

ECONOMIC POLICYStatement by the Prime Minister, the Rt. Hon. R.G.Menzies

We have been closely examining, in Cabinet and Committee, the effects, so far, of our Economic policy measures. We have also given much attention to the drive for exports, some general aspects of which I announced at the beginning of January.

We see no reason to alter the substance of our policy which we knew would be, in the short run, unpopular with many people but which we believed, and believe, is in the best interests of the nation. Credit was too easy, and an inflationary boom was under way. Credit therefore had to be restricted so that stability might be restored. The effects of the boom included an increased demand for imports, while our export income, so dependent on primary products, remained somewhat depressed. This, I should point out, is not because primary production has fallen; on the contrary, it has increased. But the "terms of trade" have moved against Australia very significantly since 1953. By that I mean that the prices of imports, as contrasted with the prices of exports, have not fallen, so that the imports we can buy for a given quantity of exports have been reduced. If our terms of trade are taken as an index figure of 100 in 1953, (itself a relatively normal year) the figure today is 65. This, which is beyond our control, since we cannot fix the price paid by the world for our exports, is at the root of our present problem. The terms of trade have moved against us more than against almost any other country in the world. In the result, our overseas reserves, vital to our activities as a great international trading nation were (and are) falling at too rapid a rate. We have been living beyond our means internationally, with the result that reserves are being drawn upon to meet current business payments. This is not good business, as every business man knows.

Another element was the increasing resort to high interest borrowing outside the banking system, for hire purchase and other financial transactions. This growth (which has mushroomed in the last year or two) had two undesirable by-products.

First, it increased the burden on the taxpayers, because these high interest payments were treated as business expenses; which meant that up to 40% of the interest was being met by the Treasury, i.e. by other taxpayers.

Second, it attracted money away from Savings Banks and public loans by outbidding in interest rates. This has meant that we have not been able to get from the loan market all the funds vitally necessary for national development in power, water supply, transport, schools, housing, and the like, with resultant burdens upon taxpayers (who are, broadly, the adult population of Australia). In this current financial year, no less than 65% of the cost of capital works, both Federal and State, is being met out of Commonwealth taxation revenue!

We tackled this matter by some variations in bank interest rates, and by measures to prevent these high outside interest payments from being fully deductible for Income Tax purposes.

We know that there has been much criticism of, and some uncertainty about, our particular measures. At an early

date we will resolve this uncertainty by substituting for what we announced as a temporary and somewhat arbitrary measure, a new law on deductibility. I have reason to believe that the new proposals, which the Treasurer will announce in due course, will go a long way towards meeting reasonable and constructive criticism, while not conflicting with the Government's policy objectives.

In order to assist the loan raising which governments must have if the nation is to grow, and if private enterprise is to have proper foundations on which to build, we announced policies in relation to Life Assurance Societies, Superannuation funds, and the like, (which enjoy great taxation benefits), requiring them to subscribe to Government and semi-Government Loans 30% of their funds. Since our announcement, useful discussions have occurred and certain modifications of our proposal have been worked out. These will be announced by the Treasurer. They will, I believe, be widely acceptable.

In all these and allied matters, it is necessary to make it clear that while we have adopted policies of some severity, we are maintaining a close watch upon results, particularly in the field of employment. That there should be some falling off in employment in the motor car industry, a falling off from a very high peak in 1960, is inevitable; for one of our designs was to reduce inflationary pressure in that section. This must involve some changes in employment, but is not designed, over all, to produce unemployment, which it will be our constant care to resist.

To sum up on these matters, we are conscious of the harm that can be done by the existence of uncertainties in the business world in relation to deductibility of interest and the investment policies of life assurance and superannuation schemes. These uncertainties will be resolved by the Treasurer's statements which I have foreshadowed.

There are four other matters of considerable importance to which I will now refer.

1. The impact of credit restrictions upon the motor and allied industries, and the financial bodies associated with them, is already considerable. We imposed additional Sales Tax on motor vehicles as a supplementary means of securing an effect which would help to reduce the run down in our overseas funds. Close examination has satisfied us that the present psychological effect of an increased sales tax which many possible buyers believe not likely to endure beyond the next Budget is a bad one. It serves to induce a postponement of demand which aggravates the effect of credit measures and therefore tends to hit the motor industry more than we would desire. We are satisfied, on the evidence, that our other measures will achieve nationally satisfactory results. We did not impose the extra sales tax for revenue purposes, but as a deterrent. As our own judgment satisfied us that this added deterrent is now unnecessary and probably produces undesirable results, we have decided to repeal the added sales tax, effective as of the commencement of business tomorrow, 22nd February. Amending legislation will be submitted to Parliament at the first opportunity after Parliament resumes, to reduce the Sales Tax on motor vehicles to the rates payable prior to the increases announced on 15th November, 1960.

2. There is a good deal of speculation about a possible re-introduction of import licensing, and some speculation about a devaluation by changing the exchange rate.

It is therefore necessary to state that we have no

intention whatever to restore the import licensing which was abandoned, or to alter the exchange rate.

3. We have been working on practical measures to increase our export income. This is especially important in the field of exports of manufactured goods. We have had the great advantage of consultation with representative business men on the immensely difficult question of tax incentives. We are to receive from them, in a few days, further material which will assist us to make decisions.

We have also devised specific proposals for increasing our overseas sales by new promotional means, particularly in the Middle East and South America, in which areas we see very worthwhile opportunities. Our proposals relate to Trade Commissioner services, sales campaigns, and adequate shipping arrangements. They will be stated in detail by my colleague, the Minister for Trade. We have expectations of solid success.

The promotion of the tourist trade is also essential, and holds promise of increased earnings from overseas. In January we made increased grants to the Australian National Travel Association, and asked it to submit a programme designed to ensure that tourist earnings are expanded as quickly as possible. The Association estimates that Australia earned £12½m. in overseas exchange from this source in 1959, and that substantial increase is possible by 1963.

The financial measures to be adopted by us will be decided when the recommendations of the A.N.T.A. are received and considered.

4. Our economic measures were not lightly adopted, and must, in their substance, be maintained until an adequate impact is made upon the twin problems of internal inflation and an excessive drain upon our overseas funds. This clearly involves the conclusion that we cannot, during 1961, provide large additional amounts from the Commonwealth Treasury, i.e. out of tax revenues, for public works additional to the great works now in progress. But this does not mean that, in a period when we are aiming at a restoration of stability, we are losing sight of the continuing need for further national development. As the history of the unhalting national progress of the last 10 years has shown, national growth and development are our grand objective. We hope, therefore, that 1962, will see further steps forward. We have had under particular and sympathetic consideration such large enterprises as :-

- (a) Road development in the North, including North and West Queensland, the Northern Territory, and the North of Western Australia.
- (b) Improved port and loading facilities for the development of the Coal Export trade.
- (c) Standard Railway gauge work from Broken Hill to Port Pirie including a modified interim proposal recently advanced by South Australia for diesel locomotion as a first step.
- (d) The Western Australian Scheme for Railway gauge work in aid of the establishment in collaboration with the B.H.P. of an iron and steel industry in that State.
- (e) Ways and means of further stimulating the search for oil, and minerals generally.

There are other productive schemes; but those I have mentioned are at present prominent in our minds. The carrying out of any one of them, in most cases by the State concerned, will require consultation and co-operation by us with State Governments and, where necessary, the devising of financial arrangements fair to both parties.

So that, when circumstances permit, there may be no avoidable delay, we now say that we are prepared to do what we can to facilitate prompt detailed planning of the works I have indicated, so that future performance can be assisted. To this end we will put ourselves into touch with the relevant State Governments at an early date.

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CANBERRA,

21st February, 1961.