

DEC 1952

# AUSTRALIA AND THE LONDON CONFERENCE.



*The Prime Minister, the Rt. Hon.  
R. G. Menzies, C.H., Q.C., M.P.,  
reports to the Australian people  
on the work of the London  
Economic Conference.*



*By Authority :*

L. F. JOHNSTON, Commonwealth Government Printer, Canberra.  
(Printed in Australia.)

## **WHAT CONVERTIBILITY MEANS.**

---

**“ Full convertibility,” says Mr. Menzies, “ will exist when the pound can be freely converted into other currencies at whatever may be the prevailing rate of exchange.**

“ It clearly cannot be reached in one stride. There must be intermediate stages as our trading position and our reserves grow stronger. What we have done is to agree, in some detail, on the procedures to be followed to reach an intermediate stage.

**“ They depend, not only on the success of our own efforts, but also on close and specific co-operation with European nations and the United States of America.**

“ You will understand at once that delicate negotiations will be required, and that meanwhile it would be quite impossible to publish the precise terms or even the outline of our proposals.

“ But I can assure you that they are clear cut and constructive, and that if success is attained we will be much nearer to that full trade, commerce and intercourse between the nations which was once a refreshing and stimulating aspect of our lives, and which we all hope to restore.”

*“What strengthens sterling will strengthen all of us in the Commonwealth. It will increase the flow of goods. It will help the international investment. It will help to get us out of the atmosphere of emergency and restrictions, and serve to add to the prosperity and raise the living standards of the peoples of the world.*

*“We are all proud to think that we have between us immense resources, not only in material things but also in courage, patience and resolution. With these rich endowments, and common friendship and understanding, we can not only deserve success, but command it.”*

The London Economic Conference in November-December, 1952, was the most important of its kind for twenty years. There, the member nations of the British Commonwealth pooled their expert knowledge and experience and agreed on lines of policy designed to restore the convertibility of sterling and promote the trade and prestige of the Commonwealth in world affairs.

Despite illness, the Prime Minister, Mr. Menzies, led the Australian delegation to the Conference. Afterwards, he took prompt steps to inform the Australian people what he had done in their name.

This booklet contains the essence of what he said in broadcasts and statements immediately the Conference had ended.

## **NOT A "CRISIS" CONFERENCE.**

The London Conference was not a "crisis" conference. It was convened for four purposes, each of them related to long-term policy and designed to ensure steady progress towards the development of resources, the promotion of production and trade, and the ultimate achievement of convertibility of currencies.

The attainment of this goal will, by widening markets and stimulating the flow of international investment, vitally assist further development, production and trade.

In other words, the nations represented at the Conference were seeking positive policies, moving away from artificial restrictions and towards greater freedom in the movement of goods and money.

The four purposes were :

- (a) *A frank and full interchange of ideas, policies, and experience, enabling each of the eight governments represented to review their own internal policies and to learn what the other governments were themselves doing in the financial and economic field.*
- (b) *The formulation of a set of principles action upon which would assist in the gradual elimination of restrictions by the promotion of development and trade.*
- (c) *The discovery of ways and means of increasing public and private investment calculated to assist adequate trade and payments balances.*
- (d) *The preparation of specific plans for achieving convertibility, limited at first, but ultimately complete, so as to break down the exchange barriers which now cause a serious interference in trade between the dollar and sterling areas.*

## **AUSTRALIAN MANUFACTURERS REASSURED.**

The countries represented were seeking common policies, not entering into legal commitments, "secret" or otherwise. Nor did any country give undertakings as to how it should handle its internal problems of development.

**For example, any suggestion that Australian manufacturing is to be cut back, or that the search for improving living standards is to be modified or abandoned, is quite untrue.**

On the contrary, each government represented saw in the overall design the real and valuable means of increasing production all round and so earning and saving dollars as to make convertibility, when it comes, a permanent thing and not a precarious step depending on precarious reserves.

The interchange of ideas, policy, and experience was both detailed and valuable. Budget policies, aiming at balance or surplus, were remarkably similar in all countries. The need for a careful control of credit as an anti-inflationary measure was accepted by all.

You will not need to be told by me that all forms of anti-inflationary action such as taxation, credit controls, and import controls, tend to be unpopular. Sometimes, in our own countries, people are tempted to believe that in such matters governments are either heartless or capricious. It is for this reason that I want to point out, at this Conference, all the Commonwealth countries not only agreed that counter-inflationary measures should be resolutely pursued, but also agreed that unless this was done it was idle to think that more active international trade and the convertibility of sterling could be achieved.

All governments were concerned about the burden of taxes ; but the obligation of defence expenditure, especially since Korea, and the need to resort to tax revenues for some portion of public works has in all cases limited capacity to reduce taxes.

In each one of the eight countries represented, problems like our own are being encountered and there is a close similarity in the methods which are being employed.

The long-range principles evolved by the Conference were unanimously agreed upon. Briefly, they were :—

*A resolute continuation of anti-inflationary policies, including control of credit, with of course such flexibility of application as new circumstances may require.*

*Investment policies designed to secure a sound balance of payments position by encouraging the movement of Capital into industries producing additional exports or reducing the demand for dollar imports in particular.*

*Development policies giving high priority to works calculated to increase production, strengthen competitive power in overseas markets, maintain employment and so provide a real foundation for increased living standards.*

These principles are not a mere form of words. They are completely opposed to the foolish notion that needed Capital can be secured by an inflationary use of central bank credit. The Conference states plainly that :

**“Inflationary conditions frustrate the progress of sound development, both by increasing its cost and by destroying the savings necessary to finance it. Moreover, they damage the external balance by stimulating excessive imports and by diverting to internal use goods which would otherwise be available for export.”.**

## ***POLITICS MUST BE FORGOTTEN.***

Great emphasis must be placed on the special character of the development to be aimed at. In Australia this presents great difficulties, for, while the Commonwealth has voluntarily accepted great financial responsibilities, including huge budget liabilities, the works programmes are largely under the exclusive control of the States. I will take an early opportunity of inviting the States into conference on this vital point.

**Politics must be forgotten. Special local interests must give way to the national need for improving our section of the sterling area's balance of payments. Unless we can really concentrate on works of the indicated character, we will hinder the accomplishment of an overall scheme which is of such immense importance for our future.**

Ways and means of increasing public and private investment were considered from two angles. First, it was recognized that our domestic savings are our first and principal asset. Increased savings will result from stability in the value of money (anti-inflationary action), increased production and improved overseas balances, and fiscal policies which encourage savings.

**We have here a challenge to the national conscience and good sense. There can be no easy promise of sudden results. We must, following the example of some foreign countries, make a vigorous effort for production. The increased individual production which has been noted during the past twelve months is proof that it can be done.**

Increased production will tend to reduce costs and to stabilize prices and money values. With the arrest of rising costs, tax reductions will become more practicable. With stable prices and lowering taxes, savings will be encouraged.



But to use central bank credit, not increased production, as a means of reducing taxes would be simply to aggravate inflation and so destroy the whole foundation upon which improved trade and convertibility of currencies clearly rest.

### **COMMONWEALTH-STATE CO-OPERATION VITAL.**

Discussion also occurred upon how overseas Capital could be secured. Australia's greatest periods of development have been appreciably financed from overseas. Eight million people can scarcely hope to finance the development of a huge continent.

1. Two new sources of overseas finance were evolved. The United Kingdom Government will make sterling available to the International Bank for sterling loans to British Commonwealth countries. **Whether this will offer any benefit to Australia will depend entirely upon whole-hearted Commonwealth-States co-operation.** For the International Bank will lend only upon projects which answer to the test of improving the balance of payments. Even then, it will lend only the overseas exchange content of any project, leaving a large proportion—representing local expenditure—to be financed in Australia. We must therefore marshal our resources and deal with public works on their merits.
2. The other new source of finance is the new Finance Corporation which is being formed in London. We do not yet know how much new money this may mean, or on what terms. but we do know that it will not find money except for works which possess the necessary character and significance.

All of this can be summed up by saying that we may, in due course, be able to get outside assistance for public works. But we will get none unless we are prepared to put first things first, and prefer some irrigation scheme which will produce more food for export rather than some suburban railway.

Specific plans for moving towards convertibility were prepared. Their formulation in fact occupied a large proportion of our time. They will require full co-operation by the nations of Western Europe and by the United States of America. Until discussions have occurred on the highest level, these plans obviously cannot be published. We all thought that they held great promise of reaching a new era in international trade. Even in what must be at first a limited form, they will hold great advantages, for directly or indirectly they will tend to increase our earnings of convertible currencies and so strengthen our international trading position.

#### ***AUSTRALIAN POLICIES SOUND.***

A fair summing up of all this is that eight Commonwealth Governments met, in a non-party atmosphere, without pressure from any sectional interest, to work out ways and means of moving away from restriction of production and trade and towards freedom and expansion, which are what the world needs.

We agreed that freedom cannot be got without effort, effort by governments, by employers, by employees. We agreed that vast defence expenditures and the maintenance of what has been called the "welfare State" make such demands upon public revenues that we are all confronted by high taxation or galloping inflation (itself the harshest of all taxes) unless production and trade can be tremendously increased.

It was to the means of securing that increase that we devoted our minds and secured a notable measure of agreement.

If I have not come back home with a series of cut-and-dried proposals for Australia to carry out, it is for the very good reason that our plans and efforts inside Australia are our responsibility, and not for others to decide. **But unless we are prepared to play our part in positive measures for world prosperity, we will let down our friends, and we will damage ourselves. The London Conference made it clear that our own financial and economic policies have been both appropriate and sound. But we must do better.** We must earn and save more capital. We must not waste capital, for it is scarce. Sound and developing manufacturing will save us imports. Expanding primary industries will give us more exports, will save dollar expenditure by other Commonwealth countries, and will help to build up those international reserves which will help the convertibility of the pound and encourage the trade of the world.

There is nothing either spectacular or easy about all this. But it is good common sense; the common sense of eight British nations; and I am sure that Australia will respond to it.

## COMMONWEALTH ECONOMIC CONFERENCE COMMUNIQUE.

1. The Commonwealth Economic Conference, which ended to-day, was convened with the aim of concerting measures for increasing the economic strength of the Commonwealth countries, including the Colonial territories, and creating conditions in which their peoples can play their part in securing prosperity and contentment for themselves and for the world.

2. In recent years the sterling area has been faced with recurrent economic crises which have forced its members to take emergency measures of trade and exchange restriction. These measures were necessary but they have inevitably tended to frustrate the long-term economic expansion on which our hopes and opportunities for the future are founded. This was recognized at the January meeting of Commonwealth Finance Ministers. The measures taken in accordance with the conclusions of that meeting have, however, enabled the present Conference to decide that a more positive policy can now be adopted, both by the Commonwealth countries themselves and in concert with other friendly countries, to promote the expansion of world production and trade.

3. The Conference agreed that Commonwealth countries would work together to achieve certain broad common objectives. They have no intention of seeking the creation of a discriminatory economic bloc: rather, their object is, by strengthening themselves, to benefit the world economy generally.

Accordingly the following principles were agreed upon as governing the approach to the whole range of subjects under discussion:—

- (a) Internal economic policies designed to curb inflation and rises in the cost of living should be steadily followed.
- (b) Sound economic development should be encouraged with the object of increasing productive strength and competitive power, providing employment and raising the standards of life.
- (c) A multilateral trade and payment system should be extended over the widest possible area.

4. The application of these principles will require individual action by Commonwealth Governments, co-operation among them and international action with other trading nations and existing international organizations.

### INTERNAL MEASURES.

5. All Commonwealth Governments have agreed to persevere in their efforts to curb inflation. Inflationary conditions frustrate the progress of sound development, both by increasing its cost and by destroying the savings necessary to finance it. Moreover, they damage the external balance by stimulating excessive imports and by diverting to internal use goods which would otherwise be available for export.

6. An adequate and stable external balance must be a first objective for all governments. Failure to achieve this means repeated crises, a continuously rising cost of living, a constant threat to employment and failure to develop resources effectively. The Conference welcomed the improvement which had taken place in the balance of payments both of the individual sterling area countries and of the sterling area as a whole, following upon the conclusions reached by Commonwealth Finance Ministers at their meeting in January, 1952. It noted with satisfaction that the sterling area would achieve balance with the rest of the world in the second half of this year. It was agreed, however, that this achievement, while reassuring, was only the first step towards a stable balance for the sterling area. Policies were agreed upon for 1953 which, it is hoped, will lead to further improvement in the reserves during that year. Nevertheless, while there has been steady improvement, the level of the reserves is as yet too low to warrant any substantial relaxation of the restrictions on imports from outside the sterling area.

7. The Conference considered the extensive restrictions which some countries of the sterling Commonwealth have needed to impose upon imports from the United Kingdom and other Commonwealth sources. There was agreement that restrictions imposed because of balance of payments problems should be relaxed as the external financial position of countries improved. In considering the whole problem the governments concerned would have clearly in mind the difficulties which the restrictions have raised for the export industries affected.

8. The economic and social objectives of the Commonwealth countries, individually and in association, depend upon their ability to produce and supply under competitive conditions an expanding flow of exports. There was therefore general agreement in the Conference on the vital need to expand the earning power of all sterling countries.

9. *Development Policy.*—Throughout the Commonwealth there is wide scope for expanding the production of the essential supplies which the whole world needs—food and agricultural products, minerals and engineering products—and improving the means for transporting them. This development of the basic essentials has on occasion been impeded by other development of a less sound and permanent kind, which has overtaxed the countries' resources and has failed to contribute to the building of economic strength. The Conference agreed that in sterling area countries development should be concentrated on projects which directly or indirectly contribute to the improvement of the area's balance of payments with the rest of the world. Such projects should strengthen the economy of the countries concerned and increase their competitive power in world markets and so, by improving their balance of payments, bring increasing prosperity to their peoples. In some countries of the area, however, development plans have

been or are being made to provide for some basic improvement in the standards of living, which is a necessary foundation for further economic development. Some social investment is also urgently needed in the more developed countries, certain of which have rapidly increasing populations. The Conference recognized the need in such cases for these types of investment.

10. To enable development to go forward a sufficient flow of savings must be provided in the countries undertaking the development and also in other countries which are ready to invest their savings there. The amount of savings which will be available from external sources will at best be small in relation to the size of the development programmes of countries of the sterling Commonwealth, and it is therefore essential that these countries should themselves adopt policies which increase the flow of savings—although this is inevitably a slow process for countries with low incomes and little margin above the basic needs for existence. The process of development will itself increase income and increase the flow of savings.

11. The United Kingdom is the traditional source of external capital for Commonwealth investment and has special responsibilities in the Colonial territories. The United Kingdom Government are determined that the flow of capital from London for sound development throughout the Commonwealth shall be maintained and increased. This will only be possible if the United Kingdom can sustain the necessary level of internal savings and can achieve a surplus on overseas account additional to that required to meet its heavy existing commitments.

12. The United Kingdom Government have, however, undertaken to make a special effort to provide additional capital for Commonwealth development by facilitating the financing of schemes in other Commonwealth countries which will contribute to the improvement of the sterling area's balance payments. The Conference took note that the United Kingdom Government would wish, before making any of this additional finance available for Commonwealth development, to be sure that the country concerned was itself devoting an adequate part of its resources to investment designed to improve the sterling area's balance of payments and was ready to make a sufficient contribution towards the particular scheme in question, to ensure that both countries had an interest in seeing that it was carried through as efficiently and economically as possible.

13. The Conference welcomed the proposal by a group of important financial, industrial and commercial concerns in the United Kingdom to form a company to further development in other countries of the Commonwealth and the Colonial Empire. It was pleased to note that an announcement by this group is being issued to-day. The Conference also welcomed a statement by the United Kingdom representatives that the United Kingdom Government intend to discuss with the

International Bank for Reconstruction and Development arrangements to give effect to their decision to make sterling available for lending by the Bank for projects designed to improve the sterling area's balance of payments.

14. The Conference recognized the important contribution which investors outside the sterling area, particularly in the United States, can make to economic development in the sterling area and agreed that every effort should be made to create conditions which would encourage such investment. It further agreed that all sterling area governments should strive to attain this by reducing such obstacles as controls over the movements of capital across the exchanges. The United Kingdom Government have reviewed the right, which is now enjoyed by residents outside the sterling area who have invested capital in approved projects in the United Kingdom and Colonial Empire since 1st January, 1950, to transfer their capital across the exchanges. At present this right only extends to the sterling equivalent of the initial investment. The United Kingdom Government informed the Conference that they have decided that henceforth it shall extend also to capital profits.

15. *Commodity Policy.*—The Conference recognized that there was no one universal remedy for the problem of instability of prices for primary commodities. Each commodity must be considered on its merits, in the light of the conditions prevailing at the time; and the circumstances must determine what form of arrangements would be appropriate. The Conference agreed that violent fluctuations and an uneconomic level of prices for primary commodities were against the interests of consumers as well as producers.

All Commonwealth Governments are therefore ready to co-operate in considering, commodity by commodity, international schemes designed to ensure stability of demand and prices at an economic level. They also recognize the need for an agreed procedure for calling together the governments concerned to consider emergency action in the event of rapidly developing conditions of surplus or shortage of commodities entering into international trade.

16. *Imperial Preference.*—There was general recognition at the Conference of the value of existing preferences.

On the initiative of the United Kingdom a discussion took place on a proposal that all Commonwealth countries should join in seeking release from the "no new preference" rule in the General Agreement on Tariffs and Trade (G.A.T.T.) and this United Kingdom proposal was supported by the representatives of some countries. The representatives of other countries felt that such an approach would not advance the agreed objective of restoring multilateral world trade and the Conference was therefore unable to support it.

All Commonwealth Governments agreed, however, to co-operate with the United Kingdom Government in an approach to the other contracting parties to the G.A.T.T. to meet particular difficulties arising on the United Kingdom tariff. The object would be to enable the United Kingdom, consistently with the basic provisions of the G.A.T.T., to continue the duty-free entry for Commonwealth goods notwithstanding any increases that might from time to time become necessary in duties designed to protect domestic industry and agriculture in the United Kingdom. The Commonwealth Governments also agreed to consider sympathetically certain special tariff problems affecting the Colonies.

#### INTERNATIONAL ACTION.

17. Resolute action in accordance with the conclusions recorded above will in itself do much to strengthen the economies of the sterling Commonwealth countries. But this is not enough. Action in a wider sphere is also necessary. The Conference therefore agreed to seek the co-operation of other countries in a plan to create the conditions for expanding world production and trade. The aim is to secure international agreement on the adoption of policies, by creditor and debtor countries, which will restore balance in the world economy on the lines of "Trade not Aid" and will, by progressive stages and within reasonable time, create an effective multilateral trade and payments system covering the widest possible area.

18. *Trade.*—The plan envisages positive international action for the progressive removal, as circumstances permit, of import restrictions imposed for the purpose of bringing a country's external accounts into balance. Action will be required by both creditor and debtor countries. The rate of progress in removing discrimination will depend upon the advance towards equilibrium between the United States and the rest of the world.

19. The sterling Commonwealth countries will not all be able to remove restrictions at the same time. In particular, the representatives of some countries have emphasized that they must continue to use their exchange resources in the manner which enables them to carry out their planned development programmes most effectively, and that they are likely to continue to need import restrictions for this purpose.

20. *Finance.*—The Conference agreed that it is important, not only for the United Kingdom and the sterling area but also for the world, that sterling should resume its full role as a medium of world trade and exchange. An integral part of any effective multilateral system is the restoration of the convertibility of sterling, but it can only be reached by progressive stages. The achievement of convertibility will depend fundamentally upon three conditions—

- (a) the continuing success of the action by sterling Commonwealth countries themselves, as outlined above ;



(b) the prospect that trading nations will adopt trade policies which are conducive to the expansion of world trade;

(c) the availability of adequate financial support, through the International Monetary Fund or otherwise.

21. *Procedure.*—It is proposed to seek acceptance of this plan by the Governments of the United States and of European countries, whose co-operation is essential, and to work as far as possible through existing international institutions dealing with finance and trade.

22. The timing of the successive stages of this plan cannot be decided at present. This can only be judged as the necessary conditions are satisfactorily fulfilled.

23. *Conclusion.*—The Conference is happy to be able to present this account of the confident understanding which exists between members of the Commonwealth and the wide measure of agreement which they have been able to achieve over the whole range of economic policy. The aims of their co-operation are entirely consistent with their close ties with the United States and the members of the Organization for European Economic Co-operation. The Commonwealth countries look outward to similar co-operation with other countries, not inward to a closed association. It is their common purpose, by their own efforts and together with others, to increase world trade for the mutual benefit of all peoples.

London,  
December, 1952.