OECD
ECONOMIC SURVEYS
1983-1984

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

AUSTRALIA

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

JUNE 1984

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AUSTRALIA

JUNE 1984

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

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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)	69
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, 31.12.1983 (1 000)	15 452	Civilian employment, February 1984 (1 000)	6 366
No. of inhabitants per sq. km	2.0	*of which:* Agriculture	404
Natural increase, 1983 (1 000)	133	Industry[1]	1 791
Net migration, 1983 (1 000)	42	Other activities	4 171

PARLIAMENT AND GOVERNMENT

Composition of Parliament following latest elections:

Party	Senate	House of Representatives
Australian Democrats	5	–
Australian Labor Party	30	75
Independent	1	–
Liberal Party of Australia	24	33
National Party of Australia	4	17
Total	64	125

Present Government: Australian Labour Party
Next general elections for House of Representatives: at the latest March 1986

PRODUCTION[2]

Gross Domestic Product, 1983 ($ A million)	163 857	Gross fixed capital formation, 1983: Percentage of GDP	23.0

THE PUBLIC SECTOR % OF GDP IN 1983[2]

Expenditure on goods and services[3]	20.9	Current revenue	34.2
Current transfers	10.6	*of which:* Direct taxes	17.7

FOREIGN TRADE

Main exports in 1982-83, % of total:		Main imports in 1982-83, % of total:	
Food and beverages	23.2	Food and beverages	4.3
Industrial raw materials	42.0	Industrial raw materials	24.9
Fuels and lubricants	21.2	Fuels and lubricants	13.9
Capital goods	4.5	Capital goods	24.9
Transport equipment	2.1	Transport equipment	12.7
Consumer goods	1.9	Consumer goods	14.7

THE CURRENCY

Monetary unit: Australian dollar	Currency unit per US dollar, average of daily figures:	
	Year 1983	1.110
	April 1984	1.0837

1. Including mining electricity, gas and water and construction.
2. Fiscal year ended 30th June.
3. Current and capital expenditure.

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 9th May 1984.

After revisions in the light of discussions during the review, final approval of the Survey for publication was given by the Committee on 5th June 1984.

INTRODUCTION

Since the early 1970s, in common with most other OECD countries, Australia has experienced high rates of inflation, relatively weak economic growth and rising unemployment. The inflation rate was above the OECD average between 1971 and 1977, fell below it up to 1981 but has since been higher. Moreover, the reduction in the inflation rate in the recent period came considerably later than generally elsewhere in the OECD area. These developments reflect partly the rapid increase in nominal and real wages in the mid-1970s and early 1980s, influenced by the system of wage determination. A strongly expansionary fiscal policy in 1974-1975 contributed to the emergence of some large inflationary distortions which persisted for a considerable time. Until around 1975, macro-economic policy was mainly concerned with reducing unemployment which had risen considerably in the post-1973 recession. After mid-1975 and until 1981-1982, inflation became the main priority of policy, its reduction being seen as a necessary pre-condition for reducing unemployment. With the election of the new Government in March 1983, policies—against a background of achieving concensus through consultation—have been directed to fighting inflation and unemployment simultaneously, this approach being endorsed by the National Economic Summit held in April 1983.

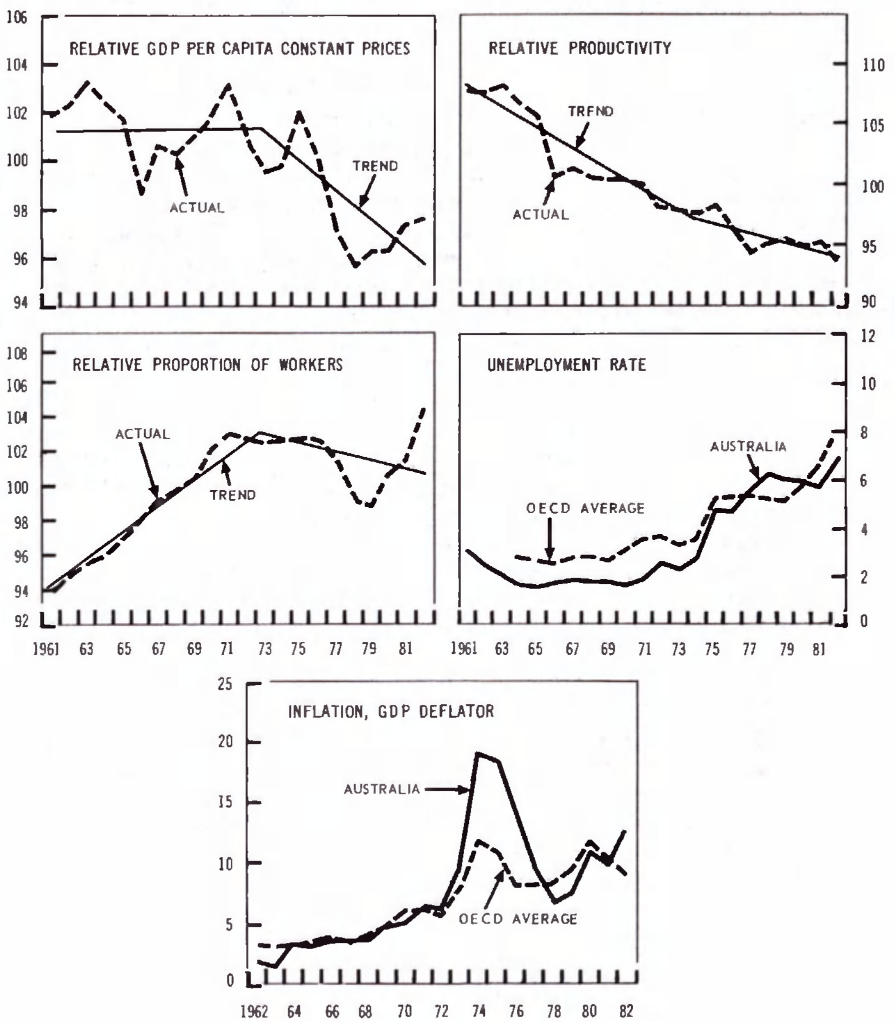
Reflecting mainly the expansionary stance of fiscal policy in the 1982-1983 and 1983-1984 Budgets, wage moderation and the recovery of the rural sector from the drought, real GDP is rising rapidly and is projected to continue to do so in 1985, although at a slower rate than in 1984. Unemployment started to fall in the second half of 1983 although the rate of 9.5 per cent in April 1984 remains very high. Reflecting the economic slowdown and the influence of the pay pause proposed in November 1982, the rise in nominal average earnings has slowed down substantially, and for a short period there was a considerable fall in real wages. More recently the year-to-year rate of inflation has been reduced and is projected in the Secretatiat forecasts to be around 6 per cent by end-1984 but to reaccelerate slightly in 1985. For two years from October 1983, wage increases will be determined by reference to a set of wage-fixing principles based on the indexation of wages to consumer prices. The Australian Council of Trade Unions and almost all individual unions have given commitments not to pursue wage increases outside the principles while they are in force. A Prices Surveillance Authority has been established; the Advisory Committee on Prices and Incomes and the Economic Planning Advisory Council have been set up, aimed at improving economic consultation and expanding the information base for economic policy-making. The Government is also committed to a firm non-accommodating monetary policy.

After reviewing briefly Australia's comparative economic performance since the early 1960s in Part I of this Survey, Part II examines the wage determination system, the inflationary process and its possible consequences for output and unemployment. Part III describes the economic policy response to inflation. Recent trends in the economy and in fiscal and monetary policies are contained in Part IV together with a review of short-term prospects. The Survey concludes in Part V with a discussion of the main policy considerations.

I. COMPARATIVE ECONOMIC PERFORMANCE

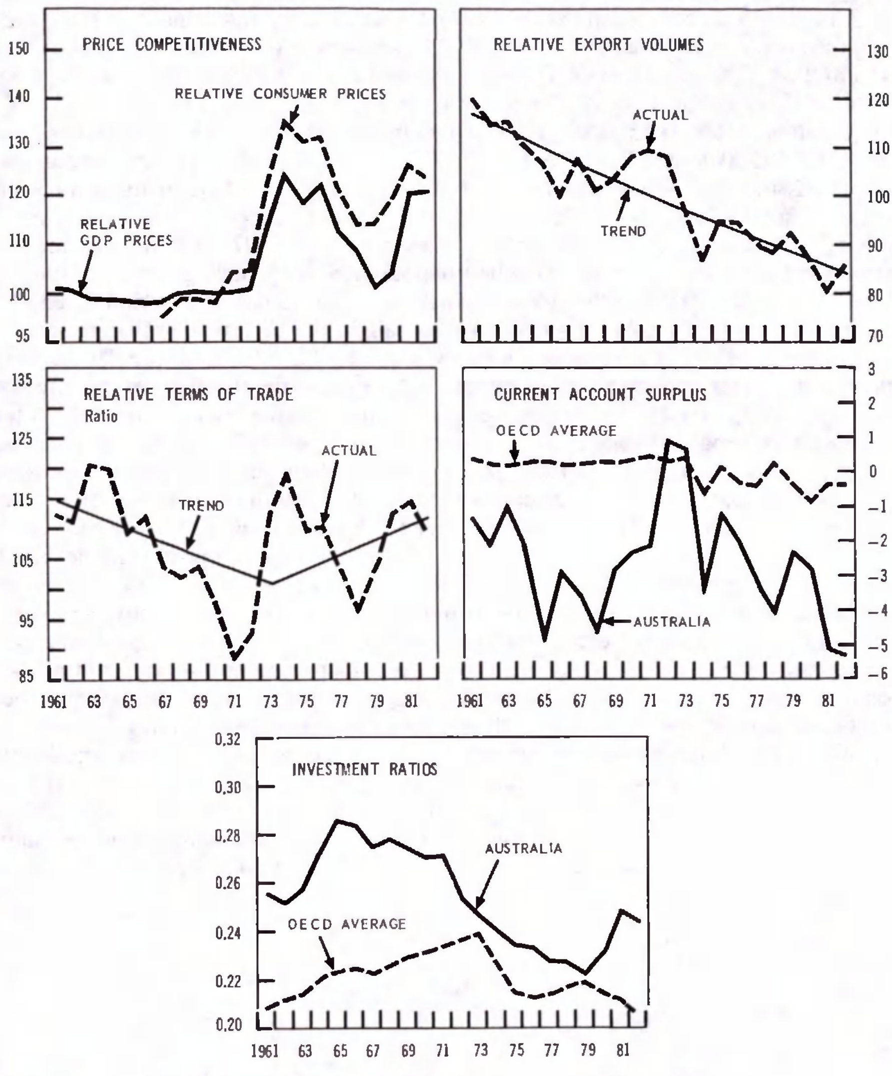
During the 1960s and early 1970s Australia experienced more rapid economic growth than in the OECD area as a whole, although on a per capita basis, growth was about the same. This performance masked substantially lower labour productivity increases than in the remainder of the OECD area. In the period after 1974, the growth rate of GDP moved towards the OECD area average. As the population was still increasing more rapidly than elsewhere, GDP per capita started to fall by about ½ per cent per annum relative to the area.

Diagram 1a. **Comparative economic indicators**



Source: OECD Statistics Division and ABS.

Diagram 1b. **Comparative economic indicators**



Source: OECD Statistics Division and ABS.

In the post-1974 period, productivity slowed markedly but somewhat less in Australia than elsewhere[1]. Structural factors may have been important in the relative improvement of productivity growth as the employment pattern of the OECD area moved more towards that of Australia (a relatively large service sector and a small high-productivity agricultural sector).

In contrast to the previous period, employment grew no faster after 1974 than in the rest of the region. With labour force growth continuing, unemployment worsened both relatively and absolutely. From being 1 percentage point below the average unemployment rate during the 1960s, unemployment moved at first closer, then went above this average in 1977[2]. This development continued and was only temporarily interrupted in 1981 and 1982. Although unemployment was low before 1973, this was not associated with above-average OECD inflation. The non-farm GDP deflator moved in line with the OECD average between 1964 and 1972 with only small cyclical variations, partly reflecting the results of fixed exchange rates. After 1973, the growth of domestic prices accelerated and moved well above the OECD average. It was only by 1978 that a lower than average rate of inflation was achieved, but this pattern was reversed in 1982 and 1983. Movements in inflation rates were not offset by exchange rates, giving rise to pronounced cycles in relative prices measured in a common currency[3]. On one occasion—1973-1974—above-average inflation was combined with an appreciation of the nominal effective exchange rate resulting in a 20 to 30 per cent appreciation in the real exchange rate. The subsequent period of decelerating inflation ending in 1978 was combined with a fall in the effective exchange rate, almost restoring relative prices in a common currency to their relatively stable pre-1973 level. With inflation then moving above the area average, a 25 per cent depreciation of the effective rate between 1981 and early 1983 was necessary to restore relative prices to their 1978 level.

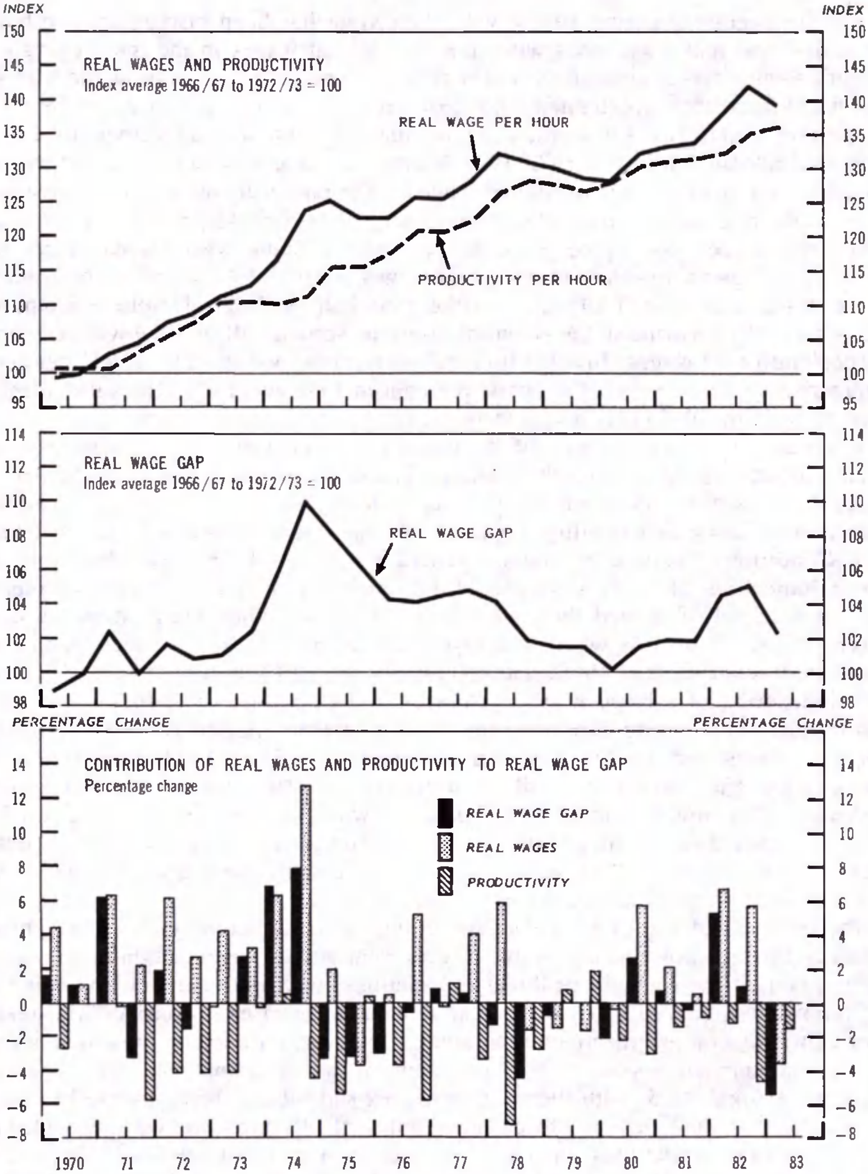
Although the real exchange rate was constant prior to 1973, Australian exports grew markedly less rapidly than exports of the area as a whole and this trend continued after 1974, reflecting partly the commodity structure of Australian exports. This tended to generate current account deficits which averaged 2.6 per cent of GDP between fiscal 1960 and fiscal 1976. These deficits increased to 3.3 per cent of GDP post-1974 despite both a lower share of investment in GDP and a GDP growth rate no higher than the area average and a relative improvement in the terms of trade. Financing the deficit proved no problem.

In summary, there has been a marked deterioration in Australian economic performance since the early 1970s. Higher than average unemployment has occurred at the same time as low productivity growth and a decline in relative per capita income levels. The share of investment in GDP has fallen markedly and there has been above-average inflation, while the current external deficit has increased. To some extent, these developments may be attributable to wage increases in excess of productivity growth in the early 1970s and the inflationary distortions to which they gave rise. The so-called "real wage gap" in the mid-1970s was among the highest in the OECD area[4]. Its reduction has been an important priority of policy for much of the period since then, an issue taken up in the next two Parts of this Survey.

II. WAGES, PRICES, EMPLOYMENT AND INVESTMENT

As shown in Part I, the rate of inflation in Australia since the early 1970s has generally been higher than the average of other OECD countries and wages have risen more rapidly than prices. In addition, real wages at times have risen faster than productivity, particularly in 1973 and 1974 and in the period 1980 to 1982 (Diagram 2). The result has been a widening during those periods of the "real wage gap" and, reflecting this, a decline in profit shares. This section attempts to explain why such a disequilibrium in real wages and profits has occured and to examine the consequences.

Diagram 2. **Real wages and productivity indicator**



Data are for compensation per employee and output per employee in the non-farm sector after adjusting for hours worked using an interpolated annual series. The real wage gap is the ratio of the two series. In the last panel the contribution in each half-year of productivity and real wages to the gap are shown with positive productivity growth taking the opposite sign as it narrows the gap.
Source: **ABS.**

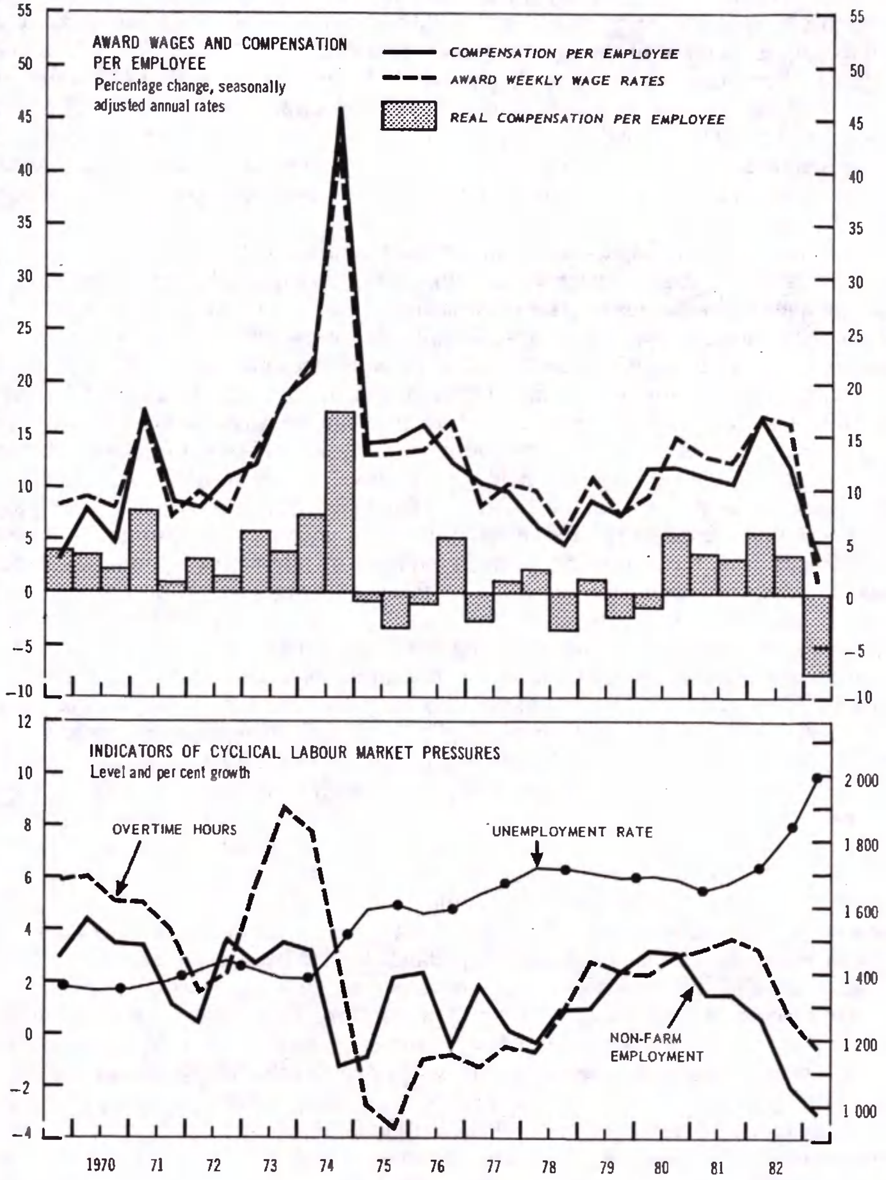
Wage developments and the wage determination system

Since the beginning of the 1970s, wage behaviour has been marked by two bursts of rapid nominal and real wage rises with little fall in real wages in the intervening period. With tight labour market conditions and a rapidly expanding economy at the turn of the decade, wage increases accelerated and cost pressures were reinforced by progressive introduction of equal pay for women. Following the economic slowdown in 1971, the economy reaccelerated into the 1972-1973 boom and wage costs climbed further—partly because of government support for higher wages[5]. The rate of increase of compensation per employee in the non-farm sector (referred to as wage rates below) peaked in 1974 at 26 per cent when real wages rose by $8\frac{3}{4}$ per cent. Although nominal wage increases decelerated sharply thereafter as unemployment rose, real wages fell by a total of only 3 per cent in the period from the second half of 1974 to the first half of 1980. Despite unemployment remaining high, the upswing in the economy from the second half of 1979 was accompanied by a reacceleration of wages. In 1982 nominal wage rates rose at a rate of $15\frac{1}{2}$ per cent and real wages rose by an average of about $4\frac{1}{2}$ per cent in 1981 and 1982. The subsequent wage pause led to a sharp fall in real wages through 1983.

A key question in the analysis of the development of wages concerns the role of the highly-centralised system of wage bargaining. The principal institutions are the Australian Conciliation and Arbitration Commission (referred to below as the Commission), which has jurisdiction over disputes extending beyond one state, and a series of State tribunals or boards. Conditions nationally have generally been determined by the Commission adjudicating on claims submitted by interested parties and the various State tribunals have closely followed these decisions, but these bodies can arbitrate on disputes and make "consent" awards where employers and employees have already agreed on an increase[6]. Between 1922 and 1953, national awards by the Commission generally reflected quarterly indexation of a basic wage to changes in a Consumer Price Index with separate and less frequent hearings to determine the basic wage and margins for skills. After 1953, national wage cases were held at less frequent intervals. In 1967, the Commission replaced the "basic wage and margin for skill" concept with a "total wage" concept as well as laying down a "minimum wage", while periodic work-value studies were undertaken to review award wage differentials. A strong belief in comparative wage justice has continued to underlay wage awards. With some important exceptions the wage tribunals over this period tended to maintain the real wages of employees.

In the first half of the 1970s and in conditions of strengthening inflationary pressures, there was a further move away from uniform centralised wage determination as wage bargainers resorted increasingly to direct negotiations, with individual claims being heard by the Commission, backed up by periodical national wage cases to consider adjustments to wages or conditions on macroeconomic grounds. However, inflationary pressures developed and, in an attempt to lessen these, a system of quarterly national wage cases was reintroduced in April 1975, with increases in wages and salaries being indexed to the most recent movement in the Consumer Price Index unless the Commission was persuaded to the contrary, with strict limitations on other increases in wages and salaries[7]. National wage cases were held quarterly up to May 1978 when they became half-yearly. After 1978 national wage case awards were augmented by "work value" cases outside indexation and by additional "over-award" payments. Hearings under the indexation principles continued up to mid-1981 when the system was abandoned by the Commission on the grounds that its participants were no longer sufficiently committed to its operation. With the demise of indexation, wage determination reverted to the earlier case-by-case procedures. But large key awards occurred late in that year and subsequently flowed through into other sectors.

Diagram 3. **Award wages, compensation per employee and the labour market**



Source: ABS. Real compensations per employee are compensation per employee deflated by the private consumption deflator.

It is difficult to separate the role of the centralised wage bargaining from the influence of normal market forces. Although difficult to generalise, it was widely accepted up to the second wage explosion in the early 1980s that higher unemployment lowered the rate of price increase[8]. Estimates suggested that static affects (not taking into account the feedback into prices) of an increase in the unemployment rate from 2 to 4 per cent would reduce the total rate of wage increase by 1½ to 2½ per cent[9]. Developments after 1974 were initially consistent with this pattern. The unemployment rate, which had averaged 2 to 2½ per cent in the period 1970 to 1973 jumped to 5½ per cent by 1975 edging up to 6 to 6½ per cent in 1978. Growth of compensation per employee decelerated over this period and by the second half of 1978 rose at a rate of 6 per cent. But this was not accompanied by much fall in real wages.

While the estimated impact of unemployment was much less when award rates were treated as exogenous, this was because growth rates of award wages themselves have varied with labour market conditions[10]. The relationship tended to be indirect; when awards were low, wagedrift tended to be high. This, in time, fed back into national awards when the Commission aligned its decisions to "market" rates. Hence, market forces, at some points, have affected Commission decisions, although not always immediately. For example, efforts by the Commission to exert downward pressure on wages (through less than full indexing) tended to be offset by wagedrift and it is difficult to judge whether the Commission helped reduce wages or held wages above market rates[11].

The reacceleration of wages thereafter without a significant reduction in unemployment remains anomolous, especially after mid-1981, when unemployment surged from 5.8 per cent to 9.3 per cent the following year. A number of alternative hypotheses have been advanced to explain these events. It could be that the unemployment rate was not the best measure of labour market tension, as both the structure of the labour supply and the unemployed have changed. Youth and long-term unemployment rose more strongly after 1974 and there was some evidence that the inflation-unemployment tradeoff shifted outwards in 1974 and 1975[12]. In addition, some studies related higher unemployment to more generous social security payments. Higher structural unemployment could imply that labour market pressure later in the decade was as tight as in the 1970 to 1973 period. But on balance, this seems unlikely[13]. Wage and price expectations may also have deteriorated during this period. Although price expectations are notoriously difficult to measure, some household survey data suggest that price expectations were about 4 per cent worse than in the outcome from 1978 onwards[14]. At the same time, the investment boom of the early 1980s and the pick-up of employment from the middle of 1978 to the middle of 1980 led to more buoyant expectations regarding the ability of the economy to pay, particularly following a period when real after-tax living standards had been compressed.

More generally, it is possible that in Australia wage developments depend more closely on implicit agreements or arrangements within the firm. Indeed, as shown in Diagram 3, wage behaviour appears to move more closely with movements in employment and overtime hours or changes in unemployment than unemployment levels themselves during the 1970s and early 1980s. Viewed from this vantage point, wage pressures are reduced only when employees perceive a growing risk of becoming unemployed. This may occur when unemployment rises or when employment stagnates or falls. But as long as vacancies and employment in the firm are rising, employees may feel no need to moderate wage demands. Wage inflation decelerates as labour market conditions deteriorate, but can build up again once unemployment stabilises.

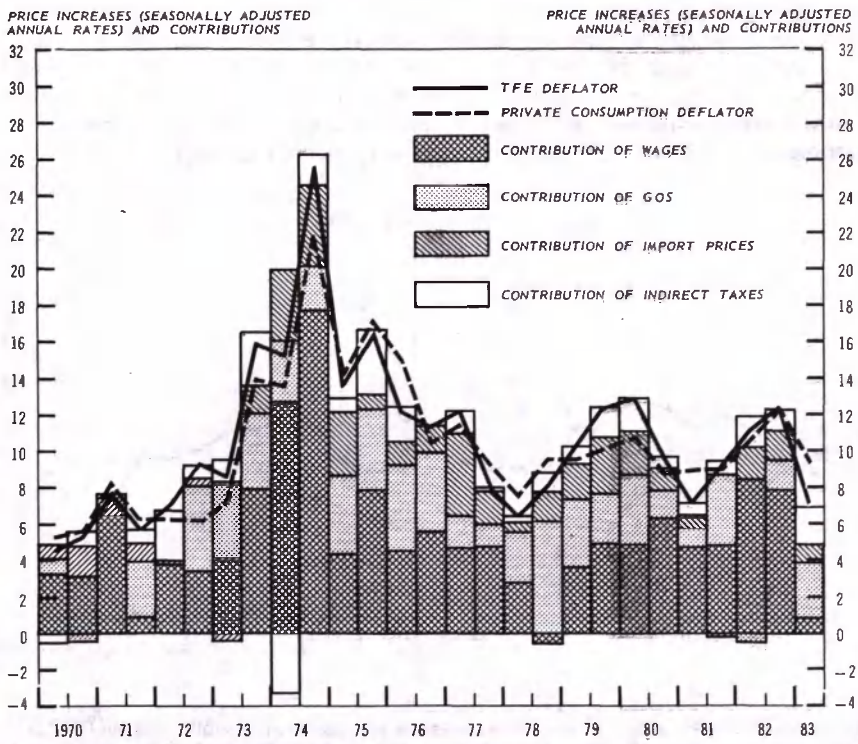
In assessing the role of the arbitration system in the development of wages, one must keep in mind its initial purpose of the maintenance of industrial peace and the fact that the Commission did not consider itself as "an arm of government which formulates wage decisions simply to 'fit in' with economic policy"[15]. Nonetheless, while the Commission was not necessarily the best vehicle for an incomes policy, it appears clear that the arbitration system was unable to prevent the two periods of excessive wage growth and it may have exacerbated the situation when the criteria for comparative wage justice became important—for example, when the large gains contained in the 1968 and 1981 Metal Industry Awards were invoked by other unions[16]. At the same time, the arbitration system may have occasionally set minimum rates too high. It has rarely been able to deliver necessary cuts in real wages. This has largely reflected the fact that while national awards set a minimum increase, they are in no sense a maximum. In periods when national wage cases have tended to be low, they have been swamped by over-award payments, possibly because attention has become more focused on labour conditions within the firm and because there was no wider agreement between the social partners on the need for wage restraint.

Prices and movements in factor income shares

Rapid increases in nominal wages do not necessarily imply rises in real wages or changes in the profit share except where business is unable to pass these cost increases into

Diagram 4. **Contributions to the total final expenditure deflator**

Percentage and ratio



Source: ABS. TFE = GDP + Imports. The contribution of each element was calculated as the share in the previous period of each of the four components considered multiplied by their respective growth rates per unit of output. Columns do not always add exactly because of rounding.

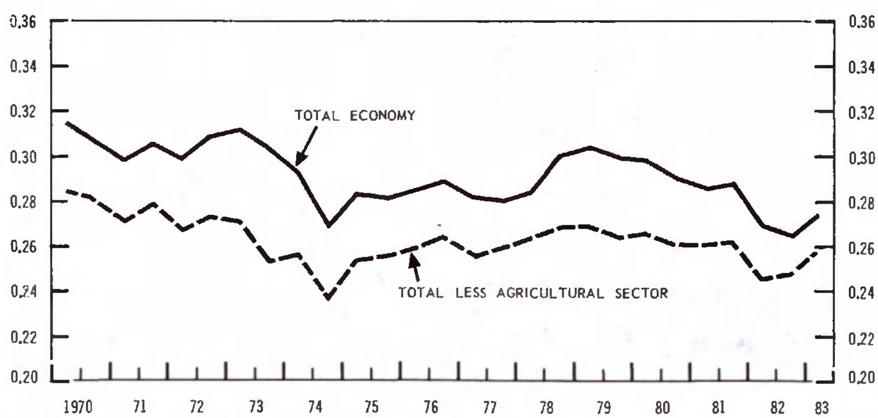
prices. There was an acceleration in the rate of growth of prices in the early years of the 1970s and a sharp rise in 1973 and 1974 (Diagram 4). Unit labour costs were the major contributor to the acceleration, but import prices also played an important role. Inflation decelerated thereafter to the end of 1977 reflecting a decreasing contribution from wages and (apart from 1975 and early 1977) lower growth of import prices. Prices reaccelerated after 1978 under the influence first of higher import prices and subsequently of rising wage costs. The contribution of profits to price increases in Diagram 4 and the mark-up ratio in Diagram 5 should be interpreted with caution because they include farm profits.

The movements of mark-ups and profits have shown a trend decline over the period under review and have not always followed the typical cyclical profile (Diagram 5 and Table 1). Non-agricultural profits showed only a small recovery in the 1972-1973 upswing; the increase at the level of the total economy was almost entirely attributable to increases in higher agricultural incomes. The fall during 1974 was extremely sharp by historical standards and more than could be expected from the cyclical weakening in demand. Indeed, between fiscal years 1972-1973 and 1974-1975 the shares of gross operating surplus in the private non-farm sector fell by 6 percentage points. Three additional factors may have been at play during this period. The Prices Justification Tribunal began operations in August 1973 although the Government had intervened before this to constrain the price increases proposed by some companies[17]. Second, in July 1973 there was a 25 per cent across-the-board tariff cut followed by currency revaluations in December 1972 and September 1973, totalling 12 per cent. These made imports markedly more competitive. Third, anti-trust legislation was strengthened.

The share of the gross operating surplus improved gradually over the next four to five years. This reflected both the effect of cyclical productivity increases and higher mineral export prices. However, the weakening in mineral export prices after 1980 was accompanied by growing labour cost pressures and in 1982 profit shares were again squeezed. The pattern of developments in the two periods of extreme movements in labour and profit shares may

Diagram 5. **Profit mark-up over costs**

Ratio



Note: The total excluding the agricultural sector was roughly approximated by subtracting out GDP at factor cost in the farm sector from the denominator and wages and salaries in the farm sector in calculating the numerator.
Source: ABS.

Table 1. **Factor income shares**[1]
Per cent of GDP at factor cost

	(1) Wage share Total economy	(2) Wage share Non-farm business sector	(3) Wage share Non-farm private sector	(4) Non-farm private Corporate sector: Wage share	(5) Non-farm private Corporate sector: Profit share As a % of sector GDP	(6) Non-farm private Corporate sector: Profit share As a % of non-farm GDP
Average 1966-67 1972-73	59.0	62.7	60.5	68.4	31.6	15.4
Fiscal Years:						
1971-72	60.6	63.6	61.6	69.2	30.8	14.9
1972-73	59.4	63.2	60.7	68.3	31.7	15.3
1973-74	61.1	65.6	62.9	71.3	28.7	14.1
1974-75	65.5	68.7	65.5	74.1	25.9	12.4
1975-76	64.7	67.2	64.5	73.1	26.9	12.2
1976-77	63.9	66.5	63.8	72.2	27.8	12.3
1977-78	64.4	66.5	64.3	73.0	27.0	12.0
1978-79	61.2	64.8	62.7	70.5	29.5	12.3
1979-80	60.9	64.5	62.4	69.4	30.6	12.7
1980-81	62.0	64.9	62.8	69.5	30.5	12.8
1981-82	63.3	65.9	64.8	71.8	28.2	11.8
1982-83	64.5	66.2	65.7	72.9	27.5	10.9
Half years:						
1982 I	64.2	66.7	n.a.	n.a.	n.a.	11.1
1982 II	65.4	67.2	n.a.	n.a.	n.a.	10.3
1983 I	63.7	65.4	n.a.	n.a.	n.a.	11.5
1983 II	60.4	63.0	n.a.	n.a.	n.a.	13.1

1. *Definitions:* Column 2 excludes the farm sector; Column 3 excludes the farm, housing and government sectors; Columns 4 & 5 excludes in addition the self-employed (unincorporated businesses). All ratios are defined in terms of GDP for the corresponding sector with the exception of Column 6 where the denominator is non-farm GDP.
Source: Australian Bureau of Statistics.

have reflected a relatively slow response of wages to demand reductions, perhaps due to the system of "flow-on" increases. Consequently, cost pressures appeared to be at their maximum when demand was weakening or certain export prices low, making it difficult to pass on higher costs. This effect may have been reinforced in 1973 and 1974 by an increase in foreign competition.

Viewing the last thirteen years as a whole, there was a generalised fall in the gross operating surplus share even after abstracting from cyclical effects and it appears likely that there was an even faster decline in the post-tax rate of return on equity[18]. The reasons for these declines can only be conjectured. Over the period covered, the greater size of the public sector and the attendant rise in the tax burden during a period of slow growth and declining terms of trade may have sharpened the fight for factor income shares. The growing ability and willingness of labour to protect its real income share—either because of greater union power or because of the existing institutional framework—seems apparent. At the same time, business faced with restrictive fiscal and monetary policies and a harsher international environment may have been constrained to limit price rises.

Real wages, productivity, employment and investment

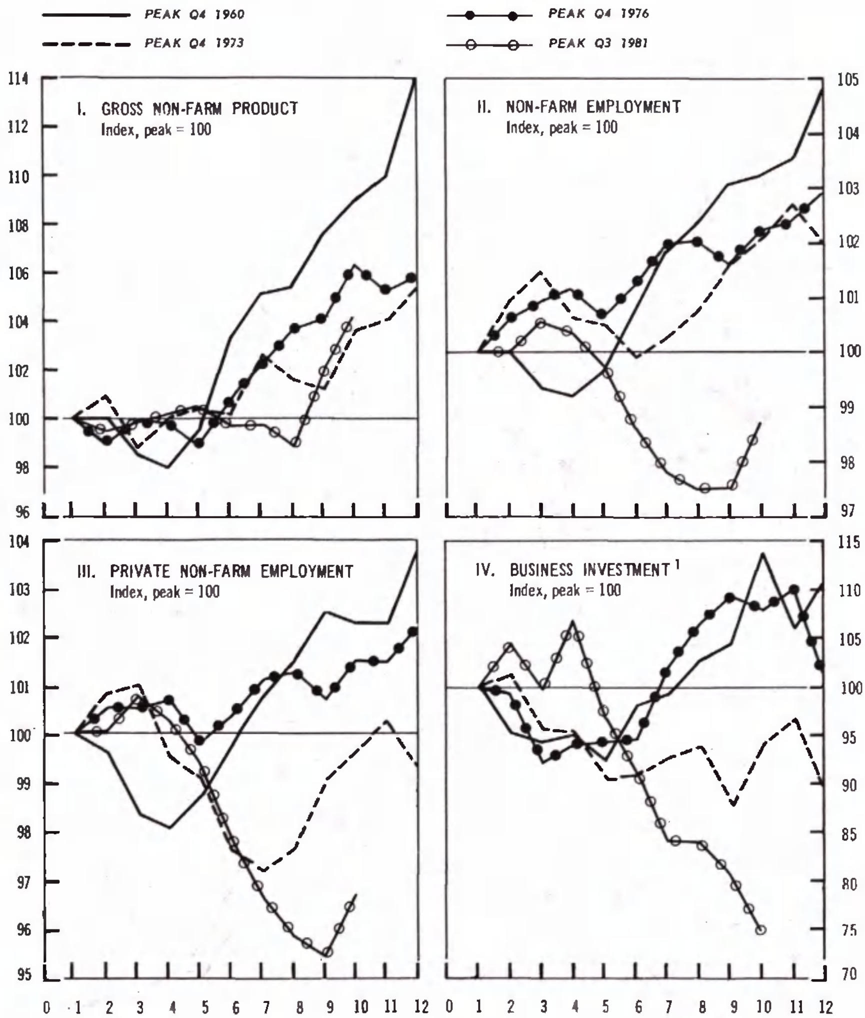
The preceding sections point to considerable wage-price inertia over the period under review. Despite a four-fold increase in unemployment, inflation and cost pressures have remained stubbornly strong. Real wages, once increased, have proved resistant to market pressures. This is shown in Diagram 3, where compensation per employee has been deflated by the private consumption deflator. The development of real wages is somewhat different if they are deflated by the output deflator and adjusted for hours worked (Diagram 2)[19]. The narrowing of the wage gap between the peak in 1974 and 1980 resulted from slower growth in real wages, but more importantly a steady underlying rise in hourly productivity. In the second wage explosion, the real wage gap widened again and it was only with the severe deterioration in the labour market in 1982 and the wage pause that real wages came back in line. Productivity growth has been an important element in returning profit shares towards their past levels over the period under review. But productivity movements can result from reduced labour inputs or from increased output or both. The results in Diagram 2 may in fact reflect an inverse relationship: higher real hourly wages have led to less use of labour as an input and higher rates of productivity growth and profit improvements may have come at a cost of lower employment. These linkages are discussed below.

A first impression of the influence of real wage and profit movements on the economy can be obtained by a comparison of the cyclical behaviour of selected variables during the 1970s with their development in preceding cycles (Diagram 6*a* and 6*b*). Three major cycles can be distinguished since 1970. Panel 1 of Diagram 6*a* shows that the first two cycles during the 1970s tended to be shallower than the 1960-1961 downturn and as the time horizon lengthened recovered more slowly[20]. In the 1982 cycle, output initially fell by less than in 1961 but after eight quarters was only just returning to its previous peak level. Although non-farm employment (Panels 2 and 3 of Diagram 6*a*) does not show strongly aberrant movements relative to output, this appears to reflect growth in the public sector. Private sector employment fell more sharply in the 1974-1975 and 1982-1983 recessions than would have been expected on the basis of output movements alone.

Business investment, shown in panel 4, also had a less favourable cyclical profile during the 1970s. Private non-residential investment fell more sharply and remained consistently lower in 1974-1975 and 1981-1982 than in 1960-1961. However, the developments in 1977 and 1981-1982 reflect the large investment boom in the intervening years in the mining and minerals sector which related to expected export demand. Thus investment in 1978-1979 performed relatively well compared to the 1960-1961 recession and the sharper fall after 1980 partly reflects a retreat from unsustainably high levels. Panels 1 to 4 of Diagram 6*b* show the cyclical performance of several key factors in employment and investment decisions. Firstly, inflation was substantially higher in cycles of the 1970s and has taken longer to decelerate despite considerably higher unemployment although more progress was made in the 1977-1978 period and again in early 1983. Second, as discussed above, the movements in real unit labour costs were markedly higher in 1973-1974 and 1981-1982 than for the 1960-1961 period and reflecting this, the fall in the profit share was sharper. Nonetheless, in the most recent cycle, the wage pause permitted a return towards pre-1974 shares in the second half of 1983.

These patterns suggest that factors other than output were important in influencing employment and investment during the 1970s. These "non-cyclical" elements were no doubt varied but it would be surprising if they were unrelated to the persistently high rates of inflation and, more particularly, to the sharp movements in real wages and factor shares. Initially, a rise in real wages should have a positive impact on aggregate demand and employment as higher compensation pushes up disposable incomes and private consumption and this could be reinforced where investment benefits from higher demand or capital labour

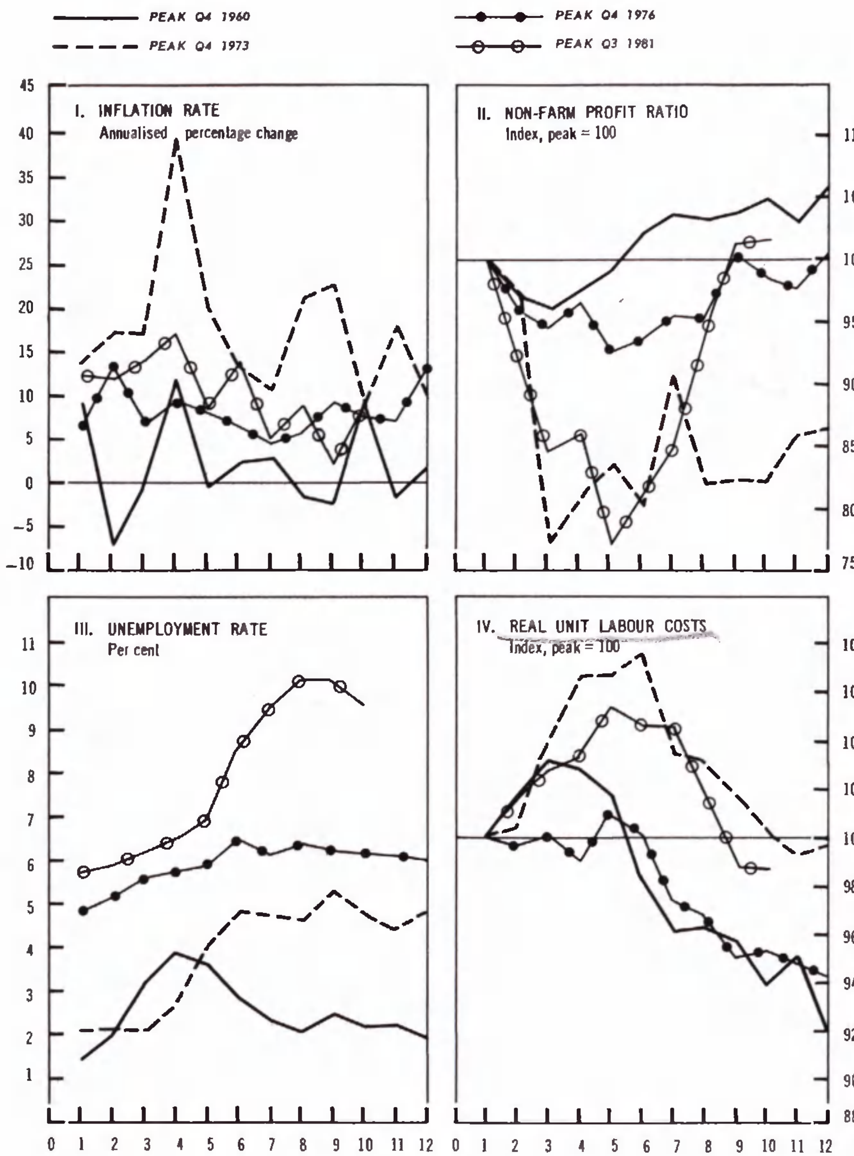
Diagram 6a. **Cyclical comparisons: output, employment, investment, the real wage and inflation**



1. Adjusted by the Secretariat for sales of major capital assets by the public sector to the private sector and subsequent leaseback.
Source: ABS.

substitution. This could be offset, however, if real wage increases lead to unfavourable developments of profits, worsening international competitiveness and rising inflationary expectations which may heighten business uncertainty and dampen household consumption[21]. Despite the complicated inter-relationships involved, the experience of the 1970s does suggest a strong depressive effect on employment in the short run from sharp real wage movements. This is consistent with two similar hypotheses:

Diagram 6b. **Cyclical comparisons: output, employment, investment, the real wage and inflation**



Source: ABS.

i) During periods when wages rise sharply, firms in sectors where prices cannot reflect increase wages may find the cost of labour too high and reduce their desired output. Thus, employment demand becomes dominated by the real wage and increases in aggregate demand may not be accompanied by increased employment or output.

ii) If there is a fixed-factor relationship in production (such that short-run substitution of capital for labour is impossible or at least highly costly), high real wages can engender scrapping or mothballing of existing plants, higher rates of bankruptcy or simply firms leaving markets. Under these circumstances employment may fall more rapidly as "overhead" labour or labour normally retained during the downswing are laid off.

Turning to investment, a range of factors relating to business expectations about future movements in demand and costs which are difficult to evaluate must be taken into account. As mentioned, higher real wages should lead to some substitution of capital for labour. But in sectors where factor inputs can be changed by only modest amounts in the short run, this may take considerable time and the lags may be long. More important effects are likely to appear firstly, through greater uncertainty surrounding expected demand by firms and, second, from the fall in cash-flow and/or the real rate of return on future projects. This latter influence may be particularly important in those industries—such as mining and basic minerals—where lead times are long and labour costs in investment high, output price fluctuations can be substantial and the uncertainty surrounding future profitability is great. More generally, reduced cash-flow makes firms more dependent on outside financing for investment, more vulnerable to variations in interest rates and increases the risk of business failure.

Inspection of Diagram 6 shows some relation between the movements in profits and the real wage and investment in 1974-1975 and again in 1981-1982. This has been to some extent confirmed by published empirical work employing data for the last decade, although the short-run impact has not been found to be large. In at least one major macro model[22], cash-flow explains part of machinery and equipment investment; a fall in cash-flow temporarily reduces the rate of investment and lowers the desired capital stock. Other studies where profits are treated as a constraint, suggest that investment was lower in 1974-1975 as a result of the sharp movement in factor shares[23]. The data suggest similar behaviour for the most recent period (see Part IV below).

III. ECONOMIC POLICIES AND INFLATION

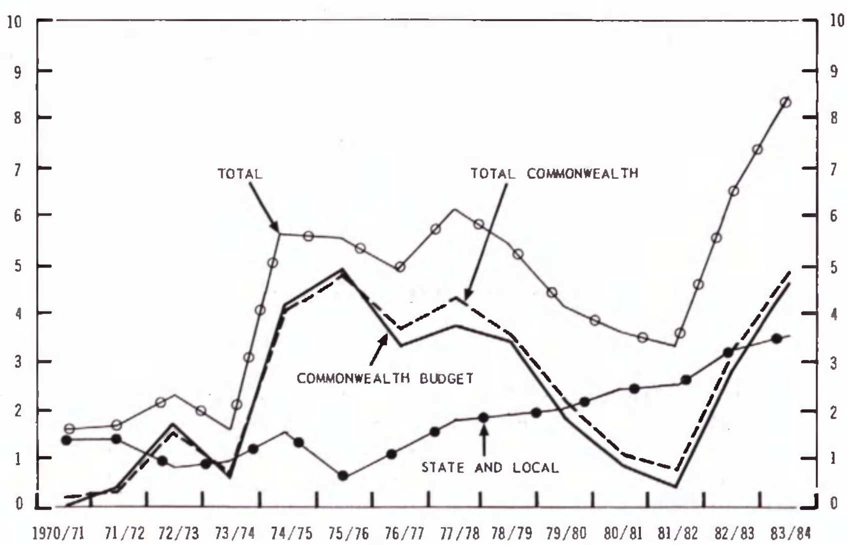
Although the Australian Government can, and has frequently, submitted arguments to the Arbitration and Conciliation Commission to try and influence the size of awards, fiscal and monetary policies have been the principal instruments previous Governments have brought to bear on inflation. The present Government has adopted a comprehensive prices and incomes policy to supplement fiscal and monetary policy instruments. During most of the 1950s and 1960s with inflation rates generally low, macroeconomic policies with few exceptions were mainly concerned with demand management and employment rather than inflation *per se*. Since 1972 in conditions of rapid inflation, the place of inflation in policy-making assumed substantially greater significance and for much of the period it was probably the overriding consideration. But there have been three broad policy phases, the first lasting up to about 1975 and the third beginning in mid-1982. This Part of the Survey describes the broad policy responses to inflation in these phases.

1972 to mid-1975

During most of this period, the Government gave priority to employment within a framework of wide-ranging social reform involving a stated policy of expanding the size of the public sector in the economy. Inflation was seen to be the major problem but with the exception of parts of 1972-1973 and 1973-1974, fiscal and monetary policies were mainly expansionary in a context of accelerating inflation (Diagrams 7 and 8). Restrictive monetary measures were taken in 1972-1973 to try and break inflationary expectations by reversing the rapid growth of M3 in the first half of the financial year. At the same time, the Australian dollar was revalued in December 1972 and September 1973, tariffs were cut by 25 per cent in July 1973 and the Prices Justification Tribunal (PJT) was established in August 1973 as part of an integrated anti-inflation policy. Fiscal policy in 1972-1973 was expansionary, however, the budget deficit in terms of GDP rising considerably (Diagram 7).

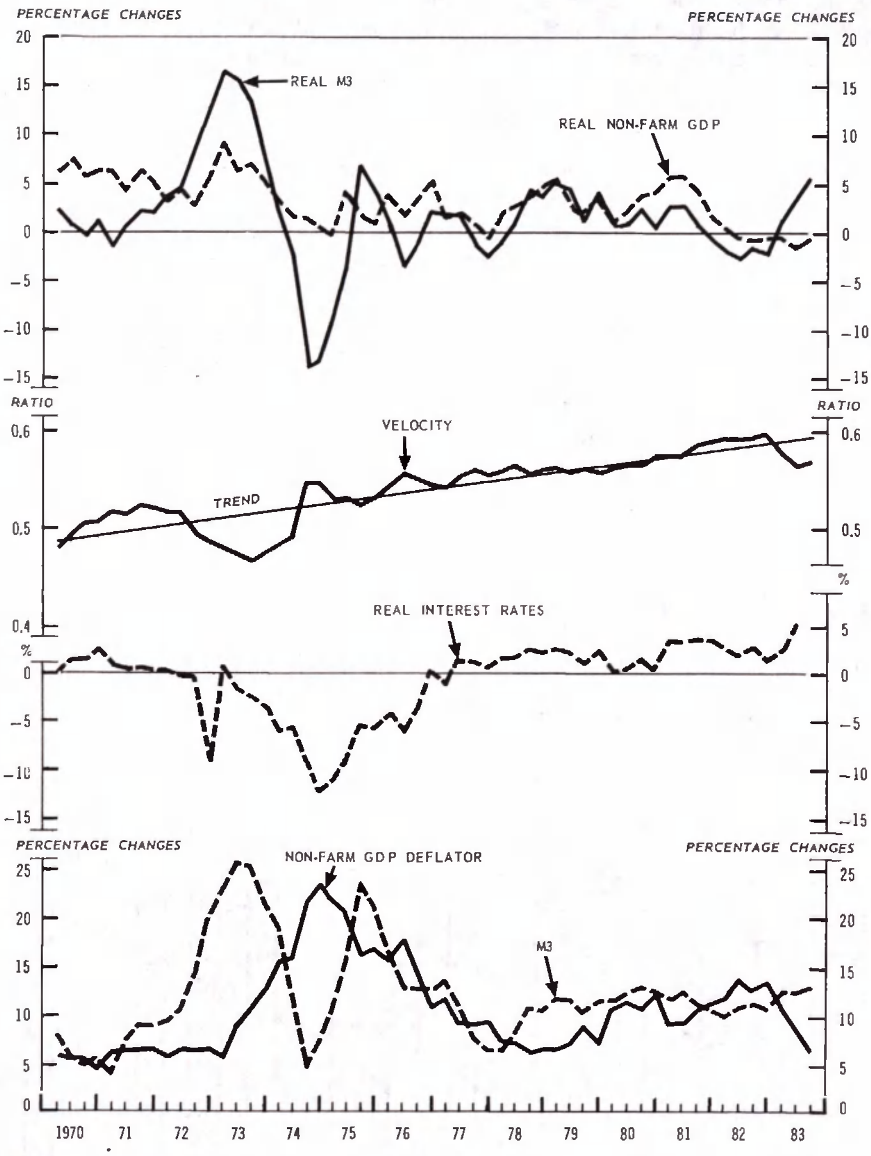
Continuing tight monetary conditions were supported during much of 1973-1974 by a restrictive swing in fiscal policy. The Budget was designed to avoid adding to the new pressures on resources while at the same time increasing the share of resources going to the public sector, partly for public employment reasons. However, increasing unemployment was associated with rising wage expectations, which culminated in the fast growth in nominal and real incomes and rapid inflation discussed in Part II above. The 1974-1975 Budget reinforced these expectations, being expansionary in conditions of accelerating

Diagram 7. **Public sector borrowing requirements**
Per cent of GDP



Sources: Budget Statement No 6 and Secretariat estimates for 1983/84 for borrowing requirements other than the Commonwealth Budget.

Diagram 8. **Monetary indicators**

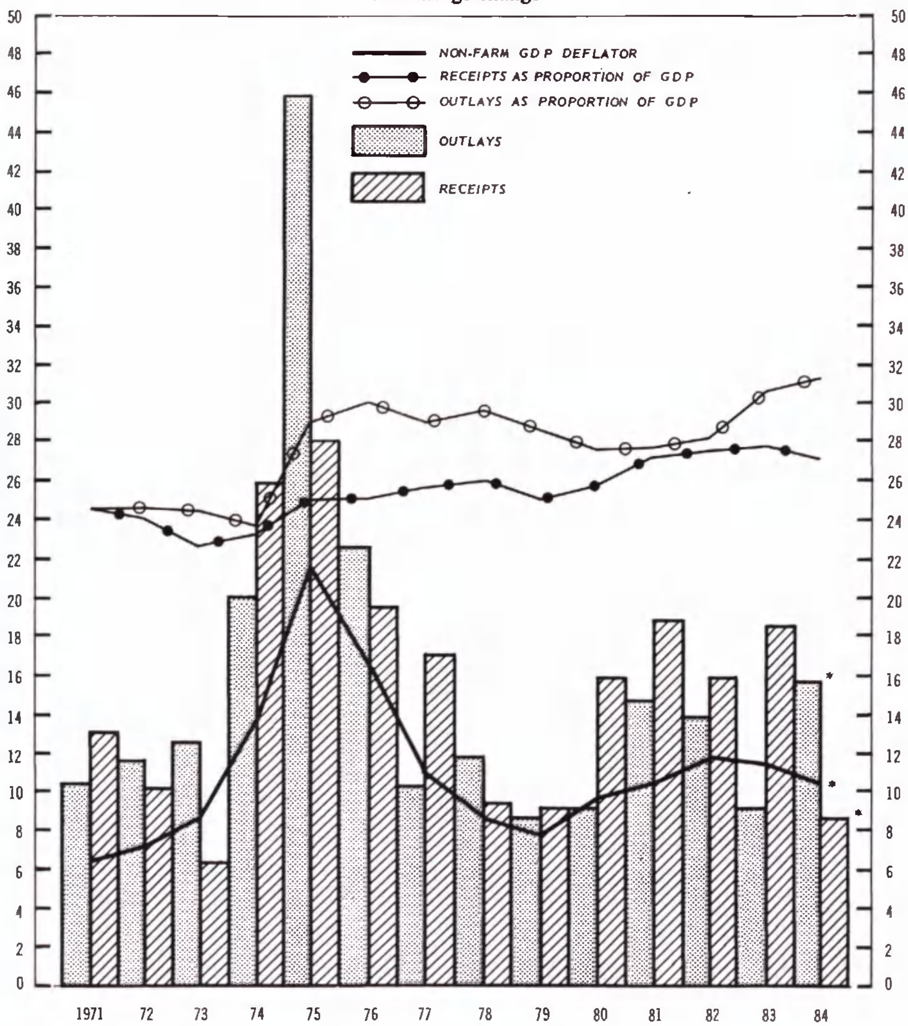


Sources: OECD estimates; ABS; Reserve Bank of Australia, *Bulletins.*

inflation. Moreover, policy was relaxed during the year, outlays rising by over 45 per cent compared with a Budget estimate of 33.2 per cent. Although concerned about inflation, the Government rejected the need for tighter fiscal and monetary policies on the grounds that they would lead to higher unemployment[24]. Rather, it intended to tackle inflation through co-operation with unions and employers leading to the exercise of price and wage restraint. New provisions for the taxation of property incomes and capital gains, borne by the upper income groups, and income tax relief for lower income groups were part of this approach. However, continued rapid inflation resulted in the introduction in April 1975 of quarterly national wage cases before the Arbitration Commission.

Diagram 9. **Commonwealth budget indicators**

Percentage change



* Budget estimates.
Source: Budget Statements.

Rapid inflation, the rising share of budget outlays in GDP (Diagram 9) and the widening budget deficit (Diagram 7) prompted a change of emphasis in the 1975-1976 Budget. The Treasurer in the Budget Speech noted: "We are no longer operating in that simple Keynesian world in which some reduction in unemployment, could, apparently, always be purchased at the cost of some more inflation. Today, it is inflation itself which is the central policy problem. More inflation simply leads to more unemployment." Inflation had become the central preoccupation of policy. The aim of the Budget was to achieve moderate economic growth with a Budget deficit consistent with a slowing in the growth of the monetary aggregates and no pressures on interest rates. Generally, however, greatest reliance was placed on the wage indexation procedures in fighting inflation. In the event, monetary conditions were tightened in several steps in the first half of 1975-1976, but outlays rose considerably faster than projected in the Budget.

Mid-1975 to mid-1982

The new Government elected in December 1975 adopted an integrated anti-inflationary policy consisting of a gradual reduction in money supply growth as a necessary condition for reducing inflation, the progressive narrowing of the Budget deficit as an adjunct to monetary control, restraint on the growth of budget outlays and the size of the public sector and the correction of the large imbalance between the growth of real wages and productivity. The underlying theme of policy in this period was that the reduction in unemployment depended on a substantial reduction in the rate of inflation. Immediate restraints on expenditure growth were announced in December 1975 and further measures followed in February and May 1976. The earlier measures helped to contain budget outlays within the estimates for 1975-1976 but there was a shortfall of revenues so that the Budget deficit increased to around 5 per cent of GDP (Diagram 9). Monetary measures to slow down the growth of money supply were also taken, including the introduction of a new debt-financing instrument, the Australian Savings Bond, and in March 1976, the first announcement of a "conditional projection" of the range for the growth of M3[25]. As can be seen from Diagrams 8 and 9, there was a sharp deceleration in the growth of M3, the Budget deficit was reduced considerably in terms of GDP and there was a marked fall in the rate of inflation despite upward external pressures and an unsatisfactory development of wages relative to productivity growth.

Subsequent Budgets up to 1982-1983 were mostly restrictive and especially so when allowance is made for the cyclical effects on revenues and outlays. Reflecting not only a falling share of budget outlays in GDP from the peak of the mid-1970s, but also a rising share of revenues (Diagram 9), the Budget deficit was reduced by about 4 percentage points of GDP to ½ per cent in 1981-1982. To some extent, the anti-inflation goal of the Commonwealth Government's budget policy since 1975-1976 was jeopardised by the programmes of the States and local authorities whose borrowing requirement rose steadily so that the reduction in the overall public sector borrowing requirement was less marked and its level up to 1981-1982—at just over 3 per cent of GDP—was relatively high (Diagram 9). Monetary growth in 1977-1978 was in line with the projections but thereafter continuing reductions were not achieved, suggesting that monetary policy was more accommodating to inflation than intended and in conflict with the Government's anti-inflation policy. The reacceleration of inflation in 1979 stemmed largely from external price rises, but it may also have reflected the earlier easing of monetary conditions. The difficulties in reducing the growth of the monetary aggregates and adhering to a steady setting of monetary policy were related to the lack of flexibility on interest and exchange rates. Above all, however, the Government felt that its anti-inflation policy was being compromised by excessive wage awards which were seen as the main barrier to reducing inflation and achieving sustainable employment-creating growth in the private sector. In the 1978-1979 Budget Speech, the Treasurer argued that it was regrettable that the Commission had not paid greater heed to the views of the Government on the need for wage restraint. This argument was made more forcibly in 1979-1980 against the background of a restrictive Budget.

The recession in the early 1980s posed a dilemma for the Government: on the one hand, the stubbornly high rate of inflation pointed to the need to continue the medium-term strategy of bearing down on inflation while, on the other, the recession was seen to require some fiscal stimulus. In the event, the emphasis shifted and policy was relaxed in the 1982-1983 Budget and the mix of personal tax reliefs and other forms of personal assistance was designed to encourage the exercising of wage restraint. The Government instituted a wages pause in December 1982. Further fiscal measures and higher than estimated cyclical expenditures led to the budget deficit rising from 0.4 per cent of GDP to 2.7 per cent.

The current policy framework

The policy adopted by the Government elected in March 1983 differs substantially from that in earlier years in that inflation and unemployment were to be dealt with simultaneously within a framework of consultation and consensus. In essence, the approach consists of an expansionary fiscal policy (see Part IV below), an accord on prices and incomes with the trade union movement as the major anti-inflation instrument and a supporting non-inflationary monetary policy. To facilitate consultation, the new Government immediately convened a National Economic Summit in April to enable a broad range of participants to exchange views and discuss the possibility of reaching "consensus on issues important to the current and future wellbeing" of Australia.

After discussion of the current and prospective economic situation, the broad conclusions were that a sustained economic recovery will require a steady improvement in confidence, a more effective process of income determination with a period of collective restraint being essential. An effective prices and incomes policy was needed with a return to the centralised approach to wage fixation. Fiscal policy should provide a stimulus consistent with the need to reduce inflation and to avoid upward pressure on interest rates. The Summit also agreed to establish an Economic Planning Advisory Council to continue the process of consultation and to discuss medium-term policies. To aid the prices and incomes agreement, a Price Surveillance Authority has been established having power to monitor prices in nationally-significant areas of limited competition but not to control them. Companies not complying with its rulings will not be subject to penalties. An Advisory Committee on Prices and Incomes has also been established. Consisting of representatives from the social partners, it will provide advice to the Government on prices and incomes policy. Anti-monopoly legislation is to be strengthened.

The central plank in the new policy, which differentiates it from the past is its emphasis on consultation and consensus. Broad agreement was reached at the National Economic Summit in April 1983 that a centralised wage determination system based on the general principle of real wage maintenance should be established. However, at a subsequent Conference called by the Commission in June 1983 as an initial step in designing the principles, there was disagreement on the timing of wage increases, the principle of indexation, the starting date of the new system, and particularly the problem of wage catch-up after the wage pause. As later laid down by the Conciliation and Arbitration Commission, the new wage-fixing principles provide for six-monthly indexation hearings for a period of two years when the principles would be reviewed. The principles place tight restrictions on additional wage increases and claims outside the principles have been forbidden. To obtain the indexation increases, individual unions are required to make a commitment not to pursue claims other than in accordance with the principles. In principle, the Government has said that, generally, less than full indexation should not be awarded except in exceptional circumstances. In its first two awards under the principles in October 1983 and April 1984, the Commission granted full indexation for the rise in the Consumer Price Index. The most important differences from previous systems would seem to be more tightness in the guidelines than earlier and the requirement for commitments by the individual unions to the principles. Also, the new prices authority will be less intrusive than earlier bodies. The new policy will be reinforced by increased consultation between social partners aimed at achieving consensus in the national economic interest.

IV. RECENT TRENDS, POLICIES AND PROSPECTS

Demand and output[26]

Recent trends in demand and output are shown in Diagram 10. The recession, which started in late 1981, deepened in 1982 and in the first half of 1983 when real GDP fell at an annual rate of 2¼ per cent. The downturn emanated largely from domestic factors, but the international recession was also important as it brought significant reductions in commodity and energy prices which contributed to the postponement or cancellation of investment projects in the resources sector. Domestically, rapidly rising labour costs and high interest rates interacted to squeeze profits and further depress investment. At the same time, farm output was severely reduced by the widespread drought which lasted for several years. Reflecting these influences, the recession was investment-led (Table 2 and Diagram 10); all the main components of private sector fixed investment fell (Diagram 11). With private consumption weakening and the contribution from the change in stockbuilding becoming negative, total domestic demand fell markedly for three consecutive half-years to mid-1983. The fall in real GDP was moderated, however, by the real foreign balance as the volume of imports declined, reflecting both the cutbacks in investment and destocking.

The recovery in the economy since mid-1983 has been rapid. Real GDP increased 11¼ per cent in the second half to a level 4 per cent higher than a year earlier. Over half of this increase represented a contribution from the change in stockbuilding. Private sector non-farm stocks, after falling sharply in the three previous quarters, continued to be run down, but at a much slower rate and given the sharpness of the upturn, part of the stock liquidition may have been involuntary. More important, however, was a large build-up of farm and public authority stocks as a result of a rapid increase in farm output following the break in the drought in the first half of 1983. The volume of public consumption was 4 per cent higher than in the first half of 1983. Private consumption contributed almost 1 percentage point to the actual rise in real GDP. Real personal disposable income rose by about 5½ per cent reflecting increasing farm and non-farm property incomes, partly offset by a marginal fall in real wage and salary incomes. Overall there was a significant rise in the saving ratio, but with farm income rising rapidly, it is possible that the saving ratio in the non-farm sector dropped somewhat. It is notable that there was a large discrepancy between the growth of GDP measures from the income side (as is the normal practice) and the growth measured from the implicit expenditure measure of GDP.

Table 2. **Demand and output**
Percentage changes, volume[1]

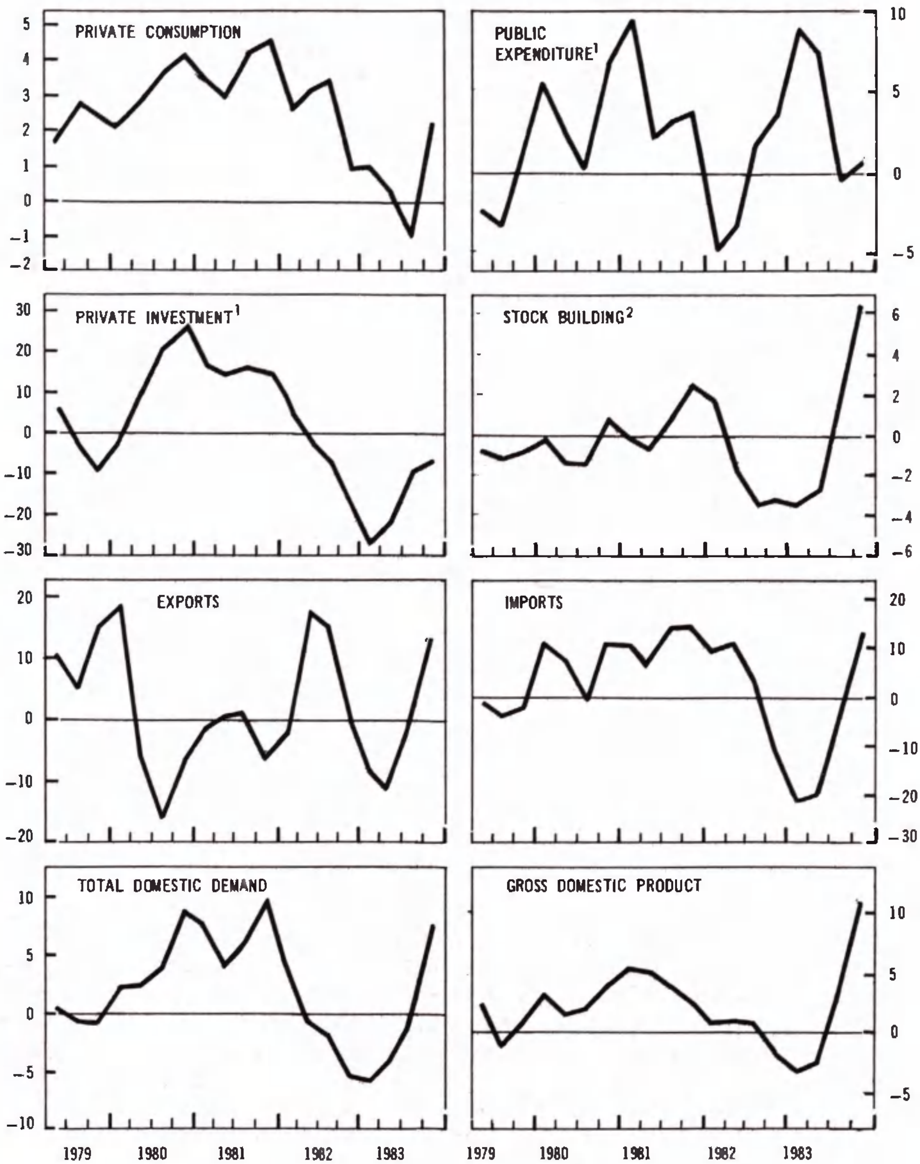
	From previous year[4]				From previous half-year, seasonally adjusted annual rate				
	1981	1982	1983	1982-83	1981	1982		1983	
	Calendar years			June year	II	I	II	I	II
Consumption									
Private	3.5	3.0	0.9	1.3	4.7	3.2	0.9	0.3	2.4
Public	4.0	0.1	6.7	3.4	0.6	−1.4	2.2	10.8	4.0
Gross fixed investment	12.5	−2.4	−12.3	−11.0	13.9	−3.8	−12.4	0.4	−7.1
of which[2]:									
Public	4.2	4.7	−1.9	1.8	17.5	1.1	1.4	0.4	−11.7
Private:									
Total	16.7	−5.6	−17.6	−17.0	12.3	−6.1	−18.7	−22.8	−4.2
Dwellings	3.4	−14.8	−18.3	−26.2	5.3	−14.7	−31.0	−28.6	24.9
Other construction	26.5	−2.8	−25.1	−15.2	10.0	−2.3	−12.5	−31.2	−24.9
Equipment	21.0	−2.1	−14.8	−13.4	16.6	−3.2	−15.1	−17.4	−7.5
Final domestic demand	5.6	1.2	−1.2	−1.3	6.2	0.7	−2.2	1.7	0.6
Change in stockbuilding[3]	0.9	−1.7	0.2	−2.6	1.3	−0.8	−1.6	−1.3	3.3
of which:									
Private non-farm[3]	−0.4	−0.5	−1.8	−1.8	0.5	−0.3	−0.9	−1.6	0.7
Farm and miscellaneous[3]	1.3	−1.2	2.0	−0.8	0.8	−0.5	−0.7	0.3	2.6
Total domestic demand	6.5	−0.4	1.0	−3.9	8.9	−0.9	−5.2	−4.3	7.3
Exports of goods and services	−4.1	7.6	−3.0	1.5	−7.0	18.0	2.2	−12.0	13.2
Imports of goods and services	9.1	4.7	−10.6	−9.7	14.2	10.8	−14.3	−19.0	13.4
Change in foreign balance[3]	−2.4	0.3	1.6	2.2	−1.9	0.3	1.7	0.9	−0.1
GDP (expenditure-based estimate)	4.1	−0.1	0.6	−2.1	5.1	−0.2	−1.9	−2.6	7.2
Statistical discrepancy[3]	0.3	−0.1	1.2	0.3	1.2	0.6	..	0.2	2.0
GDP (income-based)	4.4	−0.2	1.8	−1.4	2.6	0.9	−1.8	−2.2	11.3
of which:									
Farm	7.2	−8.3	11.1	−17.9	31.8	9.7	−32.4	−11.9	85.2
Non-farm	4.2	0.3	1.3	−0.3	1.1	0.4	0.5	−1.7	7.9

1. Volume data measured at 1979-80 prices.
2. As from the September quarter 1981 the published figures have been adjusted by the Secretariat to remove the impact of the sale to the private sector of public sector assets under lease-back arrangements. In this adjustment, estimates of the value of such sales are subtracted from the published estimates of private investment in non-dwelling construction and equipment and added back to the published estimate of public investment expenditure.
3. Contribution to GDP growth (percentage points on income measure: half-yearly estimates are not at annual rates).
4. Published annual national accounts estimates are compiled for years ended 30th June. The calendar year estimates have been obtained by summing original quarterly data.

Source: *Quarterly Estimates of National Income and Expenditure*, Australian Bureau of Statistics.

Diagram 10. **Demand and output**

Percentage change between adjacent half-years, seasonally adjusted annual rates

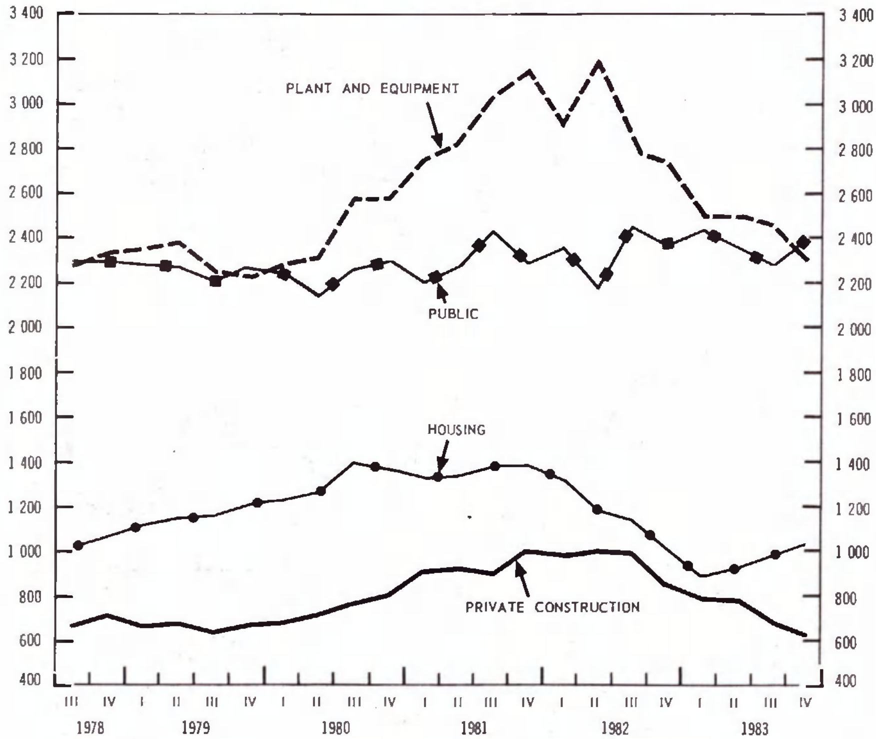


1. Adjusted by the Secretariat for the sale of major capital assets by the public sector to the private sector and subsequent leaseback.
2. Contribution to percentage change in GDP at annual rates.

Source: Australian Bureau of Statistics.

Diagram 11. **Investment trends**[1]

Dollars million average 1979-80 prices, seasonally adjusted



1. Adjusted by the Secretariat for sales of major capital assets by the public sector to the private sector and subsequent leaseback.

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

Apart from dwellings investment, all the other main components of private sector investment weakened further in the second half of 1983. Residential building approvals started to rise in the December 1982 quarter and commencements in the first quarter of 1983, but these rises were only reflected in investment in later quarters. Readily available finance for housing, lower interest rates and government-sponsored assistance schemes have been the most important factors in the turnaround in housing investment which increased by 25 per cent in the second half of 1983. Nevertheless it was, in the final quarter of 1983, about one-quarter lower than the previous peak of two years earlier. On an industrial basis investment in basic metal products and other manufacturing have shown the largest falls since the recession started. The weakening in commodity prices played an important role here but it is also probable that the level of investment was unsustainably high in 1980 and 1981. In other sectors, the importance of the widening in the real wage gap and the pressures on profits can be seen in the relative rapidity and extent of the downturn in capital spending after the cyclical peak. Private sector non-dwelling construction investment declined to about 39 per cent below the pre-recession peak by the second half of 1983. The comparable figure for equipment investment was 24 per cent. With offsetting increases in the other demand components final domestic demand rose slightly in the second half of 1983. The swing in stockbuilding resulted in total domestic demand increasing at an annual rate of 7¼ per cent in the second half and—as noted—GDP at a rate of 11¼ per cent.

The latest available indicators suggest continuing growth in activity in the first quarter of 1984. Retail sales (current prices) rose by about 2 per cent in the three months to February while new motor vehicle registrations increased by a strong 6½ per cent in the same period, pointing to a considerable rise in consumers' expenditure. Expected high outlays by the States and the Commonwealth Budget deficit estimates are consistent with strong growth in public consumption and investment. Certain components of private non-residential investment have increased. Housing approvals and commencements continued to rise very strongly, the former being some 48 per cent higher in the three months to February than the low point reached in the December quarter 1982. A further positive contribution to real GDP growth from the change in non-farm stockbuilding probably occurred but, although there was a large build-up of farm stocks as the record wheat crop was harvested, the contribution of this component is likely to have moderated. The volume of exports rose considerably in the first quarter of 1984 reflecting mainly rural commodities, but there was a considerable acceleration in the growth in the volume of imports. Selected manufactured production statistics suggest a further rise in output in the first quarter of 1984. Overall, demand and output expanded in the second half of 1983 at a considerably faster rate than had been expected at the time of the Budget or than projected by the Secretariat, but several of the factors underlying the strength of growth in the recent period are temporary.

Labour market developments

The labour market deteriorated sharply during the recession. The growth of employment, which was relatively strong for several years, faltered in the last quarter of 1981, picked up a little in early 1982 and then fell sharply for five consecutive quarters (Diagram 12). From peak to trough, employment on a quarterly basis declined by 2.9 per cent which was substantially more than the fall in non-farm GDP. The fall in aggregate hours worked was larger than for employment as there were marked reductions in full-time work and in overtime hours worked (Table 3). As suggested in Part II, the severity of the labour market shake-out reflected the high wage settlements in 1981 and 1982. Labour shedding was most severe in those sectors of the economy subject to international competitiveness: employment in manufacturing industry had fallen by almost 11 per cent between November 1981 and February 1983. In contrast, employment in tertiary industries and the public sector continued to increase but at a slower rate than prior to the recession.

Despite the sharp reduction in the demand for labour during the recession, the labour force continued to rise strongly, being 2½ per cent higher in the second quarter of 1983 than in the third quarter of 1981. The female labour force grew at a faster rate than that of males, and while the participation rate for males continued to decline, female participation was broadly stable (Table 3). With employment falling rapidly, unemployment rose very sharply by 342 000 (5 per cent of the labour force) to 718 000 between the second quarter of 1981 and the second quarter of 1983. The increase in unemployment was concentrated on adult males seeking full-time employment whose rate increased by 5 percentage points to 8¾ per cent. The rate of unemployment for young people seeking full-time work also rose substantially to a peak of 27.5 per cent in the third quarter of 1983. The extent and speed of the deterioration in the labour market during the recession indicates that faced with severe profit and cash flow pressures employers moved quickly to economise on the use of labour.

Table 3. **Labour force indicators**

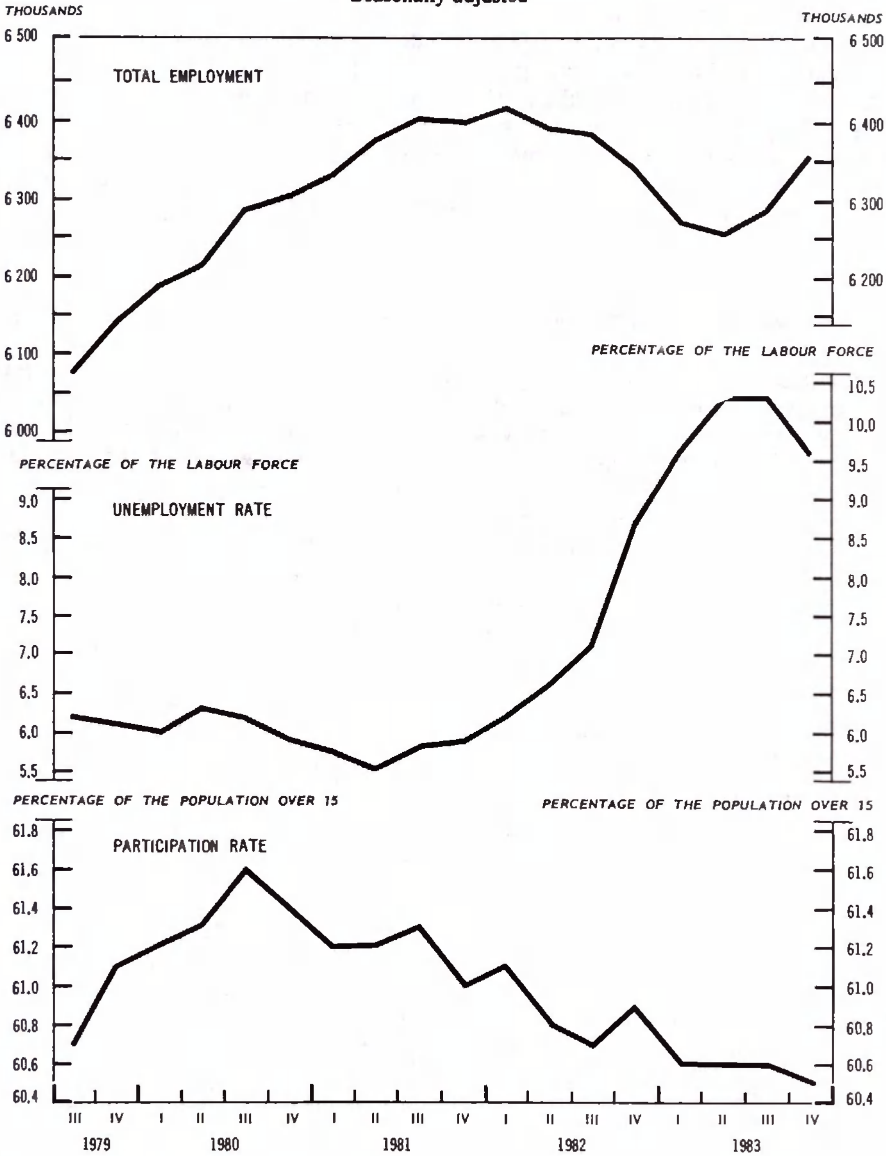
	1981 Q1	1981 Q2	1981 Q3	1981 Q4	1982 Q1	1982 Q2	1982 Q3	1982 Q4	1983 Q1	1983 Q2	1983 Q3	1983 Q4	1984 Q1
Civilian labour force[1]	1.7	1.9	2.4	..	3.0	0.1	0.8	3.6	−0.5	1.9	1.4	1.3	2.4
of which:													
Males	2.3	0	1.6	−0.6	3.0	0.4	1.4	3.0	−1.5	2.1	0.6	1.0	1.6
Females	0.6	3.4	3.9	1.1	3.0	−0.4	−0.2	4.5	1.3	1.6	2.8	1.7	3.8
Total civilian employment[1]	2.7	2.9	1.0	−0.4	1.9	−1.6	−1.5	−3.5	−4.1	−1.0	1.2	4.3	3.7
of which:													
Males	2.8	1.8	0.2	−1.4	2.3	−1.6	−2.1	−4.2	−6.2	−1.6	0.6	4.0	3.4
Females	2.4	4.8	2.3	1.4	1.2	−1.7	−0.5	−2.3	−0.4	..	2.1	4.8	4.4
Unemployment rate[2]	5.5	5.5	5.9	5.9	6.2	6.6	7.2	8.8	9.6	10.3	10.3	9.7	9.4
of which:													
Males	4.8	4.6	4.9	5.1	5.2	5.6	6.5	8.2	9.3	10.1	10.1	9.4	9.0
Females	7.5	7.2	7.6	7.5	7.9	8.2	8.3	9.8	19.2	10.5	10.7	10.0	9.9
Juniors looking for full-time work	16.7	15.5	16.3	17.1	17.8	19.0	19.5	22.5	25.8	26.8	27.5	25.9	26.0
Aged 20 and over looking for full-time work	4.3	4.1	4.6	4.6	4.7	5.1	5.7	7.5	8.4	9.0	8.9	8.4	8.0
Participation rate[2]	63.1	61.3	61.5	61.3	61.0	60.7	60.6	60.8	60.5	60.5	60.4	60.4	60.5
of which:													
Males	78.3	78.2	78.1	77.6	77.7	77.4	77.2	77.5	76.9	76.9	76.7	76.5	76.5
Females	44.5	44.7	44.9	44.8	44.9	44.6	44.4	44.7	44.6	44.6	44.7	44.7	44.9
Average hours worked[3]	33.6	35.8	35.7	36.4	32.6	34.1	35.2	35.8	31.5	34.2	35.3	36.0	n.a.
Overtime hours per week, non farm[3]	1.44	1.49	1.46	1.57	1.48	1.45	1.26	1.30	1.14	1.19	1.20	1.34	n.a.
Non-farm vacancies (thousands)[3]	33.5	35.7	34.7	36.7	33.7	25.3	21.5	16.4	16.9	17.5	16.7	19.1	n.a.

1. Percentage change over previous quarter at seasonally adjusted annual rates.
2. Seasonally adjusted.
3. Not seasonally adjusted.

Source: Australian Bureau of Statistics.

Diagram 12. **Employment and unemployment**

Seasonally adjusted



Source: Australian Bureau of Statistics.

Employment stopped falling in April 1983 and rose strongly in the second half of 1983 and in the first quarter of 1984 (Table 3 and Diagram 12). At the same time, there was a considerable pick-up in overtime hours and average hours worked while the downward trend in non-farm vacancies was reversed (Table 3). The turnaround in the labour market reflected a return to employment growth in some of those industries most affected by the recession

—construction, wholesaling and retailing—as well as continued growth in other tertiary industries and the public sector. With the labour force continuing to increase considerably, however, unemployment rose up to September after which the unemployment rate fell to be 9.5 per cent of the workforce in April 1984. As part of the Accord strategy to fight unemployment and inflation simultaneously, the Government has modified some existing labour market programmes and introduced new schemes among the more important of which is the Community Employment Programme[27]. Other labour market initiatives are intended to increase opportunities for education, training and work experience for the young unemployed and improve the flexibility and skills of the labour force generally[28].

Prices, wages and costs

During 1982 when the inflation rate in the OECD area was moderating, domestic price increases in Australia accelerated and a large differential emerged; through the year consumer prices rose by 11 per cent compared with an OECD average of 6½ per cent. The main factors responsible for this development were marked increases in government charges and the large rise in labour costs. Public sector policies may have added about 3 percentage points to the rise in the Consumer Price Index (CPI) during 1982 while there was an increase in wages, salaries and supplements of about 15 per cent. As the increases in wages were substantially higher than in prices (Table 4) corporate profitability contracted sharply. Because traditional measures of profitability such as the gross operating surplus of corporate

Table 4. **Recent trends in prices and costs**
Percentage change from previous period: annual rates

	1981	1982		1983	
	II	I	II	I	II
National accounts deflators[1]					
Private consumption	9.3	10.6	12.6	9.3	6.8
Final domestic demand	10.0	12.3	12.3	8.3	5.8
GDP	9.9	12.4	11.8	8.4	5.6
Exports of goods and services	−0.8	2.8	6.8	10.6	8.2
Imports of goods and services	0.6	8.8	9.3	7.2	1.7
Non-farm GDP	11.2	14.2	11.8	8.1	5.4
Consumer price index					
Food	10.5	5.0	10.3	10.9	8.1
Total	10.9	10.4	12.9	9.8	8.0
Manufacturing					
Articles produced by manufacturers	6.8	9.3	10.3	8.1	6.1
Wage costs[1]					
Award wage rates	10.4	16.7	12.0	3.4	4.2
Average non-farm earnings	11.0	20.1	15.5	1.9	4.3
Non-farm unit labour costs	11.2	20.3	13.2	1.1	−2.3
Gross operating surpluses[1]					
Corporate trading enterprises	5.7	−9.3	−3.7	33.5	46.6
Non-farm unincorporated enterprises	21.1	0.5	4.5	4.6	17.4
Farm incorporated enterprises	18.5	−12.5	−46.4	−1.7	200.9
Memorandum item:					
Productivity (per person employed in the non-farm sector)[1]	−0.8	0.0	2.2	1.7	6.0

1. Derived from seasonally adjusted data.
Source: Australian Bureau of Statistics.

trading enterprises include, *inter alia*, interest payments as well as profits, during periods of high interest rates and when companies are highly indebted, as was the case during 1982, these measures tend to understate the extent of the fall in profitability. Nevertheless, measured on this basis, profits fell by 17.5 per cent (annual rate) in the first half of 1982 and there was a further marginal fall in the second half of the year.

Inflationary pressures moderated somewhat in the first half of 1983 reflecting mainly the effects of sharply deteriorating labour market conditions and the effect of the pause in award wage rates proposed by the then Government in November 1982 and subsequently implemented for the period up to at least July 1983. In the first half of 1983 there was a marked slowing in award wages which grew at an annual rate of 3.6 per cent compared with 12.0 per cent in the second half of 1982. Moreover, this slowing in award wages, together with the sharp reductions in employment, led to a marginal fall in the value of wages, salaries and supplements in the first half of 1983. Consumption was supported, however, by reductions in income tax scales in November 1982 and large increases in personal transfer payments by the Commonwealth so that after allowance for price increases, real disposable income continued to increase marginally. The inflation rate also moderated during the first half of 1983 under the influence of the sharply reduced increases in wage costs. The non-farm product deflator increased by 8.1 per cent (annual rate) in the first half of 1983 compared with 11.8 per cent in the second half of 1982 and over the same period consumer prices increased by 9.8 per cent (annual rate) compared to 12.9 per cent. This slowing was also reflected in a narrowing of the inflation differential with other OECD countries. Unit labour costs rose by only ½ per cent (annual rate) in the first half of 1983, the comparable increase in the second half of 1982 being 13.0 per cent. As a result, corporate profitability picked up relatively early in the cycle and the gross operating surplus of trading enterprise companies increased sharply during 1983. As measured by the non-farm GDP implicit price deflator and the CPI, price inflation slowed further in the second half of the year. In the March quarter of 1984, the CPI excluding medical care was about 7¾ per cent higher than a year earlier, the lowest year-on-year increase for at least five years.

The pay pause effectively came to an end in September 1983 when the Conciliation and Arbitration Commission granted a 4.3 per cent increase in award wages and salaries, effective from October 1983. This was equivalent to the rise of the CPI in the March and June quarters of 1983 and conformed to the provisions of the Accord that there should be a return to centralised wage fixation and that the value of real wages should be maintained except in exceptional circumstances. As explained elsewhere in this Survey, the guidelines set down by the Commission provide for national wage cases to be held every six months and that wage increases above indexation will be strictly limited. A further indexation increase of 4.1 per cent was granted from April 1984 representing full indexation for the increase in the CPI in the September and December quarters. With the return to indexation of wages to movements in the CPI, the rise in wage costs started to accelerate again late in 1983. The impact of this on domestic prices was moderated, however, by slower growth of import prices—due mainly to the appreciation of the exchange rate—and a rapid growth in productivity. Wage rises will be damped during 1984 by the introduction in February of Medicare which has significantly lowered the CPI (the index used in national wage cases) and which could lead to a National Wage case increase of less than 1 per cent in the second half of 1984. The broader measures of prices will not be directly affected, however.

Foreign trade and balance of payments

It is probable that the growth of non-rural exports in 1983 will have been comparable to previous peak growth rates seen in 1973 and 1978 (Table 5). This movement had been foreshadowed during 1982 when Australian non-rural exports withstood the fall in world trade to a large extent. Despite a 5 per cent fall in the volume of world trade in manufactures between the second halves of 1981 and 1982, exports of non-rural goods increased quite significantly. The increase was broadly spread—coal and metals (including ores and manufactured metal products) rose as did all other non-rural goods. It was noticeable that the speed of increase picked up in the second half of 1982 at a time when the downturn in world trade was accelerating. While there was a slowdown in the first half of 1983—especially in the metal and ores sector—the momentum was regained in the second half of 1983. This rapid growth in non-rural exports reflects increased world demand and the previous investment in mining and aluminium facilities, totalling over $9 billion (1979-1980 prices) in the three financial years ending 1982-1983[29]. Rural exports, however, have been extremely weak since the middle of 1982. This has reflected severe drought conditions and it was only the accumulated stocks from the 1981-1982 wheat crop which enabled the fall in rural exports to be restricted to an expected 20 per cent in 1983. The large cereal crop in 1983 has significantly influenced farm exports at the end of 1983 and the beginning of 1984.

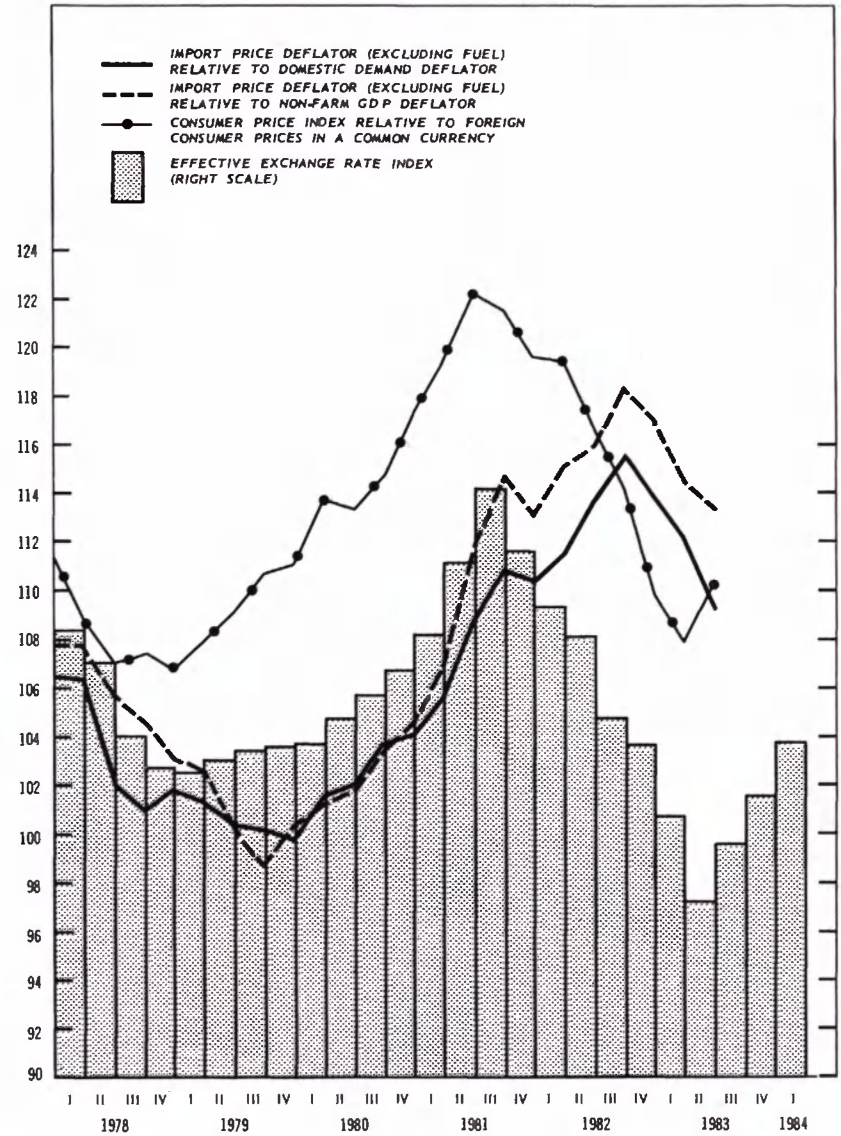
Table 5. **Foreign trade**

	1980	1981	1982	1982 I	1982 II	1983 I	1983 II
	Value $A billion	Percentage change over previous period (annual rate)					
Exports							
Volumes							
Rural	8.8	−9.8	12.6	33.6	0.0	−35.1	4.5
Fuels	2.1	28.2	0.8	−12.2	23.0	22.1	22.3
Metals (ores & manufactures)	5.5	−7.9	7.4	18.8	5.4	0.0	12.0
Other manufactured goods	2.5	−5.9	4.7	14.9	−8.9	13.2	31.5
Total non-rural goods	10.1	0.2	4.3	8.8	6.0	8.6	19.6
Services	3.2	−2.1	3.1	11.3	−3.9	−7.9	11.2
Goods and services	22.1	−4.1	7.2	18.0	2.2	−12.0	13.2
Price deflator							
Rural		1.7	−5.1	2.0	−5.3	16.4	13.0
Fuels		11.6	16.2	12.6	23.8	4.0	−7.3
Metals (ores & manufactures)		−0.5	3.6	−0.1	12.2	−0.8	17.5
Other manufactured goods		2.9	6.0	1.7	12.9	9.0	10.3
Total non-rural		3.5	8.2	3.1	16.4	3.7	6.7
Services		9.7	7.9	6.8	7.9	9.8	2.8
Goods and services		3.7	2.9	2.8	6.8	10.5	8.2
Imports							
Volumes							
Food and raw materials	1.7	2.7	0.5	8.2	−23.8	10.7	11.4
Fuels	2.4	−2.7	10.5	26.5	3.0	−42.2	−36.4
Manufactured goods	13.6	13.5	5.0	11.0	−18.0	−19.7	19.5
Services	5.4	4.3	3.3	5.8	−6.1	−14.9	16.8
Goods and services	23.1	9.1	4.7	10.8	−14.3	−19.2	13.4
Price deflator							
Food and raw materials		−3.3	4.5	1.7	15.7	3.5	7.1
Fuels		17.8	8.9	2.2	22.7	−7.8	−3.8
Manufactured goods		4.0	6.3	10.7	4.7	12.4	3.5
Services		3.7	6.6	6.9	10.7	8.2	2.1
Goods and services		4.5	6.7	8.8	9.3	7.2	1.9

Source: Australian Bureau of Statistics.

The level of imports relative to total demand had been very high at the end of 1981 and the beginning of 1982 reflecting, in part, the composition of demand with in particular investment in plant and equipment reaching a cyclical peak at this point. Since then the ratio of imports to GDP has dropped markedly to be below the average for the second half of the 1970s by the beginning of 1983. The falling ratio of investment to GDP, the high rate of destocking in the non-farm sector and improvements in competitiveness were largely

Diagram 13. **Recent trend in international competitiveness**



Source: Australian Bureau Statistics.

responsible for this reversal. By the second half of 1983, demand for imports started to revive and the pace of destocking slowed so that imports rose faster than demand and by the third quarter the traditional level of import penetration had been reached. Despite this growth which continued in the first months of 1984, the fall in imports was 12 per cent in 1983 as a whole.

During 1981 and 1982, prices for exported goods were weak, more so for rural products than for non-rural products. With import prices rising faster than export prices in 1982, the terms of trade deteriorated in line with developments for a primary products exporter during a recession. In 1983, however, the terms of trade started to improve, the increase being strongest in the rural sector with higher sugar, beef and cereal prices. The prices for non-rural products were low but there was nevertheless a slight gain in the terms of trade from this source, mainly as the result of a significant overhang from fuel price rises at the end of 1982. By the end of 1983, this pattern was reversed with fuel prices weakening and other components of non-rural exports showing terms of trade gains. As measured by the ratio of non-fuel import prices to domestic demand or non-farm GDP prices, competitiveness continued to deteriorate during 1982—a trend which had started in the second half of 1979 (Diagram 13). Despite the effective exchange rate falling in the second half of 1982, this deterioration was sustained until the end of the year[30]. In the first half of 1983, the slowdown in wage growth and the further fall in the effective exchange rate, improved competitiveness but this movement was reversed at the end of the year as the exchange rate started to appreciate.

With a better terms of trade in the first half of 1983 and with the volume of imports falling faster than that of exports, the trade balance continued to improve in the first half of 1983 (Table 6). In the second half of the year, the rise in the volume of exports more than offset the increase in imports and, when added to the continued terms of trade improvement generated a further rise in the trade balance in the second half of 1983. By the final quarter of 1983, the trade balance was in substantial surplus for the first time since the first half of

Table 6. **Balance of payments - current and capital accounts**[1]
$A million

	1981	1982	1983	1982 I	1982 II	1983 I	1983 II
Trade balance	−2 024	−2 523	263	−1 633	−890	−43	306
Net services	−2 466	−2 674	−2 571	−1 339	−1 335	−1 222	−1 349
Net investment income	−2 239	−2 267	−2 877	−1 324	−943	−1 276	−1 601
Net transfers	−455	−567	−605	−338	−229	−350	−255
Current account	−7 184	−8 031	−5 790	−4 634	−3 397	−2 891	−2 899
Public sector capital flows	988	2 941	1 258	898	2 043	239	1 019
Direct investment	1 945	2 000	3 302	1 797	203	662	2 640
Private sector portfolio investment:							
Equities	467	739	752	465	274	531	221
Borrowings	3 135	6 377	3 581	3 717	2 660	2 370	1 211
Australian investment abroad	−739	−1 022	n.a.	−453	−569	−507	n.a.
Other	220	389	n.a.	17	372	−232	n.a.
Capital inflow (observed)	6 016	11 424	8 301	6 441	4 983	3 063	5 238
Errors and omissions	1 010	1 491	828	852	639	39	789
Capital inflow (apparent)	7 602	12 915	9 129	7 293	5 622	3 102	6 028

1. All data seasonally unadjusted.
Source: Australian Bureau of Statistics.

1980. In the first four months of 1984, the trade balance rose further. As a 26 per cent increase in the payments of investment income in 1983 was offset by an improvement in the balance of other services, the amelioration in the trade balance was mirrored in the current external account. The pattern of capital movements was very erratic during 1983. Large capital outflows, at the time of the election, were largely reversed in late March and April after the devaluation. Thereafter, appreciation of the exchange rate and the fall in short-term interest rates were sufficient to ensure that there was a minimal increase in reserves in the first nine months of 1983. In the last quarter of the year, capital inflows increased sharply and finally the policy of a managed float of the exchange was abandoned, after nearly a $3 billion increase in official reserves in this period.

Fiscal policy

Recent trends in fiscal policy are summarised in Table 7. As noted above, the 1982-1983 Budget presented during the recession, marked a departure from the medium-term strategy of reducing the Budget deficit which was projected to rise from 0.4 per cent of GDP to 1 per cent[31]. In the event, the deficit rose to 2.7 per cent of GDP, more than two-thirds of the overrun being due to higher than estimated outlays. Projected to rise by 13.9 per cent in 1982-1983, outlays increased by 18.5 per cent. The main reasons for the faster growth of outlays than budgeted were higher unemployment benefits, drought assistance, public debt interest, housing grants and social security and welfare payments. Outlays on many other items also exceeded the estimates. The shortfall of revenue of about $880 million reflected mainly the deeper recession than had been forecast at the time of the Budget. Except for excise duties, all the main categories of taxes fell considerably short of the Budget estimates. The cyclical effects of the recession on outlays and revenues were not as important as discretionary measures, however, in explaining the difference between the projected Budget deficit and the outturn. Secretariat estimates suggest that there was a sizeable discretionary fiscal stimulus amounting to over 1 per cent of GDP. The increase in the Budget deficit of 2.3 percentage points of GDP was the largest since 1974-1975 when it was 3.6 percentage points.

Concerned about the projected size of the 1983-1984 Budget deficit of nearly $10 billion on the basis of unchanged policies, the Treasurer in May 1983 announced some revenue and expenditure measures to reduce it. The measures placed emphasis on job-creation, assistance to the housing industry, increased assistance to those in need and the removal of some concessions. The main measures were:

i) The establishment of a Community Employment Program at a cost of $300 million in 1983-1984 with the objective of creating in a full year 70 000 full-time jobs of an average duration of six months.
ii) Increased funding for other manpower and training schemes.
iii) With the objective of achieving house commencements at an annual rate of 130 000 to 135 000 in the second half of 1983-1984, direct Commonwealth funding of public housing increased by 50 per cent and the First Home Ownership Assistance Scheme was introduced from 1st October 1983[32].
iv) Reinstatement of means testing for age and service pensions for persons aged 70 and over and taxation of lump-sum superannuation payments.
v) The end to rebates for basic health insurance premiums to help finance the Medicare arrangements.
vi) A number of other taxation measures were announced (details in Annex II).

In total, the new measures were estimated to add $557 million to outlays in 1983-1984. This increase was to be more than offset by estimated savings of $985 million as a result of

Table 7. **Budget transactions**
$ million

	1981-1982		1982-1983		1983-1984					
	Actual	Budget estimate	Actual	Percentage change	Budget estimate	Percentage change	Contribution to increase (%)	Mid-year review estimate	Percentage change	Contribution to increase
Receipts										
Income tax:										
Companies	5 258	5 486	5 108	−2.9	4 827	−5.5	−7.3	4 872	−4.6	−6.2
Individuals	21 224	23 346	22 967	8.2	24 773	7.9	47.1	24 679	7.5	45.3
Indirect taxes	11 302	13 002	12 760	12.9	14 581	14.3	47.5	14 549	14.0	47.3
Other receipts	3 006	3 560	3 676	22.3	4 161	13.3	12.7	4 189	14.0	13.6
Total receipts	40 790	45 393	44 509	9.1	48 342	8.6	100.0	48 289	8.5	100.0
Outlays										
Net expenditure on goods and services:										
Defence	3 830	4 257	4 431	15.7	4 891	10.4	6.0	4 927	11.2	6.2
Other current	4 696	5 267	5 405	15.1	6 455	19.4	13.6	6 526	20.7	14.1
Capital	432	568	605	23.1	677	11.9	0.9	655	8.3	0.6
Transfer payments and net transactions:										
To States and local government	14 043	15 999	16 413	16.9	18 710	14.0	29.8	18 633	13.5	27.8
Personal benefit payments	13 320	15 447	16 202	21.6	19 366	19.5	41.0	19 189	18.4	37.5
Other	5 016	5 530	5 926	18.1	6 604	11.4	8.8	7 026	18.6	13.8
Total outlays	41 338	47 067	48 982	18.5	56 703	15.8	100.0	56 955	16.3	100.0
Surplus (+), Deficit (−)										
Domestic	+920	+230	−2 482		−5 744			n.a.		
Overseas	−1 468	−1 904	−1 991		−2 617			n.a.		
Total	−548	−1 674	−4 473		−8 361			−8 666		

Source: Budget Statement, No. 6 and submission of national authorities.

changes to existing expenditure and tax expenditure programmes. The curtailing of the latter (to make the fiscal system more equitable) had been an element in achieving agreement on wage restraint. Following the May Statement, the Premiers' Conference and the Loan Council meeting in June and July agreed, among other things, to increase Commonwealth payments to the States and to raise the States' borrowing programmes by about 7 per cent and to increase the borrowing programme of State authorities subject to Loan Council control by 15 per cent[33].

Following the broad endorsement at the Summit and the Premiers' Conference of the Government's policy on inflation and unemployment, the policy of the 1983-1984 Budget was "to provide the maximum fiscal stimulus to the economy consistent with its anti-inflation objectives but without placing undue burdens on interest rates or the balance of payments". Because of the restraining influence of the prices and incomes policy and with private sector activity weak, it was considered appropriate to increase substantially the role of the public sector. Total outlays are projected to rise by 15.8 per cent, representing an increase in real terms of about 7 per cent. The comparable increases in 1982-1983 were 18.5 per cent and 6.3 per cent respectively. Net expenditures on goods and services are budgeted to rise by 15.1 per cent, while the largest increase in outlays is for personal benefit payments which are estimated to rise by 19.5 per cent. This latter largely reflects the costs of introducing Medicare, new benefits announced in the Budget, a higher number of beneficiaries and increased benefits. The rapid growth in "other current expenditures" (Table 7) is also partly attributable to the establishment of Medicare as well as a substantial increase in administration costs. Total receipts are estimated to rise at a markedly slower rate than outlays (Table 7) and to be about flat in real terms. The relatively slow growth of revenues is partly attributable to the effects of the 1982-1983 recession, the full-year effects of earlier tax cuts and a projected fall in receipts from the crude oil levy. Among the revenue measures announced in the Budget were increases of some excise duties and six-monthly indexation of excise tax rates.

Reflecting the outlay and receipts changes, the Budget deficit in 1983-1984 is estimated to be the equivalent of 4.7 per cent of GDP, or 2.0 percentage points higher than in 1982-1983. With the State and local government borrowing requirement also projected to increase, the total public sector deficit is projected to rise by the equivalent of about 2 percentage points of GDP to around 8½ per cent. The estimated rise in the Budget deficit in the two years 1982-1983 and 1983-1984 taken together of 4.3 per cent of GDP is very similar to that in 1974-1975 and 1975-1976 when the increase was 4.4 per cent (Diagram 7 in Part III), and represents a highly expansionary stance of fiscal policy. Data for the first half or 1983-1984 show that the Budget deficit was $7.88 billion compared with the full-year estimate of $8.36 billion. As more taxes are received in the second half of the financial year and growth has been faster than estimated, the rise in the deficit will slow down markedly and it is likely to be close to the Budget estimates for the year as a whole. Despite the widening deficit, the size of the public debt is not yet of major concern. Since 1970 the ratio of total public sector debt to GDP has fallen from almost 60 per cent to 41 per cent, reflecting the rapid rate of inflation, economic growth and the narrowing in the deficit after 1975. Nonetheless, the ratio jumped 3½ percentage points in 1983. If this continues, debt interest payments could become increasingly burdensome.

Financial conditions and monetary policy

In the 1982-1983 Budget, the projected target range for the rate of growth of M3 was set at 9 to 11 per cent. In the first half or the year M3 growth slowed. In the second half of the year the growth of M3 re-accelerated and, partly reflecting the slowdown in inflation, there was a marked rise in real M3 (Diagram 8 in Part III). At the same time, reflecting both cyclical influences and changes to regulations (which increased the competitiveness of savings banks particularly) growth of borrowings by non-banks began to slow substantially. Table 8 summarises the main factors contributing to the change in the money supply. The turnaround from a domestic budget surplus in 1981-1982 to a sizeable deficit in 1982-1983 exerted strong upward pressure on the growth of the monetary aggregates but, with competitive rates of interest on Government securities for most of the year, the domestic deficit was substantially overfunded by sales to the non-bank public. The large increase in Commonwealth lending was achieved without exerting upward pressure on interest rates partly because of weaker demand for funds by the corporate sector and partly because of falling rates abroad. The other main influence on the money supply was the surplus on private sector foreign exchange transactions which at $3.8 billion was 58 per cent higher than in 1981-1982 adding considerably to the growth of M3. The slower growth of M1 and M2 than M3 (Table 9) reflected largely movements in relative interest rates. From their peaks in early 1982, both short and long-term rates have fallen sharply (Diagram 14) in line

Table 8. **Formation of changes in the volume of money**
$ million[1]

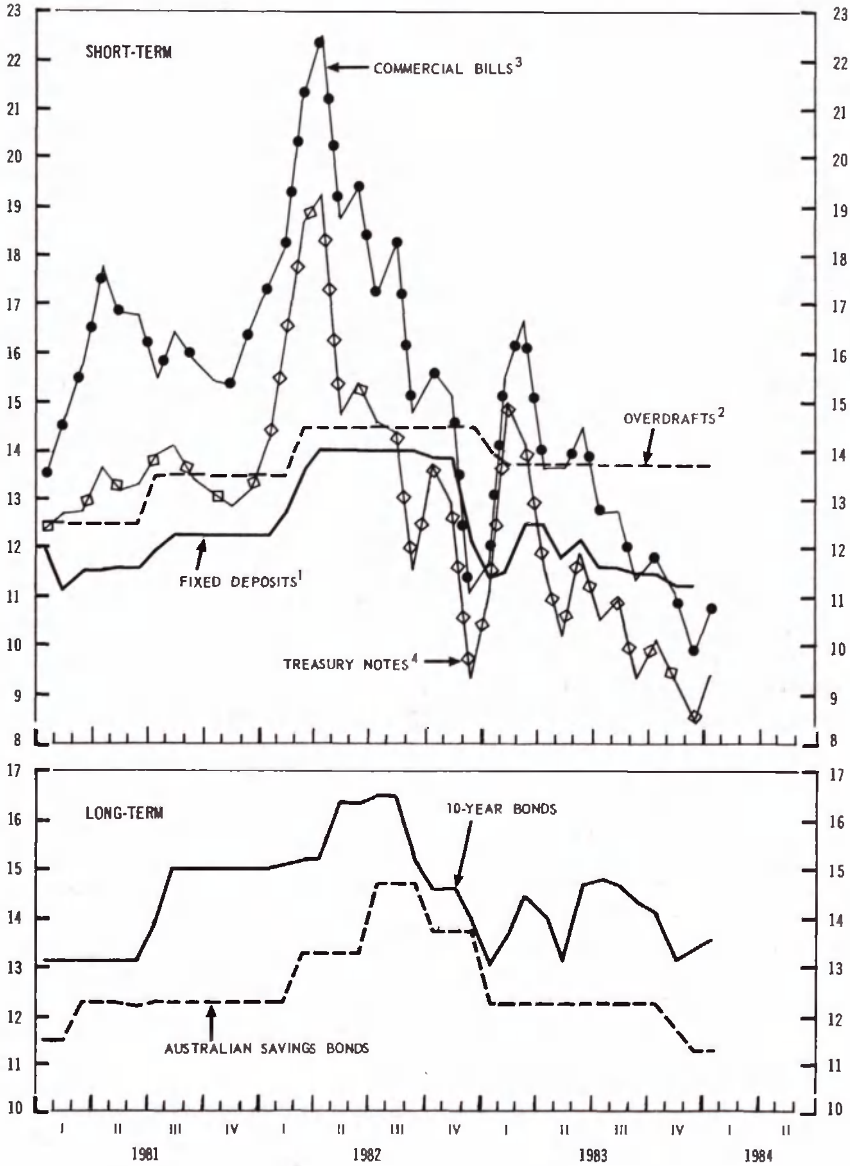
	1981-82	1982-83	1981-82		1982-83		1983-84
			I	II	I	II	I
Budget deficit (+) or surplus (−)	549	4 472	4 370	−3 821	4 738	−266	7 879
Less:							
Overseas deficit	1 468	1 992	733	735	826	116	1 215
Domestic budget deficit	−919	2 480	3 637	−4 556	3 912	−1 432	6 664
Less:							
Non-bank uptake of government securities	−155	4 098	68	−223	3 230	868	6 240
Unfinanced domestic deficit	−764	−1 618	3 569	−4 333	682	−2 300	424
Private sector foreign exchange transactions	2 454	3 841	−927	3 382	2 345	1 496	3 898
Net contribution of budget and overseas sector to monetary base	1 690	2 223	2 642	−953	3 027	−804	4 322
Rural credit advances	4	−65	−32	36	−96	31	37
Others factors[2]	−615	−183	−1 758	1 143	−1 072	889	−952
Monetary base	1 079	1 975	852	229	1 859	116	3 407
Less:							
Non-bank currency holdings	593	508	556	37	453	55	804
SDR balances	260	125	120	140	85	40	51
Bank sector LGS assets	226	1 342	176	51	1 321	21	2 552
Loans and advances	4 600	5 416	2 651	1 949	2 341	3 075	3 105
Other factors[3]	847	454	788	58	199	255	−1 139
Bank deposits of public	5 673	7 212	3 615	2 058	3 861	3 351	4 548
Plus:							
Non-bank currency holdings	593	508	556	37	453	55	804
Change in volume of money (M3)	6 266	7 720	4 171	2 095	4 314	3 406	5 352
(Actual rate of growth)[4]	(11.3)	(12.5)	(15.6)	(7.2)	(14.5)	(10.6)	(16.0)
(Projected target growth)[5]	(10-11)	(9-11)					
Domestic credit expension)[6]	3 812	3 879	5 098	−1 287	1 969	1 910	1 454

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

Sources: Budget Paper No. 1, 1983-1984 and Reserve Bank of Australia, *Bulletins*.

Diagram 14. **Interest rates**

Per cent



1. Fixed deposits less than $50 000 for 6 to 24 months.
2. Less than $100 000.
3. 90-day bills.
4. 13-week notes.

Source: Reserve Bank of Australia, *Bulletins.*

Table 9. **Volume of money**
Percentage changes, not seasonally adjusted[1]

	1981-82	1982-83	1981-82 I	1981-82 II	1982-83 I	1982-83 II	1983-84 I
Currency	11.9	9.1	23.6	1.3	16.9	1.8	28.2
Current deposits with trading banks[2]	−2.8	4.2	15.7	−18.3	12.4	−3.4	39.1
M1	1.6	5.8	18.0	−12.5	13.9	−1.7	35.3
Plus: Other deposits with trading banks[2]	26.8	9.9	22.9	30.8	15.5	4.6	−5.8
M2	13.9	8.0	20.4	7.7	14.8	1.7	11.7
Plus: Deposits with savings banks	7.7	19.2	9.1	6.4	14.1	24.5	21.9
M3	11.3	12.5	15.6	7.2	14.5	10.6	16.0
M3 seasonally adjusted	10.9	12.4	8.9	12.9	9.0	15.8	11.4

1. June to June figures and annual rates December to June for half-years.
2. Fixed deposits and certificates of deposits.
Source: Reserve Bank of Australia, *Bulletins*.

with international rates. The downward movement was interrupted in the second half of 1982-1983 as rates abroad increased temporarily and there was a strong seasonal increase in demand in the money market.

For 1983-1984, the Treasurer in the Budget Speech announced a conditional monetary projection for the growth of M3 of 9 to 11 per cent over the twelve months to the June quarter 1984. The change from a June-on-June to a June quarter basis of measurement was largely to avoid the effects of possible random events involved in measurement to a single month. With nominal GDP estimated to rise by about 14 per cent, the M3 projection implied a considerable rebound in velocity following the decline in the second half of 1982-1983 (Diagram 8 in Part III). The Treasurer also announced that although the monetary projection was in terms of M3, the progress of a range of financial aggregates with coverage both narrower and broader than M3 would be maintained through the year. Also, the projection was to be reviewed during the year in the light of trends in activity and other relevant developments. In December, the Treasurer announced that the monetary projection was being raised to 10 to 12 per cent over the twelve months to the June 1984 quarter. The adjustment reflected the faster real growth of the economy than had been forecast at the time of the Budget and did not therefore represent a change in the stance of monetary policy. Although M3 accelerated in the first half of the financial year its year-on-year growth rate by March 1984 had fallen back to 11.9 per cent (Table 9). There was a further substantial decline in the growth of borrowing and lending by non-bank financial institutions. The acceleration of M3 growth in the second half of 1983 stemmed mainly from the large capital inflows late in the year. Reflecting the floating of the dollar (see below), the growth of money will be largely determined by domestic factors—in the absence of Reserve Bank intervention. With continued sales of debt to the non-bank public, growth of M3 is expected to be near the top of the projection range in the year to the June quarter.

The conduct of monetary policy has been increasingly complicated in the recent period by the growing integration of domestic and foreign financial markets and by other innovations and changes in regulations[34]. On several occasions during 1982-1983, large inward and outward flows of funds caused sharp fluctuations in domestic liquidity in response to changes or expected changes in relative interest rates, the exchange rate and the cost of forward cover. Short-term interest rates were particularly volatile as a consequence. Following the March 1983 election and against the background of continuing capital outflow and uncertainty about the exchange rate, the trade-weighted index of the value of the dollar was devalued by 10 per cent. With large inflows recommencing immediately after this decision, the dollar appreciated by 3 per cent in the week after the devaluation. In the following months there were further upward adjustments but, during 1982-1983 as a whole, the trade-weighted index was reduced by 11.9 per cent and the rate against the U.S. dollar fell by 14.5 per cent. Accordingly, in difficult market conditions, the authorities were able to sell a substantial volume of government securities and improve competitiveness without adding pressure on interest rates. At the end of October 1983, the authorities deregulated the foreign exchange market, the Reserve Bank ceasing its practice of quoting forward margins and requiring banks to clear their forward position with it. With volatility in the exchange market and continuing upward speculative pressure on the exchange rate, the dollar was allowed to float as from 12th December 1983. Trading banks were given permission to deal freely with their customers in currencies at negotiated rates and arrangements for the banks to clear their spot positions each day with the Reserve Bank were ended. At the same time, the Reserve Bank suspended its practice of publishing the daily trade-weighted index of the value of the dollar. The Reserve Bank retained its discretion, however, to intervene in the market. Following these decisions, the value of the dollar appreciated, but in April and May traded at about its pre-float level. During this period the Reserve Bank announced its intention to sell off some $300 million equivalent of its forward-cover position, together with the proceeds of a $110 million foreign borrowing entered into prior to the float. The Reserve Bank has also run down foreign exchange reserves to finance the deficit on the Commonwealth Government's overseas budget transactions.

The floating of the exchange rate and the removal of foreign exchange controls, represent further important progress in the deregulation of the financial system. Substantial changes have been made in recent years, many of which preceded the Committee of Inquiry into the Australian Financial System which reported in November 1981[35]. In May 1983, the Treasurer announced a review of the financial system which would take into account the recommendations of the Committee of Inquiry, having regard for the Government's economic and social objectives and the need to improve the efficiency of the financial system. The review Group's findings were released in February 1984, among the more important being:

- *i)* The removal of interest rate controls on housing loans, small overdrafts and other types of consumer finance provided by trading and saving banks.
- *ii)* Four to six new bank licences to be issued on a tender basis open to both local and foreign interest, the latter being restricted to 50 per cent ownership.
- *iii)* Removal of maturity controls on trading bank deposits of $50 000 and over with the minimum term on trading bank deposits being reduced immediately to seven days and being removed entirely after twelve months.
- *iv)* Savings banks to be able to issue cheques on accounts under $50 000, the amount to increase after a year.
- *v)* Savings banks to be able to accept fixed deposits of up to $50 000 from trading concerns.

On 10th April, the Treasurer invited institutions to apply for authorisation to deal in foreign exchange and announced the removal of the restriction on covering non-trade related risks in the trading bank forward exchange market. He also announced that, with effect from

1st August 1984, all maturity controls on trading bank deposits would be lifted, that savings banks would be permitted to offer cheque facilities on all accounts and that the limit on the size of deposits of trading bodies with savings banks would be removed.

Short-term prospects

One objective of economic policy has been to provide a counter-cyclical demand stimulus so preventing a prolongation of the downward movement in the economy. This positive impact of fiscal policy is expected to continue during 1984, especially in the first half of the year as the Medicare system comes fully into effect and as government consumption and investment continue to rise rapidly. The Commonwealth Budget deficit could be about $8½ billion in 1983-1984, an increase of some $4 billion. The Government has indicated its intention of reducing the deficit in 1984-1985. During 1984, though, the recovery is expected to gather its strength from an increase in consumption rather than from the marked slowdown in the decumulation of stocks evident at the end of 1983 or from the earlier increase in the Commonwealth deficit. In 1985, the emphasis of growth may move towards increased private fixed investment as the benefits of higher profitability and increased output favourably change the overall business climate. These factors and the buoyancy of the farm sector point towards rapid growth in 1984 and continued but slower growth in 1985 (Table 10). Despite the growth in output of 6 per cent in 1984, employment is expected to rise by only 2 per cent. This reflects the increase in farm output which has little direct employment consequences. In the non-farm sector, the growth in productivity will be more modest both in 1984 and 1985 and may tend to be held down by earlier falls in real wages. Despite this fall, employment growth is still only marginally above expected labour force growth so that the drop in unemployment over the forecast period is unlikely to be as fast as in the second half of 1983.

The wages pause led to marked moderation in the growth of nominal wages during 1983, and as the decline in the rate of inflation lagged behind wages, profits were able to regain their levels seen before the large 1981-1982 wage increases. The projection assumes that the incomes policy will be successful during 1984 and 1985 insofar as wages will be indexed to prices at six-monthly intervals and with little wagedrift. The reduction in the CPI caused by the introduction of Medicare at the beginning of 1984 is expected to feed into wages in the second half of the year. The timing of the first two wage awards under the indexation policy means, however, that by mid-1984 the growth of earnings will once again be approaching double figures and, although there will be a temporary drop in the rate of increase in the second half of 1984, the rate of growth of earnings should stabilise at about 8 per cent later in 1984-1985. The inflation rate (as measured by the consumer price deflator) seems likely to be around 6 per cent in 1984 as the benefits of wage moderation in 1983 and a higher exchange rate are passed into prices; further gains against inflation may not be made in 1985. Despite the acceleration in the growth of earnings, profitability in 1984 should remain above the much improved level of 1983 and, although projected to fall back somewhat in 1985, it is expected to be more favourable than in the three years prior to the last recession. With a reduced need for borrowing and lower interest rates as nominal demand growth slackens, business sector investment should begin to increase in the second half of 1984 after stabilizing at the beginning of 1984 and could become the most rapidly growing component of demand in 1985. The orientation of investment will be markedly different to previous cycles, capital formation for domestic markets being more important while resource investment may continue to fall. Leading indicators for housing investment (Diagram 15) indicate that residential investment will rise rapidly during 1984, slowing somewhat in 1985, after having added over ½ per cent to GDP in 1984.

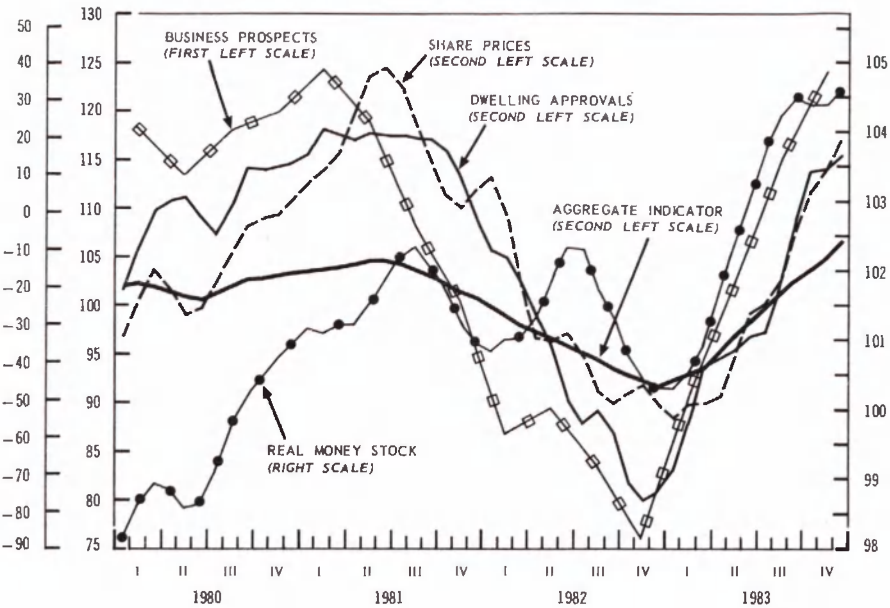
Table 10. **The outlook to 1985**[1]

	Per cent share of GNP 1982	Constant 1979-80 prices, seasonally adjusted, percentage changes at annual rates								
		Calendar years			Fiscal years		1984		1985	
		1983	1984	1985	1983-84	1984-85	I	II	I	II
Private consumption	61.7	1.0	4.1	3.9	2.5	4.3	5.0	4.1	4.0	3.6
Government consumption	17.6	6.9	4.6	2.2	6.2	3.0	6.1	2.0	2.0	3.0
Gross fixed investment	24.9	−12.5	2.2	5.8	−6.5	6.2	4.9	6.8	6.2	4.2
Of which:										
Public investment[2]	8.1	−5.0	3.2	3.2	−4.7	5.1	10.0	4.0	3.0	3.0
Private dwellings	4.0	−18.8	17.9	7.3	6.2	15.0	15.8	15.8	13.0	4.1
Private construction	3.4	−23.7	−18.8	6.5	−23.5	4.8	−1.8	7.0	7.0	5.0
Private plant and equipment[2]	9.4	−12.3	−1.4	5.6	−7.1	3.8	−1.8	5.5	6.0	5.0
Final domestic demand	104.2	−1.2	3.8	4.0	1.2	4.5	5.2	4.3	4.1	3.6
Stockbuilding[3]	−0.4	−0.5	2.0	−0.4	3.0	−0.8	1.6	−1.6	−1.1	1.9
Total domestic demand	103.8	−1.7	5.9	3.5	4.2	3.7	6.8	2.6	3.0	5.6
Foreign balance[3]	−3.4	1.7	0.3	−0.1	0.3	0.8	−0.2	1.4	0.4	−2.4
Exports of goods and services	15.7	−2.6	14.8	6.3	6.8	13.9	15.0	16.1	8.7	−6.8
Imports of goods and services	19.1	−10.7	12.5	6.4	4.5	8.8	15.0	7.1	6.5	5.5
GDP at market prices[4]	100.0	0.2	6.0	3.4	6.1	4.0	4.6	4.0	3.3	3.1
Memorandum items:										
Consumer prices[5]		9.4	5.9	6.7	7.6	6.0	5.5	5.9	7.0	7.0
Unemployment rate		9.9	9.2	8.7	9.1	8.9	9.4	9.1	8.8	8.6
Current balance ($US bill.)		−5.2	−5.0	−5.6	..	..	..	..	..	..
As per cent of GDP		−3.3	−2.8	−2.9	..	..	..	..	..	..

1. Based on seasonally adjusted data. The annual changes may differ from those in Table 3 which are based on unadjusted data.
2. Not adjusted for sale of Eraring Power Station.
3. Contribution to growth.
4. Includes statistical discrepancy not shown elsewhere.
5. Private consumption deflator.

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

Diagram 15. **Leading indicators**



Source: OECD.

Real personal disposable income is expected to increase quite markedly in 1984, both because employment and hours worked are expected to rise and because real wages will increase somewhat from their low level at the end of the wages pause. As unemployment is forecast to fall only slightly from its end-1983 level, the number of transfer income recipients should continue to grow over the projection period. In addition, in 1984, farm income will increase rapidly while growth in other forms of property income will accelerate reflecting the overall growth of profits in previous periods. Given the speed of the turnaround in the growth of wage incomes and the size of the increase in farm incomes, it is unlikely that this increase in real disposable income will be fully reflected in consumption in 1984. In 1985, the growth of real disposable income is forecast to slacken both because farm incomes are expected to cease rising and because the average tax rate will increase reflecting the technical assumption of no change in nominal tax rates. Nonetheless, a fall in the saving ratio in 1985 could enable the growth of consumption to be maintained.

The pattern of stockbuilding during 1984 and 1985 will vary considerably according to the sector. In the non-farm sector, the contribution of the change in stockbuilding to real GDP growth is likely to be positive, on average, but it should diminish towards the end of the year and into 1985 as the rate of increase of stocks stabilizes. As the growth of final domestic demand will be rapid, total domestic demand (excluding farm stock movements) is unlikely to be adversely affected by this development and should accelerate in the first half of 1984 before gradually slackening during the remainder of 1984 and in 1985. The contribution of farm stocks is expected, however, to be markedly negative throughout 1984 and into 1985 as the large wheat stocks are gradually drawn down and exported. Non-rural exports are expected to be strong in 1984—reflecting earlier investment in capacity and success in finding new markets—despite the poor outlook for existing contracts and the current adverse level of competitivity. Import growth seems likely to be considerably faster than demand in 1984 but to weaken in 1985. After having had a considerable expansionary impact on the non-farm sector at the end of 1983, the net effect of foreign trade on the non-farm economy is projected to be broadly neutral during 1984 and 1985. Rural exports will be high in 1984 as the sale of most of the wheat harvest has already been completed, but the speed at which farm stocks are drawn down and become exports is uncertain. The terms of trade should remain stable during 1984 and 1985, having improved somewhat at the end of 1983. The current external deficit is projected to improve slightly during 1984 to under $5½ billion, rising to just over $6 billion in 1985.

V. CONCLUSIONS

The level of real wages and the rate of inflation have been important elements contributing to the unsatisfactory economic performance since 1974 and the need for further reductions in the rate of inflation and the attainment of appropriate real wage levels remains central to economic policy. As discussed in Part II of this Survey, the relatively weak trends in private sector investment and rising unemployment can be partly ascribed to the effects of excessive real wage increases especially in 1974 and 1982. Associated with these developments have been periodic losses of international competitiveness. After 1974, the reduction of the gap between real wages and productivity was slow and came essentially from increased productivity. In contrast, 1983 saw major progress in closing the real wage gap and restoring profitability. With the stability of wage rates in the first three quarters of 1983, the share of company profits in value added by the second half of 1983 was 15½ per cent compared to an average of over 17 per cent in the early 1970s. Until the recent period there has been insufficient adjustment of real wages to make significant progress in reducing the impediments to a major reduction in unemployment through sustained employment-oriented growth in the private sector. Profits have recovered from the low points of 1982 because of the wages pause and productivity growth and under the new wage system, there will be scope for a further reduction in the real wage gap.

The macroeconomic policy response to inflation has varied since the early 1970s. Up to mid-1975, the main priority of policy was the reduction of unemployment, although strengthening inflationary pressures were of increasing concern and monetary and fiscal policies were tightened on several occasions to try and break inflationary expectations. From then until mid-1982, policy was directed primarily to fighting inflation with the objective of restoring the conditions necessary for steady, non-inflationary, self-sustaining growth. It was intended to bring down the rate of inflation over a period of years by reducing the size of the public sector and the Budget deficit and achieving a gradual slowdown in the rate of growth of the monetary aggregates. With the election of the present Government in March 1983, the policy objective was broadened to tackle inflation and unemployment simultaneously. This approach involves an expansionary fiscal policy which the Government considers consistent with its objectives of reducing inflation and not adding to pressures on interest rates and the balance of payments. Macroeconomic policy is backed up by an accord on prices and incomes. An important plank of policy is that of fostering consensus and consultation about the nature of Australia's economic problems and the need for wages and price restraint. This process took concrete form at the National Economic Summit in April 1983 and the Economic Planning and Advisory Council and other institutions have been established to further it.

The development and maintenance of a consensus on the sustainable path of real wages would seem crucial to a successful longer-run outcome of present policies. Several earlier OECD *Economic Surveys of Australia* have argued that the stubbornness of high inflation and rising unemployment have largely reflected inadequate understanding by the parties to wage determination of the relationships between inflation, real wage costs and employment. To a considerable extent, anti-inflation policy between 1975 and 1982 foundered as it proved impossible to get agreement on the need for greater real wage flexibility. Policy is now designed to reduce and overcome this barrier through the consensus approach, but a number of comments are in order.

First, it is essential that all sections of the community eschew rigourously any wage and salary increases outside the agreed wage fixation principles enunciated by the Conciliation and Arbitration Commission, and which will be in force until October 1985. In the past, centralised wage-fixing has been undermined when demand strengthened and unduly buoyant expectations about sustained expansion were generated such as in 1974 and 1981. It is to be hoped that the present strong upswing in the real economy and the strengthening demand for labour do not again add to inflationary wage expectations and widen the real wage gap. A faster increase in wage costs than implied under the wage fixation principles would probably damp the already relatively weak outlook for investment. Moreover, lack of flexibility in wages across individual firms or sectors has been a problem in Australia. Greater relative wage flexibility would facilitate improved resource allocation. Accordingly, it would seem desirable that the scheduled consultations on how the wage determination system might be modified take account of the need to make it more responsive to market conditions. In this context, the substantial changes in freeing up financial markets in the last three years and the more recent floating of the currency have increased the ability of the economy to react to international developments and structural change. This might suggest that a less centralised wage determination system favouring a less uniform and more flexible wage structure would be helpful. Under present circumstances, however, and given the overriding need to contain the overall growth of wage costs, the centralised consensus-based approach, supported by a commitment of individual unions to make no extra claims, probably offers the greatest scope for achieving conditions conducive to sustained non-inflationary growth.

Second, sustained profitability is essential if employment-creating investment on the scale envisaged by the Government is to be attained. This was agreed at the National Economic Summit, but it is necessary to recognise that higher profits will depend not only on wage restraint and the development of non-wage costs, but also on flexibility in price setting. In this regard, it is encouraging to note that the Prices Surveillance Authority will take a highly selective approach, limiting its activities to areas of inadequate competition, and will take full account of market conditions and the relationship between profitability, employment and investment. It would be unfortunate if the price surveillance component of the consensus approach resulted in increasing rigidities in the economy and weakened the vital recovery in investment.

Third, the size of the current public sector deficit is cause for concern. After rising sharply in 1982-1983 by the equivalent of 2.4 per cent of GDP to 2.8 per cent, the Budget deficit is projected to be 4.7 per cent of GDP in 1983-1984. The rapid increase in the deficit in these two years is very similar to that in 1974-1975 and 1975-1976 when inflationary pressures were very strong. However, reflecting the trend rise in the borrowing requirement of States, local authorities and public enterprises over the last nine years, the total public sector borrowing requirement is projected to be about $8\frac{1}{2}$ per cent of GDP in 1983-1984, more than 5 percentage points higher than in 1981-1982. These are high and worrying numbers which represent a large fiscal stimulus. The expansionary policy may have been considered appropriate in view of the weakness of private sector activity, but the deficits also constitute a major financing task if the growth of the monetary aggregates is to be non-accommodating to inflation. Indeed, the large fiscal deficits may already be putting undue strain on monetary policy as long-term real interest rates, at over 6 per cent, are very high. It is therefore important, as is recognised by the Government, that the deficits are reduced as and when private demand strengthens so that public sector claims on financial markets do not put further pressure on interest rates and the exchange rate. Continuation of the Budget deficit and the total public sector borrowing requirement at their present levels would carry serious inflationary risks with possible adverse consequences on investment and employment growth. Also, large deficits over a number of years will give rise to a further escalation of interest payments on the public debt which would become a more dynamic component in outlays and increase the difficulties of eventually reducing the deficits. The winding-down of the deficits will involve difficult policy decisions; in arriving at these it would seem desirable to involve all levels of government and to ensure that the main burden of adjustment is on public expenditures which have grown rapidly in the last two years. An important lesson emerging from the experience in the 1970s—both in Australia and in most other OECD countries—is the unsustainability of high rates of growth of public expenditure and large public sector borrowing requirements. In this context, close attention will obviously have to be paid to monetary policy and the growth of monetary aggregates. The events of the past decade have illustrated the dangers of a too rapid growth of money supply for inflation. In the present period, monetary objectives consistent with a reduction in inflation would ensure that undue reliance is not placed on the existing prices and incomes accord. In summary, then, it is essential that the adjustment in real wages which occured during the wage pause period is not jeopardised by wage increases above the rate of inflation and that fiscal policy gives some scope for reduction in the high level of real interest rates; these may be necessary conditions for sustained recovery of the economy.

Wage moderation and lower interest rates are important also from another point of view. Despite the recent improvement in inflation, wages and prices are still rising more rapidly than in partner countries, with implications for external competitiveness. A loss of competitiveness would be of concern for the balance of payments, but perhaps more importantly for the allocation of resources over the medium term because of the opposition it creates to the essential need to reduce protection. Previous annual surveys have contained analyses both of the levels of Australian trade protection—particularly in some manufacturing industries—and of government intentions to reduce these barriers over time. The difficulties for structural adjustment in Australia arising from domestic protection, and from the barriers faced by certain exports, have also been discussed. In recent years, levels of protection in many industries have declined but nevertheless increases in certain manufacturing industries have meant that overall trade barriers in this sector have not fallen. While the task of reducing protection is currently made more difficult by the high level of unemployment, the current period of relatively rapid growth offers an opportunity to further this process.

NOTES AND REFERENCES

1. For Australia, productivity growth refers to the non-farm sector.
2. In the fifteen countries for which comparable data are available.
3. The amplitude of the cycles depends on the measure used and the weights adopted. Two measures are presented; one utilises relative GDP prices in a common currency weighted by the importance of the country in total OECD exports of food and raw materials; the other looks at relative consumer prices in a common currency as calculated by the Australian Treasury.
4. W.E. Norton and R. McDonald, "Implications for Australia of Cross Country Comparisons in Economic Performance", *Economic Record*, 1981, pp. 245-318.
5. In the 1973 national wage case, the Commonwealth Government stated in its submission: "...It is the Commonwealth's opinion that there is scope in the capacity and flexibility of the Australian economy for an appreciable increase in wages without undue inflationary consequences."
6. Approximately 90 per cent of employees have their remuneration and employment conditions governed by the award system. Approximately 40 per cent are adjudicated nationally, 50 per cent are under the jurisdiction of the State tribunals and 10 per cent are not covered. In addition to general awards decided upon by the Commission covering all workers in Australia subject to it, direct employer-employee negotiations or arbitration can lead to craft or industry-specific awards. These become binding on all firms or sectors covered by the award. Award rates of pay are often supplemented by "over-award" payments which are outside the arbitration system although the current principles recommend the indexation of over-award payments.
7. In the event, less than full indexation was granted on a number of occasions.
8. For a contrary view, see R.G. Gregory, "Work and Welfare in the Years Ahead", *Australian Economic Papers*, December 1982, and Gregory and W.F. Foster, "Why Unemployment Does so Little to Slow Wage Inflation", *Growth*, 33, CEDA, September 1983. They argue that the period 1967 to 1975 was not marked by an apparent Phillips curve relationship. However, this view must be judged in light or the fact that over much of this period, labour markets were extremely tight, with unemployment rates showing only small variations around 2 per cent and so it does not seem surprising that wages pressures built up.
9. See P. Schelde Andersen, "Real Wages, Inflation and Unemployment: A Case Study of the Australian Economy", Mimeo, University of Sydney, July 1980 for a review of results of different studies, and M.G. Kirby, "An Investigation of the Specification and Stability of the Australian Aggregate Wage Equation", *The Economic Record*, March 1981.
10. Certain studies estimated standard Phillips curves or augmented Phillips curves with additional explanatory variables and ignored award wages. It was more common, however, to treat award wages (national awards or total awards) as exogenous in explaining earnings; only wagedrift was explained. A variant of this approach attempted to assess which variables affected the Commission's behaviour. Wage rate analysis then became a two-stage procedure; increases in award wages were first determined and on the basis of this wagedrift calculated.
11. Although assessments of this question vary considerably, there is some limited econometric evidence that nominal wage rates decelerated more rapidly than they otherwise would have up to 1978, but held wages higher in the following two years. See A.J. Phipps, "The Impact of Wage Indexation in Australia: (1975-2)-(1980-2)", *Australian Economic Papers*, December 1981.
12. Ian L. Harper, "The Relationship between Unemployment and Unfilled Vacancies in Australia: 1952-1978", *The Economic Record*, September 1980. J.W. Nevile, "Domestic and Overseas Influences on Inflation in Australia", *Australian Economic Papers*, June 1977, and B.B. Rao, "An Analysis of the Short and Long Run Trade-offs between Unemployment and Inflation and Estimates of the Equilibrium Steady State Unemployment Rate in Australia", *Australian Economic Papers*, December 1977. But see also M.G. Kirby, "An Investigation of the Specification and Stability of the Australian Aggregate Wage Equation", *The Economic Record*, March 1981, who attributed the problem of shifting to estimations using fourth quarter to fourth quarter changes (overlapping quarterly change).

13. See David Kalish, "The Output Loss from Unemployment: Okun's Law Revisited", Working Paper No. 10, Bureau of Labour Market Research, Canberra, August 1982.

14. Surveys on the sample of 2 000 households performed by the Institute for Applied Economic and Social Research at the University of Melbourne. Cited in R.G. Gregory, "The Slide Into Mass Unemployment: Labour Market Theories, Facts and Policies", Academy of Social Sciences in Australia, Annual Lecture, 1982.

15. May 1976 National Wage Case.

16. These views are supported by W.M. Corden, "The Wages Push and Macroeconomic Policy: The Dilemmas Ahead", *The Economic Record*, June 1982.

17. See A. Fels, "The Prices Justification Tribunal", *Australian Economic Review*, Q4 1974, who estimated that during the first year of operation the impact has been estimated as restraining the rate of consumer price index by 1 to 2 per cent equivalent to a 10 to 15 per cent cut in profits. Nonetheless, D.R. Chapman and W.W. Junor, "Profits, Variability of Profits and the Prices Justification Tribunal", *Economic Record*, June 1981, conclude that, on the basis of a sample of companies which would have been influenced by the PJT, prices were reduced by only 0.5 per cent from what they otherwise would have been.

18. See A.R. Pagan and P.K. Trevedi, "The Effects of Inflation: A review with Special Reference to Australia", in Pagan and Trevedi (eds.) *The Effect of Inflation, Conference Papers*, Center for Economic Policy Research, A.N.U. Canberra, 1982.

19. Comparing this with real wages deflated by the private consumption deflator and real wages presented here, about half the difference reflects differential movements in deflators (as higher export prices passed through into output prices) and the remainder reduced hours worked.

20. A comparison using these cycles has been presented in OECD, *Annual Survey of Australia*, 1978, pp. 27-31. The 1951-1952 cycle has not been presented to simplify presentation. Since developments during this period confirm and reinforce the conclusion drawn, its exclusion does not detract from the argument. The cycles have been identified by using the phase-average trend method.

21. Households could increase consumption of durables in the short run to beat the expected rise in prices. But the experience of the 1970s demonstrates that negative factors—possibly relating to greater uncertainty or erosion of wealth—are predominant and saving ratios have tended to rise. See for example J.W. Freebairn, "Determinants of Consumer Expenditure", in Reserve Bank of Australia, *Conference on Applied Economic Research*, 1979.

22. See Department of the Treasury. The *NIF-10 Model of the Australian Economy*, Canberra, 1981.

23. See Trevor Stegman, "The Estimation of an Accelerator-Type Investment Function with a Profitability Constraint, By the Technique of Switching Regressions", *Australian Economic Papers*, December 1982.

24. In the 1974-1975 Budget Speech, the Treasurer stated: "The conventional response to inflation has relied almost entirely on the creation of mass unemployment... The Government is not prepared deliberately to create a level of 4 or 5 per cent, or perhaps even higher unemployment."

25. For a further discussion of policy and outturns, see OECD, *Economic Survey of Australia*, 1978, pp. 41-46.

26. Unless otherwise noted, values of goods and services are expressed in constant price (real) terms, with growth rates for half years based on seasonally-adjusted data and expressed as annual rates.

27. For details, see the section on Fiscal policy.

28. The most important of these is the Commonwealth Rebate for Apprentice Full-time Training. CRAFT compensates employers through rebates for the costs of releasing apprentices to attend basic trade courses or to attend full-time off-the-job training courses.

29. For details of the investment projects, see *Australian Economic Review*, December 1983, page 18, and previous OECD *Economic Surveys of Australia*.

30. The level of competitiveness depends somewhat on the index used: relative consumer prices indicate that the deterioration started earlier.

31. Details of the 1982-1983 Budget are contained in the January 1983 OECD *Economic Survey of Australia*, pp. 30-31 and pp. 64-65.

32. This scheme replaces the Home Deposit Assistance Scheme and the first home owners' tax rebate.

33. For further details, see Annex II, Calendar of Main Economic Events.

34. For details of changes in the financial system, see *Australian Financial System*, Report of the Review Group, 1984, pp. 12-46.

35. Known as the Campbell Committee. The main findings of the Committee are summarised in the OECD *Economic Survey of Australia*, January 1983, pp. 53-56.

Annex I

THE PRINCIPLES FOR WAGE DETERMINATION: 1983-1985

In considering whether wages and salaries or conditions should be awarded or changed for any reason either by consent or arbitration, the Commission will guard against any contrived arrangement which could circumvent these Principles.

The Principles have been formulated on the basis that the great bulk of wage and salary movements will emanate from national adjustments. These adjustments may come from two sources—CPI movements and national productivity. Increases outside national wage—whether in the form of wages, allowances or conditions, whether they occur in the public or private sector, whether they be award or overaward—must constitute a very small addition to overall labour costs.

The Commission will guard against any Principle other than Principles 1 and 2 being applied in such a way as to become a vehicle for a general improvement in wages or conditions.

1. *National wage adjustments*[1]

   a) Subject to Principle 3, the Commission will adjust its award wages and salaries every six months in relation to the last two quarterly movements of the eight-capitals CPI unless it is persuaded to the contrary by those seeking to oppose the adjustment.

   b) For this purpose the Commission will sit in February and August following the publication of the CPI for the December and June quarters respectively.

   c) The form of indexation will be uniform percentage adjustments unless the Commission decides otherwise in the light of exceptional circumstances. It is to be understood that any compression of relativities which may have occured in recent times does not provide grounds for special wage increases to correct the compression.

   d) It would be appropriate for the Commission, after hearing the parties to an award and being satisfied that a proper case has been made out, to recommend the indexation of overaward payments when award payments are indexed.

2. *National productivity*[3]

Upon application and not before 1985, the Commission will consider whether an increase in wages and salaries or changes in conditions of employment should be awarded on account of productivity.

3. *Other claims*[1]

Any claims for improvements in pay and conditions other than those provided by Principles 1 and 2 must be processed in accordance with Principles 4 to 11 below. No application for a national wage adjustment to an award will be approved by the Commission unless all the unions concerned in the award give an undertaking that for the duration of these Principles they will not pursue any extra claims, award or overaward, except in compliance with the Principles.

4. *Work value changes*[2]

   a) Changes in work value may arise from changes in the nature of the work, skill and responsibility required or the conditions under which work is performed. Changes in work by themselves may not lead to a change in wage rates. The strict test for an alteration in wage rates is that the change in the nature of work should constitute such a significant net addition to work requirements as to warrant the creation of a new classification.

   These are the only circumstances in which rates may be altered on the grounds of work value and the altered rates may be applied only to employees whose work has changed in accordance with this Principle.

   However rather than create a new classification it may be more convenient in the circumstances of a particular case to fix a new rate for an existing classification or to provide for an allowance which is payable in addition to the existing rate for the classification. In such cases the same strict test must be applied.

b) Where new work justifying a higher rate is performed only from time to time by persons covered by a particular classification or where it is performed only by some of the persons covered by the classification, such new work should be compensated by a special allowance which is payable only when the new work is performed by a particular employee and not by increasing the rate for the classification as a whole.

c) The time from which work value changes should be measured is the last work value adjustment in the award under consideration but in no case earlier than 1st January 1978. Care should be exercised to ensure that changes which were taken into account in any previous work value adjustments are not included in any work evaluation under this Principle.

d) Where a significant net alteration to work value has been established in accordance with this Principle, an assessment will have to be made as to how that alteration should be measured in money terms. Such assessment should normally be based on the previous work requirements, the wage previously fixed for the work and the nature and extent of the change in work. However, where appropriate, comparisons may also be made with other wages and work requirements within the award or to wage increases for changed work requirements in the same classification in other awards provided the same changes have occurred.

e) The expression "the conditions under which the work is performed" relates to the environment in which the work is done.

f) The Commission should guard against contrived classifications and over-classification of jobs.

g) Where through technological or other change the impact of work value change on the work force is widespread or general, the matter should be dealt with within national productivity cases under Principle 2.

5. *Standard hours*[1]

a) In dealing with agreements and unopposed claims for a reduction in standard hours to 38 per week, the cost impact of the shorter week should be minimised. Accordingly, the Commission should satisfy itself that as much as possible of the required cost offset is achieved by changes in work practices.
Opposed claims should be rejected.

b) Claims for reduction in standard weekly hours below 38, even with full cost offsets, should not be allowed.

c) The Commission should not approve or award improvements in pay or other conditions on the basis of productivity bargaining. These improvements should only be allowed on the basis of the appropriate Principles.

6. *Anomalies and inequities*[1]

a) Anomalies

i) In the resolution of anomalies, the overriding concept is that the Commission must be satisfied that any claim under this Principle will not be a vehicle for general improvements in pay and conditions and that the circumstances warranting the improvement are of a special and isolated nature.

ii) Decisions which are inconsistent with the Principles of the Commission applicable at the relevant time should not be followed.

iii) The doctrines of comparative wage justice and maintenance of relativities should not be relied upon to establish an anomaly because there is nothing rare or special in such situations and because resort to these concepts would destroy the overriding concept of this Principle.

iv) The only exceptions to *iii)* are that catch-up for the metal industry standard and adjustment of paid rates awards to establish an equitable base may be processed as anomalies. All such claims should be lodged by 31st December 1983.

b) Inequities

i) The resolution of inequities existing where employees performing similar work are paid dissimilar rates of pay without good reason. Such inequities shall be processed through the Anomalies Conference and not otherwise, and shall be subject to all the following conditions:

1. The work in issue is similar to the other class or classes of work by reference to the nature of the work, the level of skill and responsibility involved and the conditions under which the work is performed.
2. The classes of work being compared are truly like with like as to all relevant matters and there is no good reason for dissimilar rates of pay.
3. In addition to similarity of work, there exists some other significant factor which makes the situation inequitable. A historical or geographical nexus between the similar classes of work may not of itself be such a factor.
4. The rate of pay fixed for the class or classes of work being compared with the work in issue is a reasonable and proper rate of pay for the work and is not vitiated by any reason such as an increase obtained for reasons inconsistent with the Principles of the Commission applicable at the relevant time.

5. Rates of pay in minimum rates awards are not to be compared with those in paid rates awards.

ii) In dealing with inequities, the following overriding considerations shall apply:

1. The pay increase sought must be justified on the merits.
2. There must be no likelihood of flow-on.
3. The economic cost must be negligible.
4. The increase must be a once-only matter.

c) Procedure

i) An anomaly or inequity which is sought to be rectified must be brought to the Anomalies Conference by the peak union councils, namely, the ACTU and the CPA, or by any union not affiliated with those bodies.

ii) The matter is first discussed with the employers and other interested parties at the Conference.

iii) The broad principles for processing the anomaly or inequity raised are:

1. If there is complete agreement as to the existence of an anomaly or inequity and its resolution, and the President is of the opinion that there is a genuine anomaly or inequity, the President will make the appropriate order to rectify it.
2. If there is no agreement at all, one of two situations can arise. Either the President will hold that there is no anomaly or inequity falling within the concept of the Conference which would mean an end of the matter as far as the Conference is concerned or on the other hand the President could hold that there was an arguable case which would then go to a Full Bench of the Commission for consideration.
3. This procedure can be departed from by agreement and with the President's approval.
4. In the case of matters in the Australian Public Service these may have to be dealt with somewhat differently in order to comply with the provisions of the Public Service Arbitration Act.

7. *Paid rates award*[1]

a) Except in the case of first awards, the Commission will refrain from making any new paid rates awards. In the making of first awards the conditions as provided in Principle 10 below must be complied with.

b) The Commission may convert into a minimum rates award a paid rates award which fails to maintain itself as a true paid rates award. The conversion of such a lapsed paid rates award into a minimum rates award will involve the valuation of the classifications in it by comparison with similar classifications in other minimum rates awards excluding supplementary payments.

c) Claims for the adjustment of existing paid rates awards to establish an equitable base should be processed as anomalies through the Anomalies Conference as provided in Principle 6. All such claims should be lodged by 31st December 1983.

8. *Supplementary payments*[1]

a) The Commission will refuse claims for new supplementary payments.

b) Existing supplementary payments should not be increased except for national wage adjustments.

9. *Allowances*

Allowances and service increments may be adjusted or awarded only in accordance with this Principle.

a) Existing allowances

i) Existing allowances which constitute a reimbursement of expenses incurred may be adjusted from time to time where appropriate to reflect the relevant change in the level of such expenses[1].

ii) Existing allowances which relate to work or conditions which have not changed may be adjusted from time to time to reflect the movements in wage rates as a result of national wage adjustments[1].

iii) Existing allowances for which an increase is claimed because of changes in the work or conditions will be determined in accordance with the relevant provision of Principle 4[2].

b) New allowances

i) New allowances will not be created to compensate for disabilities or aspects of the work which are comprehended in the wage rate of the classification concerned[2].

ii) New allowances to compensate for the reimbursement of expenses incurred may be awarded where appropriate having regard to such expenses[2].

iii) New allowances to compensate for changes in the work or conditions will be determined in accordance with the relevant provision of Principle 4[2].

iv) New allowance to compensate for new work or conditions will be determined in accordance with the provisions of Principle 10 *b)*[2].

v) No other new allowances may be awarded[1].

c) Service increments

i) Existing service increments may be adjusted in the manner prescribed in *a)ii)* of this Principle.

ii) New service increments may only be allowed to compensate for changes in the work and/or conditions and will be determined in accordance with the relevant provisions of Principle 4[2].

10. *First awards and extensions of existing awards*[2]

a) In the making of a first award, the long established principles shall apply i.e. *prima facie* the main consideration is the existing rates and conditions (General Clerks Northern Territory Award).

b) In the extension of an existing award to new work or to award-free work the rates applicable to such work will be assessed by reference to the value of work already covered by the award.

c) In awards regulating the employment of workers previously covered by a State award or determination, existing rates and conditions *prima facie* will be the proper award rates and conditions.

11. *Conditions of employment*[1]

Applications for changes in conditions other than those provided elsewhere in the Principles must be considered in the light of their cost implications both directly and through flow-ons. Where such cost increases are not negligible, we would expect the relevant employers to make application for the claims to be heard by a Full Bench.

NOTES AND REFERENCES

1. To come into operation immediately.
2. To come into operation on 1st February 1984.
3. Not available before 1985.

Annex II

CALENDAR OF MAIN ECONOMIC EVENTS

1982

1st November

Reductions in certain elements of personal income tax which were introduced in the 1982-1983 Budget came into effect for PAYE purposes.

6th November

An application by Australia for a drawing of $36.9 million from the International Monetary Fund's Buffer Stock Financing Facility was approved.

9th November

The Government decided to defer its request to the Reserve Bank to make a release of 1 percentage point from the Statutory Reserve Deposits of the major trading banks for housing lending.

17th November

The Guaranteed Minimum Price for wheat for the 1982-1983 season was reduced by 23 cents.

A full bench of the Australian Conciliation and Arbitration Commission ratified an agreement between waterfront employers and stevedoring unions providing for a 3.75 per cent wage increase.

24th November

The Government decided to legislate to amend the Customs Tariff (Anti-Dumping) and Customs Acts in order to increase the effectiveness of the anti-dumping and countervailing measures.

25th November

A full bench of the Australian Conciliation and Arbitration Commission ratified wage increases averaging 7 per cent for the oil industry.

7th December

A package of industry assistance measures were announced, including the reintroduction of a general preference for Australian goods in Government purchasing and the streamlining of procedures for processing requests for temporary assistance.

The Premiers' Conference resulted in broad agreement amongst the eight Governments to effect a wages pause in their respective public sectors and to achieve a similar pause in the private sector. Savings of $300 million to the Commonwealth Budget from the wages pause are to be expended on employment-related activities.

13th December

The Government's measures relating to unpaid company tax associated with so-called "Bottom of the Harbour" schemes came into operation.

23th December

The Australian Conciliation and Arbitration Commission agreed to a pause in wages and conditions under Federal awards for six months. On the same day the Federal Government's legislation effecting a twelve month wages pause in respect of Commonwealth employees came into force.

1st January

Sales tax, at the rate of 7½ per cent became payable on certain goods, which had previously been exempt.

13th January

The Government decided, in principle, to allow the entry of banks with foreign shareholdings into the Australian banking system.

14th January

The Prime Minister announced that the Alice Springs to Darwin Railway would be completed by 1988 costing $545 million.

25th January

The Prime Minister announced that the Government would support and fund a number of water resource and conservation programmes costing $640 million over five years.

20th February

The Government decided to extend from 26th August to the end of 1983 the administrative arrangements and quota levels applying to flat steel products and steel pipes and tubes.

21st February

A Statement of Accord by the Australian Labour Party and the Australian Council of Trade Unions regarding economic policy was ratified by a special conference of unions. The main elements of the Accord include support for a centralised system of wage determination and the establishment of a price surveillance authority. Agreement was also reached that the maintenance of real wages should be a key objective, although this should be an objective over time in a period of economic crisis.

25th February

From 1st September 1982, the Commonwealth Drought Interest Payments Subsidy will be payable.

5th March

An Australian Labour Party Government was elected in Federal elections.

8th March

The Australian dollar was devalued by 10 per cent, involving a reduction in the trade-weighted index from 81.5 to 73.3.

15th March

It was announced that the existing seven year programme for textiles, clothing and footwear industries would continue.

28th March

The Australian-New Zealand Closer Economic Relations Trade Agreement was signed in Canberra.

1st April

The import parity price of Australian crude oil was reduced by $2 a barrel. A new Commonwealth tax on debits to bank cheque accounts came into operation.

11th-14th April

A national Economic Summit Conference was held in Canberra and was attended by representatives of Government, industry, unions and other bodies. Areas of agreement reached by the participants included:

- the need to tackle the problems of unemployment and inflation simultaneously;
- the need for an effective incomes and prices policy;
  - that the parties should develop, as a matter or priority, the option of a return to a centralised system of wage fixation under the auspices of the Australian Conciliation and Arbitration Commission;
  - an examination of the most appropriate form and functioning of a price surveillance mechanism;
  - the establishment of an Economic Planning Advisory Council;
  - that action should be taken to improve the equity and efficiency of the Australian taxation system.

13th April

The Minister for Trade announced that controls which had applied to Australia's tin exports since the end of April 1982 would continue until 30th June 1983.

28th April

The President of the Australian Conciliation and Arbitration Commission convened a conference to consider the development of a centralised system of wage determination.

19th May

In addition to the measures mentioned in this Survey (pp. 41-46), the Treasurer announced changes to the tax averaging and IED provisions for primary producers, the taxation of friendly societies, the removal of certain industry taxation concessions, the abolition of rebates for individuals in respect of health insurance premiums, home loan interest payments and dividend income, an increase in the threshold amount of rebatable expenditure and a reduction in the tax threshold for unearned income of minors.

23rd May

The conference convened by the President of the Australian Conciliation and Arbitration Commission met. After further meetings, the President reported identifying areas of consensus between the social partners on the system of wage determination.

29th May

The Treasurer announced the establishment of a Review of the Australian Financial System which will have regard to the Campbell Committee recommendations and take account of the Government's economic and social objectives as well as the need to improve the efficiency of the financial system. The Government will not proceed to implement the previous Government's policy on foreign bank entry, until the Review is completed.

14th June

A system of accelerated depreciation for plant over 5 or 3 years old (with effect from June 1982) received Royal Assent.

20th June

A full bench or the Australian Conciliation and Arbitration Commission deferred for a six month period consideration of a $14 a week wage increase for pastoral workers citing incapacity of the employers to pay the increase as the main reason for deferral.

23rd June

The Government's plans for future marketing arrangements in the tobacco industry were announced. A key feature of the plan involve closing the gap between domestic and international prices for tobacco leaf.

28th June

A full bench of the Australian Conciliation and Arbitration Commission decided that the "wages pause" guidelines, which had been in place since 23rd December 1982 would continue until a decision was reached in the impending National Wage Case.

A full bench of the Australian Conciliation and Arbitration Commission refused to ratify a further 2.8 per cent wage increase for the oil industry.

29th June

A full bench or the Australian Conciliation and Arbitration Commission began hearing a National Wage Case on a claim by the Australian Council of Trade Unions for the Introduction of a centralised system of Wage determination based on automatic quarterly indexation of both award rates of pay and overaward payments, beginning with the March quarter 1983 CPI increase.

30th June-1st July

Meetings of the Premiers' Conference and Loan Council were held in Canberra.

Changes to the crude oil pricing and excise arrangements came into effect.

The Government's Community Employment Programme (CEP) commenced operation. The programme has been allocated $300 million in 1983-1984.

14th July

The Minister for Employment and Industrial Relations announced the establishment of a Committee of Review to examine Australia's system of industrial relations and to report and make recommendations not later than 31st March 1985 on:

a) all aspects of Commonwealth law relating to the prevention and settlement of industrial disputes;
b) all aspects of Commonwealth law relating to the recognition and operation of association of employers and workers;
c) the extent to which the manner in which the Federal and State industrial relations institutional and legislative arrangements might better inter-relate.

3rd August

The Minister for Industry and Commerce announced the establishment of a review of the functions of the Industries Assistance Commission with a view to improving its functioning.

7th August

Modifications to the proposed taxation treatment of lump sum superannuation payments, including a reduction in tax rates and special arrangements for certain types of benefits, were announced.

10th August

The Australian Arbitration Commission ratified an average 3.0 per cent award wage increase for the oil industry to effect a move to a National Integrated Wage Structure.

11th August

The Federal Government agreed to provide bounty payments on certain steel products as part of a package of assistance to the steel industry.

23rd August

The Treasurer presented the 1983-1984 Budget. Details are included in the text of the Survey.

31st August

The total tender quota for textiles, clothing and footwear available in 1984 will be increased by about 3 per cent.

1st September

Introduction of a system of deduction of tax at source from payments for work and services in industries where evasion of tax is known to have been significant.

6th September

The Treasurer announced the State distribution of the $800 million overseas borrowing ceiling for State larger authorities.

16th September

The Minister for Industry and Commerce announced the widening of the powers of the Australian Industry Development Corporation.

23rd September

A Full Bench of the Australian Conciliation and Arbitration Commission handed down its decision in the National Wage Case. The Commission awarded a 4.3 per cent increase in award wages and salaries, which was equal to the increase in the CPI during the March and June quarters of 1983. The Commission also introduced a set of wage fixation principles to operate for two years.

4th October

The Guaranteed Minimum Price for Wheat received for the 1983-1984 season was increased by $8.68 from that in 1982-1983.

20th October

The Australian Conciliation and Arbitration Commission refused to apply the 4.3 per cent National Wage Case increase to awards for which the Food Preservers' Union is an applicant after the union refused to give a commitment to pursue no extra claims for the duration of the wage fixation principles.

21st October

Following a private conference, two motor vehicle industry employers agreed to pay the 4.3 per cent National Wage case increase on both award and over-award payments.

28th October

Changes to Australia's foreign exchange arrangements were announced, with effect from 31st October. They included announcing the official clearance rate at the end of the day, instead of the beginning, and widening its margin. The Reserve Bank no longer clears the official forward market. Trading banks allowed to open limited spot positions.

31st October

A revised double taxation treaty between Australia and the United States entered into force.

14th November

A Full Bench of the Australian Conciliation and Arbitration Commission declined to endorse aspects of a building industry agreement between most unions in the building industry and the National Industrial Construction Council.

22nd November

A Full Bench of the Australian Conciliation and Arbitration Commission approved cost-related increases in reimbursement allowances and in addition to a 4.3 per cent increase in allowances related to work or conditions in building industry awards.

28th November

Following a request from the International Monetary Fund, Australia made an early repayment of its SDR 32.46 million Buffer Stock Financing Facility loan.

9th December

It was announced that the Government had decided to float the Australian dollar as from 12th December 1983 and to abolish a major part of the existing exchange controls. While the Reserve Bank will not generally be intervening in the foreign exchange market, it retains the discretion to do so.

20th December

The Treasurer announced that the Government had decided to issue indexed securities along the lines recommended in the Interim Report of the Review of the Australian Financial System Group (the Martin Group). The securities, to be sold by public tender, will be of the indexed-coupon type.

The Reserve Bank announced that it informed trading banks that it is willing to sell off part or all of its outstanding forward contracts.

29th December

The Treasurer announced that, as a result of the greater than expected real growth in the economy, the Budget-time formulation of 9-11 per cent growth in M3 was revised upwards by one percentage point to 10-12 per cent for the twelve months to the June quarter 1984.

1984

1st January

The new prices and excises to apply to indigenous crude oil came into effect. The new price for Bass Strait was set at $34.68 per barrel, a reduction of $1.85 per barrel on the prevailing price.

25th January

The Treasurer announced that it now seemed likely that GDP growth in 1983-1984 would be close to 5 per cent, compared to 3 per cent envisaged in August 1983.

31st January

The Reserve Bank announced that it had sold almost all of its outstanding forward exchange contracts.

STATISTICAL ANNEX

Table A. Gross domestic product

$ million, current prices

Year ended 30th June	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Expenditure										
1. Private consumption	30 013	36 442	43 508	49 775	55 170	62 168	70 108	79 337	90 268	101 744
2. Government current expenditure	6 842	9 212	11 452	13 396	15 116	16 747	18 708	22 155	25 359	28 804
3. Gross fixed capital formation	11 812	14 293	17 107	19 164	20 854	23 409	25 240	31 631	37 671	37 669
Private[1]	7 833	8 640	10 412	11 997	12 842	15 169	16 277	21 314	25 282	23 379
Public sector[1]	3 979	5 653	6 695	7 167	8 012	8 240	8 963	10 317	12 389	14 290
4. Change in stocks	1 173	1 021	116	1 134	–468	1 263	691	251	1 228	–2 591
5. Exports of goods and services	7 810	9 921	11 005	13 206	13 979	16 502	21 586	22 003	22 662	24 498
6. Imports of goods and services	7 774	10 227	10 831	13 788	15 008	17 784	20 918	24 749	28 562	27 988
7. Statistical discrepancy	1 507	1 136	502	325	686	260	252	1 237	1 023	1 721
8. **Gross domestic product at purchasers' values**	51 383	61 798	72 859	83 212	90 329	102 565	115 667	131 865	149 649	163 857
Origin										
1. Agriculture, hunting, forestry and fishing	4 364	3 918	4 005	4 491	4 255	6 860	7 681	7 544	..	..
2. Manufacturing	12 547	14 594	16 780	18 615	19 907	21 451	23 681	26 845	..	..
3. Other industry	7 024	8 888	10 692	12 197	13 324	15 150	17 944	20 961	..	..
4. Services	22 295	27 750	32 825	38 174	42 525	47 131	52 290	60 377	..	..
5. Indirect taxes less subsidies	5 353	6 648	8 557	9 735	10 318	11 973	14 071	16 138	18 440	20 995
6. **Gross domestic product at purchasers' values**	51 383	61 798	72 859	83 212	90 329	102 565	115 667	131 865	149 649	163 857

1. Published data for 1981/2 and 1982/3 have been adjusted to remove the impact of the sale to the private sector of public sector assets under leaseback arrangements. In the adjustment, estimates of the value of such sales are substracted from the published estimates of private investment expenditure and added back to the public investment figures.

Source: Quaterly Estimates of National Income and Expenditure, December quarter 1983, ABS Cat. 5206; Australian National Accounts, Gross Product by Industry, 1981/2, ABS Cat. 5211.

Table B. **Gross domestic product**

$ million, average 1979-1980 prices

Year ended 30th June	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Expenditure										
1. Private consumption	60 077	61 946	63 863	65 462	66 318	68 492	70 108	72 513	75 334	76 333
2. Government current expenditure	13 666	14 946	16 190	16 875	17 576	18 304	18 708	19 727	19 955	20 630
3. Gross fixed capital formation	24 692	23 975	24 795	24 856	24 769	25 820	25 240	28 508	30 716	27 352
4. Change in stocks	2 117	1 979	108	1 550	–770	1 731	691	374	1 271	–1 947
5. Exports of goods and services	15 591	16 491	17 164	18 460	18 835	20 060	21 586	20 425	20 636	20 939
6. Imports of goods and services	18 941	19 444	18 460	20 328	19 372	20 892	20 918	22 761	25 311	22 859
7. Statistical discrepency	3 126	1 986	782	482	854	334	252	1 154	902	1 293
8. **Gross domestic product at purchasers' values**	100 328	101 879	104 442	107 357	108 210	113 849	115 667	119 940	123 503	121 741

Sources: Quarterly Estimates of National Income and Expenditure, Australia, December quarter 1983, ABS Cat No. 5206.0.

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

$ million, current prices

Year ended 30th June	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Compensation of employees	28 127	36 115	41 580	46 926	51 520	55448	61 839	71 749	83 001	92 102
Wages and salaries	26 893	34 472	39 541	44 612	48 840	52 579	58 514	67 781	78 071	86 110
Supplements to wages and salaries	1 234	1 643	2 039	2 314	2 680	2 869	3 325	3 968	4 930	5 992
Income from property and entrepreneurship	10 693	11 694	13 319	15 533	17 209	21 442	24 002	26 260	30 039	32 213
Farm	2 687	2 004	1 872	2 171	1 869	4 143	4 711	4 002	3 635	1 902
Non-Farm	8 006	9 690	11 447	13 362	15 340	17 299	19 291	22 258	26 404	30 311
Current transfers from government	3 304	4 585	6 401	7 735	8 669	9 516	10 348	11 686	13 601	16 592
Third party insurance transfers	120	165	191	226	236	299	370	459	588	717
Current transfers from the rest of the world	285	361	360	276	402	412	588	711	798	922
Income	42 529	52 920	61 851	70 696	78 036	87 117	97 147	110 865	128 027	142 546
less: Direct taxes paid on income	5 485	7 709	9 213	11 047	12 122	12 797	15 040	17 543	21 224	22 967
Consumer debt interest	377	509	583	717	846	925	1 051	1 287	1 797	2 261
Other direct taxes, fees, fines, etc.	562	590	683	785	843	850	816	840	942	1 003
Current transferts to the rest of the world	261	266	313	290	367	398	347	439	491	600
Disposable income	35 844	43 849	51 057	57 856	63 858	72 147	79 893	90 756	103 572	115 716
Consumption expenditure	30 013	36 442	43 508	49 775	55 170	62 168	70 108	79 337	90 268	101 744
Food	5 393	6 213	7 104	8 203	9 339	10 585	12 083	13 821	15 478	17 150
Clothing	2 670	3 156	3 547	3 956	4 394	4 756	5 114	5 735	6 318	6 871
Rents	4 080	5 017	6 215	7 550	8 924	10 362	11 889	13 666	16 208	19 578
Other	17 870	22 056	26 642	30 066	32 513	36 465	41 022	46 115	52 264	58 145
Saving[1]	5 831	7 404	7 551	8 082	8 688	9 979	9 785	11 419	13 305	13 971
(Per cent of disposable income)	16.3	16.9	14.8	14.0	13.7	13.8	12.3	12.6	12.9	12.1

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	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
	Thousand persons									
Total employment	5 891.2	5 866.4	5 946.0	6 000.1	6 015.6	6 110.6	6 284.3	6 416.5	6 414.9	6 300.4
Non-farm	5 508.1	5 498.6	5 575.5	5 622.8	5 640.4	5 703.9	5 870.9	5 995.1	6 002.1	..
Farm	383.1	380.3	370.5	377.3	356.8	370.7	378.4	385.4	383.2	..
Unemployment[1]	161.6	302.5	298.1	358.1	413.1	408.4	408.6	393.9	494.9	697.0
Unfilled vacancies[2]	62.0	30.1	32.6	22.0	19.5	19.5	21.5	..	..	..
	Per cent									
Unemployment rate	2.7	4.9	4.8	5.7	6.4	6.3	6.1	5.8	7.2	10.0
Participation rate: Male	81.8	81.1	80.7	80.1	78.8	78.4	78.3	78.1	77.4	76.7
Female	42.9	43.7	43.6	44.2	43.6	43.6	44.8	44.7	44.6	44.7
	Hours									
Average weekly hours paid for[3], all industries	43.0	41.4	41.2	41.1	41.0	41.3	41.3	41.3	..	..

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.

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	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
	Index, 1979-1980 = 100.0										
Price deflators											
Gross domestic product	44.7	51.3	60.7	69.8	77.5	83.5	90.1	100.0	109.9	121.2	134.6
Private consumption	44.5	50.0	58.8	68.1	76.0	83.2	90.8	100.0	109.4	119.8	133.3
Gross fixed capital formation	42.3	47.8	59.6	69.0	77.1	84.2	90.7	100.0	111.0	122.6	137.7
Exports	42.0	50.1	60.2	64.1	71.5	74.2	82.3	100.0	107.7	109.8	117.0
Imports	36.0	41.0	52.6	58.7	67.8	77.5	85.1	100.0	108.7	112.8	122.4
Terms of trade	116.7	122.2	114.4	109.2	105.5	95.7	96.7	100.0	99.1	97.3	95.6
Consumer price index											
Total	..	51.0	59.6	67.3	76.7	84.0	90.8	100.0	109.4	120.8	134.7
Food	..	52.7	57.8	63.6	70.9	78.7	87.7	100.0	110.3	119.8	130.7
Year ended 31st December	Index, 1980 = 100										
Weekly award wage rates[1]	..	..	61.7	70.9	78.5	82.8	90.2	100.0	110.9	126.7	133.8
Weekly earnings[2]	..	..	59.6	68.2	75.1	81.6	88.7	100.0	112.9	130.8	140.3
	Dollars										
Hourly earnings[3]											
All industries	2.72	3.58	4.05	4.61	5.11	5.46	5.94	6.70	7.61	8.92	..
Mining and quarrying	3.28	4.40	5.32	6.11	6.84	7.45	8.22	9.36	10.83	13.15	..
Manufacturing	2.58	3.44	3.82	4.33	4.79	5.11	5.66	6.37	7.13	8.42	..
Building and construction	2.66	3.55	3.97	4.54	4.98	5.30	5.74	6.44	7.64	8.86	..

1. Weighted average minimum rates payable to adult males as prescribed in awards, determinations, etc. Average quarterly figures.
2. Excluding the rural, shipping and stevedoring industries.
3. 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/November 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: Australian Bureau of Statistics.

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

$ million

Year ended 30th June	Total[1]				Commonwealth Government			
	1980	1981	1982	1983	1980	1981	1982	1983
Current receipts	37 387	43 848	51 119	56 096	30 194	35 577	41 428	45 046
Direct taxes	18 542	22 343	26 447	28 017	18 542	22 343	26 447	28 017
On income: households	15 040	17 543	21 224	22 968	15 040	17 543	21 224	22 968
On income: corporations	3 361	4 639	5 018	4 790	3 361	4 639	5 018	4 790
Withholding taxes	141	161	205	259	141	161	205	259
Indirect taxes	14 886	17 135	19 537	22 301	8 892	10 215	11 417	12 911
Income from property and entrepreneurship	3 143	3 530	4 193	4 777	2 617	2 900	3 428	3 981
Compulsory fees, fines, etc.	816	840	942	1 002	144	119	136	137
Current disbursements	33 949	39 660	45 795	53 517	28 890	33 455	38 170	44 667
Goods and services	18 708	22 155	25 359	28 804	6 140	7 520	8 669	9 799
Subsidies	815	997	1 097	1 306	690	859	949	1 021
Interest on public debt	3 512	4 195	5 004	6 009	2 363	2 753	3 136	3 717
Current transfers to domestic sectors	10 349	11 686	13 601	16 592	19 132	21 696	24 681	29 325
Current transfers to the rest of the world	565	627	734	806	565	627	734	806
Surplus on current transactions	3 438	4 188	5 325	2 579	1 304	2 122	3 258	379
Gross fixed capital formation	4 063	4 443	4 705	5 506	326	383	404	568

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	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Current account										
Exports, fob	6 709	8 442	9 446	11 446	12 006	14 072	18 589	18 718	19 089	20 677
Imports, fob	5 754	7 652	7 922	10 350	11 150	13 386	15 829	19 169	22 379	21 610
Trade balance	956	790	1 524	1 096	856	686	2 760	–451	–3 290	–933
Invisibles, net	–1 865	–2 009	–2 928	–3 528	–3 909	–4 376	–4 764	–4 986	–5 552	–5 355
Current balance	–909	–1 219	–1 404	–2 432	–3 053	–3 690	–2 004	–5 437	–8 842	–6 288
Capital account										
Government	30	–21	–93	231	1 549	1 353	–81	–72	505	689
Trade credit n.e.i.[1]	–53	–75	100	242	–284	21	–763	–57	203	–290
Other private capital	392	918	585	1 290	1 117	1 751	2 621	5 491	8 613	7 648
Balancing item[2]	117	–13	–207	178	129	441	–74	1 224	876	678
Apparent capital balance	485	761	385	1 941	2 511	3 566	1 703	6 586	10 196	8 724
Official monetary movements										
Change in official reserve assets	–384	–460	–1 053	–190	–474	–167	–348	1 101	1 364	2 460
Allocation of SDR	–	–	–	–	–	–94	–98	–86	–	–
Other transactions[3]	–41	2	33	–301	–68	137	145	134	–10	–24
Net official monetary movements	–425	–458	–1 019	–491	–542	–124	–301	1 149	1 354	2 436
Changes in market value of official reserve assets[4]										
a) Gold[5]	–10	28	511	198	278	714	2 178	–933	–740	..
b) Currency assets	–633	–41	–865	19	–456	–144	–210	868	1 841	
c) IMF : gold tranche	6	7	–1	19	6	7	–7	77	–256	..
d) Special Drawings Rights	–50	–61	–52	–10	86	82	–165	16	–38	..
Total	–687	–67	–407	226	–86	659	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 1980	Imports 1981	Imports 1982	Exports 1980	Exports 1981	Exports 1982
SITC sections:						
Food and live animals chiefly for food	3.8	3.3	3.3	33.6	29.9	29.6
Beverages and tobacco	0.9	0.8	0.8	0.2	0.3	0.3
Crude materials, inedible, except fuels	4.4	3.7	2.9	28.7	30.2	31.0
Mineral fuels, lubricants and related materials	13.8	13.5	14.3	11.1	15.2	18.1
Animal and vegetable oils, fats and waxes	0.4	0.4	0.3	0.5	0.4	0.5
Chemicals and related products, n.e.s.	9.0	8.2	7.7	2.2	2.0	1.9
Manufactured goods classified chiefly by material	17.8	16.7	16.6	11.7	10.9	9.7
Machinery and transport equipment	36.3	39.3	39.0	5.4	5.4	5.7
Miscellaneous manufactured articles	12.2	11.9	11.8	1.8	1.9	1.5
Commodities and transactions not classified according to kind[1]	1.4	2.2	3.3	4.8	3.8	1.7
Total (merchandise and non-merchandise)	100.0	100.0	100.0	100.0	100.0	100.0
OECD countries	71.6	72.0	71.8	60.0	59.3	57.2
North America	24.6	25.7	24.1	13.8	13.2	1.8
Japan	17.1	19.7	20.2	26.6	28.2	25.8
EEC	22.2	19.5	21.0	13.4	11.8	12.9
Other	7.7	7.1	6.7	6.2	6.1	6.7
Non-OECD countries	28.0	27.6	27.8	39.4	39.7	39.6
Sino-Soviet area[2]	1.7	2.0	1.7	10.2	7.4	7.7
Other developed countries	0.6	0.5	0.3	0.6	0.8	0.7
Developing countries	25.3	24.6	25.4	28.0	30.6	28.0
Unspecified	0.5	0.4	0.4	0.6	0.9	3.2
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
POPULATION Total	Mid-1981	Thousands	14 923	7 508	9 852	24 365	5 122	4 800	53 963	61 682
Inhabitants per sq. km of land area	»	Number	2	89	323	2	119	14	98	248
Net average annual increase	Mid-1971 to Mid-1981	%	1.3	0.1	0.2	1.2	0.3	0.4	0.5	0.1
EMPLOYMENT Total civilian	1981	Thousands	6 364	3 276	3 669	10 933	2 369	2 234	20 959	25 588
of which: Agriculture	»	% of total	6.5	8.8	3.0	5.5	7.3	11.1	8.6	5.5
Industry[4]	»	»	30.6	39.5	33.4	28.3	29.3	34.8	35.9	43.5
Other	»	»	62.8	51.7	63.6	66.2	63.3	54.1	56.2	51.0
GROSS DOMESTIC PRODUCT in purchasers' values	1981	US $ billion[11]	160.7	66.5	95.1	284.3	58.1	49.1	569.4	683.2
Average annual volume growth[6]	1976 to 1981	%	2.7	2.6	1.5	2.8	1.3	3.5	2.3	2.5
Per capita	1981	US $[11]	10 763	8 842	9 651	11 741	11 350	10 238	10 552	11 076
GROSS FIXED CAPITAL FORMATION	1981	% of GDP	24.9	24.9	17.9	23.7	15.7	24.3	21.2	22.0
of which: Transport, machinery and equipment	»	»	12.4	11.7	5.8	8.7	6.4	9.8	9.3	8.3
Residential construction	»	»	4.8[10]	..	3.9	4.8	4.0	6.3	6.1	6.6
Average annual volume growth[6]	1976 to 1981	%	3.8	0.9	—2.6	3.0	—6.6	0.0	0.9	3.0
GROSS SAVING RATIO[12]	1981	% of GDP	21.5[10]	24.5	12.9	21.4	12.3	24.2	19.4	20.8
GENERAL GOVERNMENT										
Current expenditure on goods and services	1981	% of GDP	17.1	18.4	19.0	19.5	27.7	19.1	15.8	20.7
Current disbursements[13]	»	»	31.1[10]	44.0	52.7	38.4	55.1	35.2	45.7	44.3
Current receipts	»	»	34.4[10]	47.4	44.0	38.7	51.2	39.4	46.1	44.6
NET OFFICIAL DEVELOPMENT ASSISTANCE	1982	% of GNP	0.57	0.53	0.60	0.42	0.77	0.30	0.75	0.48
INDICATORS OF LIVING STANDARDS										
Private consumption per capita	1981	US $[11]	6 431	4 977	6 354	6 518	6 385	5 583	6 856	6 270
Passenger cars, per 1 000 inhabitants	1978	Number	475	272	302	410[22]	219	235	327	346
Telephones, per 1 000 inhabitants	1981	»	489[26]	421	387	694	675	522	498	488
Television sets, per 1 000 inhabitants	1980	»	378	296[29]	395[29]	471	368[29]	322[29]	354	337[29]
Doctors, per 1 000 inhabitants	1981	%	1.9	1.6[26]	2.6	1.6	2.2[26]	2.0	2.2[26]	2.3
Full-time school enrolment[15]	1980	%	86	74	89	89	87[23]	90	85	79[30]
Infant mortality[17]	1982	Number	10.0[28]	12.8	11.7[28]	9.6[28]	8.1[28]	6.5[28]	9.6[28]	11.6[28]
WAGES AND PRICES	Average annual increase									
Hourly earnings in manufacturing	1977 to 1982	%	10.2	6.3	8.1	9.9	10.4	11.0	14.2	5.4
Consumer prices	»	%	9.6	5.2	6.4	10.3	10.8	9.6	11.7	4.7
FOREIGN TRADE										
Exports of goods, fob	1982	US $ million[11]	22 152	15 648	52 404[7]	68 412	15 312	13 068	92 352	175 452
As percentage of GDP	»	%	14.01	23.36	60.58[7]	23.52	27.20	26.89	17.13	26.60
Average annual volume increase	1977 to 1982	%	2.32[32]	5.48	2.60[7]	0.08	5.83	5.25	3.54	4.57
Imports of goods, cif	1982	US $ million[11]	24 240	19 500	57 828[7]	54 816	16 836	13 428	115 380	154 044
As percentage of GDP	»	%	15.33	29.11	66.85[7]	18.84	29.90	27.63	21.40	23.36
Average annual volume increase	1977 to 1982	%	—0.69[32]	1.57	1.59[7]	—0.01	—0.24	3.87	4.54	3.06
TOTAL OFFICIAL RESERVES[24]	Mid-1982	US $ million	4 336	6 131	5 796[7]	4 076	2 472	1 551	22 644	48 017
As ratio of average monthly imports of goods	In 1982	ratio	2.15	3.77	1.20[7]	0.89	1.76	1.39	2.35	3.74

	Greece	Iceland	Ireland	Italy	Japan	Luxembourg	Netherlands	New Zealand
POPULATION Total	9 730	231	3 443	56 502[2]	117 660	366	14 247	3 176
Inhabitants per sq. km of land area	74	2	49	118	316	141	346	12
Net average annual increase	1.0	1.2	1.5	0.5	1.1	0.6	0.8	1.0
EMPLOYMENT Total civilian	3 529	107	1 136	20 623	55 810	160	4 922	1 265
of which: Agriculture	30.7	11.7	17.7	13.4	10.0	5.6	5.0	11.2
Industry[4]	29.0	37.4	31.7	37.5	35.3	38.1	30.2	32.6
Other	40.3	50.9	50.6	49.1	54.7	56.3	64.8	56.1
GROSS DOMESTIC PRODUCT in purchasers' values	36.7	2.9	16.7	350.2	1 129.5	3.9	140.5	25.0[9]
Average annual volume growth[6]	2.9	4.0	3.8	2.6	4.6	1.8	1.4	0.2
Per capita	3 769	12 791	4 855	6 123	9 606	10 566	9 861	7 957
GROSS FIXED CAPITAL FORMATION	21.0[8]	25.9	29.8	20.3	31.0	23.3	19.0	20.6
of which: Transport, machinery and equipment	8.0	7.5	12.7[26]	8.5	10.5	9.2[26]	7.3	7.8[26]
Residential construction	6.0	4.7	6.6[26]	5.6	6.3	5.5[26]	5.5	3.6[26]
Average annual volume growth[6]	0.2	3.1	6.4	2.8	4.5	2.2	—0.4	—3.4
GROSS SAVING RATIO[12]	22.8	22.3	15.0	18.9	31.9	47.8	20.0	20.7[9]
GENERAL GOVERNMENT								
Current expenditure on goods and services	17.9	11.8	22.0	18.1	10.1	17.5	17.9	17.4[9]
Current disbursements[13]	36.0	25.0[22]	48.3[26]	46.1	26.5	51.6[26]	55.8	..
Current receipts	30.4	34.0[22]	41.7[26]	38.7	29.3	57.3[26]	55.9	..
NET OFFICIAL DEVELOPMENT ASSISTANCE	..	..	0.20	0.24	0.29	..	1.08	0.28
INDICATORS OF LIVING STANDARDS								
Private consumption per capita	2 555	7 934	3 099	3 831	5 550	6 393	5 979	4 748
Passenger cars, per 1 000 inhabitants	79	339	194	300	185	423	288	395
Telephones, per 1 000 inhabitants	302	475[26]	208	364	502	547[23]	539	560
Television sets, per 1 000 inhabitants	156[29]	275[29]	225[22]	386	539	245[23]	296[29]	278
Doctors, per 1 000 inhabitants	2.3[22]	2.3	1.2[14]	3.1[26]	1.3[26]	1.7[26]	1.9	1.6
Full-time school enrolment[15]	81[19]	83[14]	93	73	91	69	94	81
Infant mortality[17]	15.6[28]	6.0[28]	10.6[28]	13.2	7.1[28]	11.0[28]	8.1	11.8
WAGES AND PRICES								
Hourly earnings in manufacturing	26.3	49.9	16.3	19.6	6.2	6.2[31]	4.8	16.7
Consumer prices	20.3	49.4	15.2	16.8	4.6	6.2	5.5	14.9
FOREIGN TRADE								
Exports of goods, fob	4 284	684	8 088	73 380	138 252	..	66 228	5 551
As percentage of GDP	11.42	26.31	46.22	21.28	13.02	..	48.27	..
Average annual volume increase	2.59	..	6.83	3.07	4.77	..	2.21	3.66
Imports of goods, cif	9 972	948	9 684	85 920	131 124	..	62 580	5 782
As percentage of GDP	26.59	36.46	55.34	24.92	12.35	..	45.61	..
Average annual volume increase	3.26	..	4.26	3.05	1.66	..	0.38	2.86
TOTAL OFFICIAL RESERVES[24]	1 095	190	2 651	19 601	26 733	..	1 480	656
As ratio of average monthly imports of goods	1.32	2.41	3.29	2.74	2.45	..	2.20	1.36

	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia[1]
POPULATION Total	4 100	9 970	37 654	8 324	6 429	45 747	56 020	229 849	22 520
Inhabitants per sq. km of land area	13	108	75	19	156	59	230	25	87
Net average annual increase	0.5	1.1	1.0	0.3	0.2	2.3	0.1	1.0	0.9
EMPLOYMENT Total civilian	1 932	3 969	10 931	4 225	3 054	14 668	23 819	100 397	9 690[3]
of which: Agriculture	8.5	26.7	18.2	5.6	7.0	60.1	2.6	3.5	33.8
Industry[4]	29.8	37.5	35.2	31.3	39.3	16.4	35.7	30.1	22.3
Other	61.7	36.8	46.6	63.1	53.7	23.5	61.7	66.4	41.9
GROSS DOMESTIC PRODUCT in purchasers' values	57.1	23.8	186.1	122.4	94.5	57.6	497.8	2 906.3	67.8[26]
Average annual volume growth[6]	3.6	4.0	1.4	1.0	2.4	2.0	0.5	2.8	..
Per capita	13 937	2 398	4 938	13 505	14 778	1 262	8 886	12 647	3 034[26]
GROSS FIXED CAPITAL FORMATION	27.2	31.3	20.1	19.3	24.2	19.9	15.9	17.9	31.0[26]
of which: Transport, machinery and equipment	9.1	13.8	6.5[26]	7.8	7.6	8.7[22]	8.1	8.1	..
Residential construction	4.5	7.8	5.5[23]	4.6	16.6	2.7[22]	2.1	3.6	7.2[26]
Average annual volume growth[6]	0.2	6.6	—1.2	—1.4	5.1	—2.4	—1.9	3.3	5.7[26]
GROSS SAVING RATIO[12]	29.8	22.7	18.0	16.0	28.7	20.3	17.3	18.9	37.0[26]
GENERAL GOVERNMENT									
Current expenditure on goods and services	19.0	14.9	11.8	29.3	12.5	12.6	22.3	18.1	16.9[26]
Current disbursements[13]	44.6	30.9[14]	29.4[26]	60.3	28.1	..	44.6	34.2	..
Current receipts	52.5	28.1[14]	30.0[26]	59.0	32.6	..	43.4	33.7	..
NET OFFICIAL DEVELOPMENT ASSISTANCE	0.99	..	..	1.02	0.25	..	0.38	0.27	..
INDICATORS OF LIVING STANDARDS									
Private consumption per capita	6 609	1 668	3 449	7 091	9 244	885	5 382	8 085	1 580[26]
Passenger cars, per 1 000 inhabitants	282	118	178	345	324	14	262	526	85
Telephones, per 1 000 inhabitants	485	149	329	828	751	39[23]	507	789	71[22]
Television sets, per 1 000 inhabitants	292[29]	141	252	381[29]	314[29]	75[29]	404	624	192[29]
Doctors, per 1 000 inhabitants	2.0	1.9[26]	2.6	2.2[26]	1.6	0.6	1.3	2.0[26]	1.3[22]
Full-time school enrolment[15]	94[23]	55[22]	87[23]	86	..	37[23]	82[23]	100[30]	83
Infant mortality[17]	7.5[28]	26.0[26]	10.3[28]	6.8	7.6[28]	131.0[27]	11.8[28]	11.2	30.7[28]
WAGES AND PRICES									
Hourly earnings in manufacturing	8.3	19.3	20.5	8.7	4.4	..	13.4	8.4	25.4
Consumer prices	9.7	21.0	16.0	10.3	4.2	56.5	12.0	9.8	27.3
FOREIGN TRADE									
Exports of goods, fob	17 544	4 176	20 568	26 736	25 932	5 772	97 224	212 280	8 364
As percentage of GDP	31.27	17.92	11.48	27.31	27.04	10.99	20.63	7.02	13.46[28]
Average annual volume increase	6.40	..	7.57[33]	3.52	1.85	14.25	1.55	2.91	..
Imports of goods, cif	15 456	9 420	31 620	27 624	28 596	8 940	99 672	243 948	10 980
As percentage of GDP	27.55	40.43	17.65	28.22	29.82	17.63	21.15	8.06	17.67[28]
Average annual volume increase	1.67	..	2.06[33]	1.89	4.43	—4.39	3.32	—0.31	..
TOTAL OFFICIAL RESERVES[24]	6 611	1 374	9 809	3 798	18 024	1 254	14 572	27 710	1 260
As ratio of average monthly imports of goods	5.13	1.75	3.72	1.65	7.56	1.68	1.76	1.36	1.38

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 1st April.
10. Fiscal year beginning 1st July.
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. Gross enrolment rates in secondary schools.
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.
26. 1980.
27. 1975 to 1980.
28. 1981.
29. Licences issued.
30. Primary and secondary schools.
31. 1976 to 1981.
32. 1977 to 1980.
33. 1977 to 1979.

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.

16-11-83

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