ECONOMIC SURVEY

STATEMENT BY THE PRIME MINISTER

Strict Embargo; - not for broadcasting, Cabling or publication before midnight on Sunday, 21st February, 1960.

Last week Cabinet made a general survey of the Australian economy. This is something we do at fairly frequent intervals. The previous occasion was just before Christmas. We always have before us a great deal of information on employment, production, consumption and investment expenditure, costs and prices, external trade and payments, monetary conditions and so on. After studying all these factors, we consider what, if anything, the Government should do to influence the situation in one way or another.

We find a good deal in our current position that is favourable and encouraging. The employment situation is particularly strong. Industrial production continues to rise. Although there has been drought in South Australia and some other areas, rural output will, as a whole, be quite high. We are having a good export year. It looks as though the total value of exports will be well above £900 million. More imports are coming in and helping to increase the supply of goods and materials.

But there are other tendencies which are perturbing. The most serious of these is the rise in costs and prices. In some degree this has been going on for a considerable time, but in recent months it has become faster and it is now decidedly too fast. Our aim - we believe the aim of everyone and not only of the Government - must be to slow it down and bring it to a halt. We say that unequivocally, because we reject the view that a rise in prices and costs is harmless so long as it keeps within "reasonable" limits. We believe that, on all counts, we are better off with a stable level of prices and costs.

The rise in prices which has occurred has been due principally to causes within our own economy. For a long time past, import prices have been virtually stable. Export prices, it is true, have risen during recent months and this has probably helped to raise the local price of some articles. But in the main it has been a process of adding, one on top of the other, a great many particular increases in wages, profit margins, charges and the like, some large, some small, but all contributing to a general upward movement that has grown faster as it has gone on.

Some people describe recent developments as costs inflation in contrast to so-called demand inflation.

But demand has had its influence as well as costs. Up till a few months ago it was possible to say that overall supply and demand were more or less balanced. Both were increasing but apparently at about the same pace. More recently, however, it has become evident that, although supplies are still increasing, demand has started to race ahead. Various factors have contributed to this - the rise in export income, public authority spending, private capital expenditures, capital inflow and so on. The combined effect of all these is now capped by the wages and margins decisions. The Basic Wage increase is estimated to add £65 million to total wages and salaries; the margins decision a further amount not far short of £100 million. These increases both add to wage costs in practically all industries and trades. They also add to demand for goods and services of most kinds.

Along with this rising trend in costs and prices and in demand, there has also been a growth in the liquidity of banking and monetary conditions. It is of course a product of some of the factors which have caused incomes and expenditure to rise, and its effect is to assist and encourage those tendencies.

Therefore, it has become quite evident to us that some counter-acting measures should be set in train.

FIRST: As I have said, it is vital to build up resistance to the rise of costs and prices. This cannot be brought suddenly to a stop; but there must be increasing pressure against it. Especially must we avoid further large additions to the elements which enter into costs, and it is with that idea in view that the Commonwealth has decided to intervene in the current Basic Wage Case before the Commonwealth Conciliation and Arbitration Commission. As we have often made clear, it is not our policy to oppose wage increases as such; but our strong present belief is that, having had two major wage increases within a period of a few months, the economy needs time to absorb them and to restore the equilibrium between supply and demand which has been disturbed. That is essentially the point of view we will be putting to the Arbitration Commission. We are doing this not in any spirit of opposition to the claims of wage earners, but because we believe it to be in the best interests of the economy as a whole and of all people in the community, including wage-earners.

SECOND: We had before us up-to-date figures on the budgetary position, and we went very thoroughly into them. We also gave some thought to prospects for next financial year and discussed broadly what should be the aim of policy in the light of conditions we see developing. The next Budget is of course some months off and it is difficult to have any very exact picture of what revenues or expenditures may be or of the likely context of economic conditions. Just the same, it is very important to think of these matters well in advance because they are necessarily affected to a considerable extent by what happens during the intervening months. In the current year we have budgeted for a deficit. But in the circumstances I have described, we propose, for the new financial year, to do all in our power to avoid any deficit finance.

THIRD: Monetary conditions, as I have said, have been exceptionally liquid and have tended to become more so as the year has gone on. The Reserve Bank of Australia, which has a special responsibility in these matters, has been taking action by way of calls to Special Account, and, since the change-over in arrangements, by increasing the reserve deposit ratio , to ensure at least that the liquidity of the banking system will not be increased during the year. The Government is very much in accord with and will support the policy of restraining the growth of excessive liquidity.

FOURTH: Along with our review of the internal economy we have this week examined our external trade and payments position. It is one of considerable strength. Whilst imports have risen, exports have risen still further. We have had some success in borrowing abroad, and there has evidently been a quite large inflow of private capital. As a result we now hold considerable reserves of gold and foreign exchange and we have, in addition, our quota in the International Monetary Fund which was increased last year to 300 million dollars. This may be regarded as in the nature of a second line reserve.

Over the past couple of years we have relaxed import restrictions by successive steps and this, I am certain, has been all for the good of the economy. We have now decided to move to a position in which, as nearly as possible, imports will be unrestricted except by the Customs Tariff. It will be necessary for a time to retain some licensing arrangements on certain commodities to meet the special problems arising out of existing commitments, but that will be all the restriction that remains.

My colleague, the Minister for Trade, Mr. McEwen, will shortly announce details of what is to be done. May I recall that when, in 1952, the Government first imposed restrictions on imports, it gave an undertaking to remove them whenever our external position should permit. We have been through some fairly difficult times since then but we have always kept that undertaking steadily in view and we find it very gratifying now to have been able to come so close to fulfilling it completely.

We see these several policy decisions as a broad programme intended to provide strong and increasing resistance to those forces now operating in our economy which are tending to throw it out of balance. We feel the situation requires firm and steady pressure of this kind rather than abrupt action. Much that is going on in industry and trade and construction is undoubtedly sound and beneficial. We do not want to check or impede this. What we do want, however, is a restraint on certain developments, such as the price and cost movement, which have been tending to get out of hand and which could, unless counteracted, undermine our stability.

CANBERRA,
21st February, 1960.