	33.2	23.8	39.0	32.5	..
Net official development assistance	1980	% of GNP	0.5	0.2	0.5	0.4	0.7	0.2	0.6	0.4	..	..	..	0.2	0.3	..	1.0	0.3	0.8	..	..	0.8	0.2	..	0.3	0.3	..
Indicators of living standards																											
Private consumption per capita	1980	US $[11]	5 800	5 650	7 540	5 950	7 270	5 720	7 690	7 340	2 750	7 560	3 310	4 270	5 220	7 430	7 200	4 550	6 600	1 790	3 950	7 630	10 128	851	5 581	7 370	1 343
Passenger cars, per 1 000 inhabitants	1978	Number	479	272	302	410[22]	219	235	327	346	80	339	194	300	185	423	288	395	282	118	178	345	324	11[14]	256	536	85
Telephones, per 1 000 inhabitants	1979	»	440[19]	375	352	666	609	470	415	434	281	444[19]	174	318	460	547	486	545[19]	423	132	294	772	700	39	480	793	79[19]
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]	293[14]	279	259[14]	270[14]	76[14]	185[14]	363[14]	285[14]	44[14]	324	571[20]	199
Doctors, per 1 000 inhabitants	1977	»	1.5[14]	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	1.1	1.7	1.4	1.8	1.5	1.8	1.8[14]	2.0	0.6	1.5	1.7	1.3
Full-time school enrolment[15]	1979	% of age group	44.4	32.0[22]	61.3[22]	64.9[22]	57.4[22]	68.5	55.9	45.4[19]	45.4[20]	..	50.5	43.9[14]	71.4	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]	46.2[22]	75.0	52.2
Infant mortality[17]	1980	Number	11.0	13.9	11.2[23]	10.9[23]	8.8[23]	7.7[23]	10.0	13.5[23]	18.7[23]	5.4[23]	12.4[23]	14.3	7.4	11.5	8.7[23]	12.6[23]	8.8[23]	26.0[23]	11.1	6.7	8.5[23]	..	11.8	12.6	33.4[19]
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	..	6.1	15.4	9.4	14.5	25.7	9.9	2.8	35.5	14.9	8.5	19.0
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	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	1980	US $ million[11]	22 068	17 364	64 500[7]	64 944	16 740	14 148	111 312	191 688	5 184	924	8 508	77 904	129 588	—	73 836	5 421	18 492	4 644	20 820	30 924	29 616	2 748	115 176	220 704	8 568
As percentage of GDP	»	%	15.8	22.8	55.7	25.8	25.2	28.2	17.2	23.3	12.3	33.0	47.8	19.8	12.5	—	46.0	23.3	32.2	19.3	9.8	25.3	29.9	5.2	22.4	8.6	15.2
Average annual volume increase	1975 to 1980	%	3.7	9.3	5.9	6.3	6.2	10.5	6.8	6.3	8.9	12.7	9.6	5.9	9.2	—	4.6	8.1	9.2	..	9.9[25]	2.1	6.3	4.7	4.7	6.7	3.8
Imports of goods, cif	1980	US $ million[11]	20 208	24 252	71 676[7]	58 992	19 320	15 612	134 856	185 856	10 632	996	11 148	99 708	141 108	—	76 872	5 468	16 956	9 300	34 176	33 420	36 336	6 252	120 156	241 200	14 436
As percentage of GDP	»	%	14.5	31.8	61.8	23.4	29.1	31.2	20.8	22.5	25.2	35.6	62.6	25.4	13.6	—	47.9	23.5	29.5	38.7	16.1	27.4	36.7	11.8	23.3	9.4	25.7
Average annual volume increase	1975 to 1980	%	5.0	9.7	5.5	3.2	3.2	2.3	8.7	7.3	3.9	4.9	10.3	7.6	4.4	—	4.7	0.9	4.4	..	0.7[25]	0.8	9.0	–4.1	3.9	6.7	0.5
Total official reserves[24]	End-1980	US $ million	2 044	6 223	9 349[7]	4 029	3 459	1 914	30 994	52 261	1 301	176	2 876	26 117	25 717	—	13 607	353	6 100	1 784	12 516	3 690	19 374	1 442	21 492	27 395	1 467
As percentage of imports of goods	In 1980	%	10.1	25.7	13.0	6.8	17.9	12.3	23.0	28.1	12.2	17.7	25.8	26.2	18.2	—	17.7	6.5	36.0	19.2	36.6	11.0	53.3	23.1	17.9	11.4	10.2

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. 1979.
24. Gold included in reserves is valued at 35 SDR per ounce (see IMF, International Financial Statistics, series Total Reserves).
25. 1976 to 1980.

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.

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