

LIBERAL PARTY RALLY, CITY HALL, BRISBANE

21st June, 1961

Speech by the Prime Minister the Rt. Hon. R.G. Menzies

Mr. Chairman, Mr. Morris, parliamentary colleagues and ladies and gentlemen:

For some time now, in spite of comments to the contrary I have thought we were right in what we have been doing. Two nights ago in Townsville, Townsville not being served with television but with broadcasting, I listened to my distinguished opponent, the Leader of the Opposition making what I thought was a singularly generous and powerful speech in my favour. And that encouraged me very much. But tonight, looking at this remarkable meeting, I confess to you that I am utterly certain that we are right; and that we will form the next Government in Australia. (Applause)

In spite of the fact that I have had a lot of experience, good, bad and indifferent, frankly I did not believe that you had not made a mistake in taking the City Hall for the opening meeting of the Convention, because I have many happy memories of this hall - I've been counted out most scintifically in this hall (Laughter) I've been enfiladed by gentlemen who not only disapproved of my politics, but of my ancestry (Laughter) - and I thought "This is a gamble; what a risky thing this is to do, to take the City Hall because even if it has 1500 people in it, it will look half empty." Now that's a very grim expression, "half empty", because when my friends of the newspaper press are in favour of the man who has 1500 in a hall that will hold 3,000, they say "This vast hall was at least half full." (Laughter) But when they are not so much in favour of him they dwell on the fact that it was "practically half empty". (Laughter) I think I understand that - that's very good colour. But tonight I must say that, even in my heyday, I can't remember a finer crowd, a greater crowd of people in this hall than you have tonight.

I've just been up in the north and for those of you who, in spite of the intensely depressed state of the economy, still have a television set, may have seen a rather dreary looking old fellow on it tonight at a quarter to seven. I looked at it; I thought it was terrible. (Laughter) But my wife who, being a wife can detect a husband's faults quickly, thought it wasn't bad. But at any rate those of you who saw it, and listened to it, will know that not for the first time in my life I have been excited about a visit to the developing areas of this most developing State.

It's no mere piece of humbug on my part to say that I believe, I really believe, we ought to get over the problems of the week or the month if we can, occasionally, and have a look at the future of this country, our country. If we do that, then, in my opinion, we will all increasingly look north, not just because of some theory that we ought to have more people in the north for some reasons of defence, or something of that kind, but because in the northern part of Australia we have at least two, and probably more, of the greatest potential developing industries that this country will stimulate, and from which this country will benefit in the next 10 years. Minerals - I must be a little alliterative on this matter, I was going to say "minerals and cattle" - minerals and meat. And there is no doubt about it that in spite of the fact that the tasks are enormous, this country is going to see a development in its north which I believe will be exciting to people all over Australia. (Applause)

But, Sir, a little time ago I thought perhaps one ought to say something to people about the policies that we are pursuing and the reasons for them, because sometimes they are shrouded in mystery, I know. So I gave myself the pleasant exercise of writing down questions which I was going to answer myself. Now that, of course, is a cross-examiner's dream, isn't it? Write the question down; and then write the answer. Having thought about that, and having realised that it had been done before I decided "Well I'll put down questions quite bluntly, as I know people are putting them to us".

Tonight I thought I would talk to you about some of them, because, after all, you are the core of Liberalism in this State and you must have been troubled by questions; and sometimes, for all I know, you may have found it difficult to answer them to your own complete satisfaction. So I thought it might be a little helpful to all of us. You don't need to be converted to our cause, but perhaps you do need to be strengthened in our cause, to be made more effective in our cause; because our cause is the cause of Australia. So I will take a few of these questions - it depends entirely on the clock as to how many I deal with. And not only on the clock, but on your patience.

I have heard this question put: "Well what would have happened if the Government had not taken these unpopular economic measures? Wouldn't the boom have faded away quietly on its own account, and no harm done?" Now this question is put by people who know that in 1960 we were having a tremendous boom and it wasn't without interest to me, two night ago, to find that our opponents agree, because the Leader of the Opposition, Mr. Calwell, agreed that there was a boom and that something had to be done about it. The difference between him and me is that his idea for curing the boom of 1960-61 is to have a referendum on the Constitution in '62, or '63, which doesn't seem to me to be tremendously relevant to the problems that we are dealing with.

But there was a boom. There was a boom which was leading to a high degree of inflation, to a high stimulus in costs and prices. I hear a great deal about housing, very properly so - it's a great problem. But in the boom conditions of 1960 every house was costing more, every block of land that somebody wanted to buy on which to build a house was costing more. There was a high degree of speculation going on. There was an under-supply of labour. We easily forget it, but there was a great shortage of labour in 1960, and the result was that people "bid-up" for the labour they wanted, for the resources they wanted. I don't need to tell you, for example, that the Australian iron and steel industry is at least as efficient as any corresponding industry anywhere in the world. Australian steel could be exported, profitably, to the United States of America. This is the proof of the efficiency of our industry, of its management, of the people who work in it. And yet so great was the demand on our resources in this tremendous boom of 1960 that instead of being exporters of steel, we became importers of steel. The Australian steel industry could not satisfy the demand. So we were importing at that time, and before it, many millions of pounds worth of steel every year - this in a country that can produce steel as cheaply as we can. Of course all that had its effect on our balances of money overseas, on our international solvency, because if your reserves overseas keep running down, then you are going to get into trouble. Therefore, perhaps, I don't need to labour the point that there was a great boom.

Now, Sir, booms don't come to an end on their own account with satisfactory results for ordinary people. I was

born almost in the middle of the 90's - this is a remote period of antiquity that is beyond the understanding of some of you here tonight - the middle of the 90's, right on top of the great boom of the 90's, which was a land boom, and the great Bank smash of the 90's, which followed it. And there were people for the next 10 years in Australia who lived in straitened circumstances because a boom had happened and a boom had burst. I accept no responsibility whatever for the well-being of speculators, none whatever. If they bring it off, well good-luck to them; and if they don't I've no feeling for them whatever. (Applause) People who gamble on the affairs of the community are not my concern.

But I have an irremovable obligation, so long as I lead this country, to people who can be the victims of a speculative boom, and who can suffer from a crash of that boom. It would have been a monstrous thing for any Government to say "Well let the boom run its course. If we do something about it we'll hurt somebody; that will be very unpopular." If we think there's a boom in the motor car industry - as there unquestionably was - and we do something to damp it down, then there will be somebody in that industry who will say, "Look what they have done to me". I understand that, I understand that.

But my business, and your business, is to look for the good of the great majority of the people, to be willing to impose discomfort or inconvenience, or some sacrifice on people who are benefiting from the boom if the result is that the boom is brought down to a normal state of affairs in which people of modest incomes, people of fixed incomes, can feel that their money is worth what it appears to be worth.

There is another aspect of this matter, I don't want to labour it unduly, and that is that a boom in Australia gives rise instantly by some of the black magic of economics to an enormous demand for imports into Australia. When wages have been pushed up to premium rates, when there is a shortage of labour, when all these boom conditions obtain, then people want to buy more goods than they ever bought before. And there is a limit to what they can buy out of the production of their own country. So more and more imports come in; added to which, if I may say so to you, there is a certain amount of snobbery about buying. I was talking to a manufacturer, a comparatively small manufacturer in my own electorate recently, a good man who has built up a business and he was able to produce two articles to me, one made by him in his factory, and another one imported from the United States of America. They were of the same material and they were identical in design and in quality. But the American one could be sold in the shops at almost twice the price of his. You know there's a lot of that, isn't there? A tremendous lot of it.

Whether that is so or not - and I believe it is so - the fact is that in a boom condition the demand for imports grows at the most phenomenal rate. There must be quite a few people about - you meet them don't you? - who think that there is no trouble about that: if you want an imported article you pay for it at the shop. The process begins there; it doesn't end there. Because the fellow who sells it to you has to pay for it. If he has bought it from an importer, the importer has to pay for it overseas. So he is drawing money from overseas for these imported goods; and the money is the product of what we have sold overseas - whether it is wheat or meat or wool or butter or whatever it may be - plus what we have been able to borrow overseas on capital account. We refer to this balance sometimes as our "balance of payments" and sometimes as our "overseas reserves". But if you run them down too low by an

uncommon spate of buying of imports, as we were doing in Australia, then you know you can get to the point at which you can't pay for your imports. That is a stage we have never reached; that is a stage we are never going to reach while we are in Government. We are not prepared to contemplate an international bankruptcy on the part of this country. Nobody need imagine it for one moment. Therefore when you find this tremendous boom and this tremendous demand for goods something has to be done about it if worse things are not to happen to the great majority of the people.

I said something about housing. Perhaps I ought to add that these conditions in 1960 were lifting the price of the building allotment, lifting the price of the house that was to be built, lifting the price of the goods to be put into the house, whether they were refrigerators or washing machines, or any of what the economists in their delightful jargon call "durable consumer goods". Lots of people didn't know they were going up in price because they would say, "You know we can get that refrigerator for 17/6 per week" - nobody knows how long, how many weeks - but "it's 17/6 a week and I think we could afford that". And so it goes on.

Under this boom of consumer credit, under the enormous development of hire purchase, in itself a most useful arrangement, people were incurring debts in a boom which, in a burst after the boom they would never be able to honour. That doesn't please me; and I hope it doesn't please you. I wouldn't want to see a boom that was followed by a burst which led to an inability on the part of hundreds of thousands of good decent hard-working people to honour the obligations they had entered into in relation to house or home or equipment.

Therefore, Sir, we regarded it, and I am sure that on reflection the people of Australia will agree with us, as imperative that we should take steps to get rid of the boom and bring matters back to a position of some normality. When we did that we weren't unaware of the fact that we were about a year off an election; we weren't unaware of the fact that you don't win an election unless people vote for you; we weren't unaware of the fact that policies to get rid of inflation are always unpopular in the short run because they restrict the activity of a number of businesses, and of a number of people. But we thought our decisions were designed to save very many people from grievous disaster.

I would like you to look back over the last almost 12 years now. We have had two or three of these relatively minor economic crises and each time our popularity rating has sunk almost to the floor. I can remember at the end of 1953 or the middle of 1953, being told by staunch supporters, candid friends "You're sunk. You're gone. The Government is so unpopular it can't recover". These are the encouragements that one's friends heap on one under these circumstances. But we did recover. And we won. At the last election in 1958, in spite of it all, and the prophecies of gloom, we came back with the largest majority that any Government has had in the history of the Commonwealth. (Applause)

The great thing on these matters is never to be afraid because there is some unpopularity attaching to what is done, to get rid of fear, to cast it out. The great thing is to have a belief in the people of Australia, which I have profoundly deep down in me, a belief that this is a nation of honest, decent people who respect firmness, who respect what they believe to be intelligence, and who are honest and are not looking for some cheap advantage. We must have faith in ourselves because we have faith in our people.

Now, Sir, I have taken a very long time to answer that particular question so I had better turn to the next one, because this is a very popular one. I have had this put to me by great friends of mine and I understand why they put it.

One of the things we did early last year - there were certain exceptions in relation to Japan and so on - was to get rid, in substance, of import licensing. Import licensing, may I remind you, was never devised as a protective measure. A lot of people thought that it was. I myself, at least 10 times a year made it quite clear in public statements that it wasn't a protective measure. We are entitled, internationally, to introduce import licensing in order to protect our balances of payment, and for no other reason. If an Australian industry is to be protected it ought to be protected by the tariff; and the tariff board is there to investigate whatever claims may be made. This is the traditional, sound method of protecting Australian industry. But when we took off, in substance, import licensing, which had already half disappeared over a course of years, we were at once accused of having left Australian industry naked to its enemies.

Therefore, perhaps I ought to tell you one simple fact. You've heard people say "But, you know, you removed import licensing; we have a flood of imports now. This seems to be the wrong thing". And when one of my interlocutors comes to me and is in a picturesque mood he'll say to me "How can you justify importing into Australia frogs legs in aspic?" Well in the way of justifying that matter I can remind them that only lunatics eat frogs' legs in aspic! (Laughter) I suppose about £200 worth of these ridiculous things have come into Australia.

But putting those silly little things on one side, here are the facts. Since February of last year, taking the year 1960, after the lifting of import restrictions, £241m. more of imports came into Australia, £241m. more as a result of the lifting. Of the £241m. £190m. consisted of raw materials for Australian manufacturing production, plant and equipment for Australian production, and for Australian transport. Some 82% of all these added imports were things calculated to improve production and distribution in Australia. I occasionally think that if we hadn't lifted the import ban I might have had other deputations containing some of the same people who would say to me "You're depriving us of the raw materials we need in our industry".

Now I'll come to the favourite charge, one you've heard made many times. I wrote it down in this way: "But the Commonwealth Government changes its policy so frequently that people are bewildered. They don't know where they are for more than a few months. What do you say about that?" Now that's a fair question isn't it? I haven't watered that one down have I? I've heard about it; I've heard it put to me - chopping and changing, start and go. Now I want to say something to you about this.

We have not at any time changed our policy - you must distinguish between the policy and the way you give effect to it. The broad policy of the Liberal Party has not substantially changed in the last 12 years; but we have had to deal with an enormous variety of changing circumstances. The application of our policy to these matters has, I think, been employed to the considerable satisfaction of the people of Australia. The policy is one thing; the way you give effect to it is another.

Now our policy - let's get this clearly in our minds - is to produce economic stability - not boom and burst - economic

stability as the foundation for national development. Every new building must have a firm foundation. Building this new country of ours, with all these enormous opportunities - you see them in your own State, in Queensland - we can't develop these resources without having capital to our hands, because all these things take great investments. How are you going to get capital to your hand if your economic position is one of instability, if inflation goes rip-snorting along? Do you suppose that people in other countries who entrust Australians with a great deal of their capital, would do it if the finances of this country were blowing around like those of a South American Republic? Don't believe it for one moment. Whatever some of my opponents may say about these matters, the people who count around the world have the greatest belief in what we are doing, and in the object that we have to maintain a stable foundation for a great Australia.

We were told, not so long back, a few months back, before the end of last year, that all these strange measures we were taking would disturb people overseas, that we were ruining our prospects of getting investments into Australia. The answer is that in 1960, the boom year, we had a record amount of investment in Australia. But in 1961, the year in which we are told that the economy is wrecked, we are having a bigger investment from overseas than we had last year. (Applause) I don't want you to think that that is just a matter of Government borrowing, I'm not talking about Government borrowing. You may think that some plausible old boy like me can go away and borrow a bit of money on the public account - perhaps I can, I don't know, but I've done it a bit in my time. But I'm not talking about that. I'm talking about private capital investment in Australia which now amounts to hundreds of millions a year. If we didn't have it our balances of payments problem would have become completely hopeless of being contained years ago. Why do we want this money? I know that there are those who say "It's a very great mistake to let foreigners get investments in your own country". Well let me tell you this, or remind you of it.

Australia has an increasing population that nobody dreamed of once. We have a large immigration programme. We are today, what, 10½ millions? At our present rate of advance many of those in this hall tonight will see a population of 20 millions in Australia. More and more as time goes on this is becoming a considerable country in terms of human beings. But it happens to be a country roughly the same size as the United States of America. It has resources of many of which as yet we know nothing. We haven't found oil yet, effectively; but I have yet to meet a knowledgeable man who isn't confident that we will. The indications are all there. We used to think of the north as a dry and very arid country. We knew that we had some lead and zinc at Broken Hill and we knew that we had great coal resources on the east coast of Australia and so on. We've only just begun to realise in Australia, haven't we, the immense resources that have been unearthed of uranium, the tremendous resources of bauxite, with all the prospects of aluminium industries in the very, very near future. The more the geologists go out, and the geophysicists go out, the more the mineral wealth of Australia will be tapped. But you can't tap it without enormous investments, not only of skill, but of money. Ten million people can't produce all the capital that is needed to develop a country that may hold 50 or 60 millions when it is developed. This is elementary common sense.

Therefore we, as a Government have always been in favour of people investing their capital in Australia, producing employment for thousands and thousands of people. Making profits? Yes. But bringing to Australia something without which we would become a stagnant community. If our policies

were as silly, as changeable, as some people think I don't imagine for one moment that the hard-headed people in the United States, in Great Britain, on the Continent, would regard Australia as the greatest field for investment that is now open to them outside their own countries.

That is our policy - stability, development. But we have, of course, changed the applications; even since November of last year we've made changes. And people have laughed and said "There you are, they don't know their own minds". May I remind you of this: every change that we have made since our announcements of November, 1960, has been in the direction of softening the severity of one of the measures announced in November. Didn't we make it clear at the very beginning that we weren't putting these things on for fun; we weren't having a credit squeeze for fun; we weren't having increased sales tax for fun; we weren't doing what we were doing about deductibility of interest in Company transactions for fun? We were doing it to quell a boom, and, that as we succeeded, these measures would be relaxed. That is exactly what has happened.

Take the motor car industry, a very important industry. We started off in November by doing two things: first there was the general credit policy which involved through the Central Bank, the Reserve Bank, a tight control of advances policy; and second, we increased sales tax on motor vehicles by 10%.

By early this year it became clear, on the evidence, that this was having a double effect. A lot of people were saying "Well we won't buy a car yet, the Government can't keep on the extra sales tax in election year when it is producing a Budget, let's wait four or five months and we'll get it without the 10% tax". It was therefore quite clear that there was an undue sag in the demand for cars and motor vehicles. When this was established we didn't sit there pig-headedly saying "No, we said what we were going to do in November and nothing can change it". We said "That's right, the effect is too great". So we got rid of the added Sales Tax. Somebody says that's a bewildering change of direction. I would have thought it was the obvious logical result of the broad policy that we had announced.

You company men, you take the great problem of whether you can deduct for income tax purposes the interest that you pay on money borrowed, sometimes on very short term, interest deductible before the profit is struck. Quite frankly we thought that this was leading to an abnormal expansion of credit so we said "We're going to limit the extent to which it can be deducted". We brought in a measure that was, I agree, a bit rough and ready, the best that could be worked out at the time; and by the time it operated it had a great deal of effect. Then we had to consider whether that measure which was to peter out at the end of June ought to be replaced by a permanent measure. Quite frankly you couldn't work out a permanent measure that wouldn't produce the most tremendous uncertainty in the business community. Therefore we said "We'll drop it; we won't go on with it after the end of June". Was this a bewildering change of front? I would have thought that every man in this hall tonight who has anything to do with companies, or their management, would have found it a very agreeable decision on the part of the Government; and a very sensible application of its broad policy. Therefore don't let us be too upset about the allegation that we change our minds.



I give you a third example, a very important one. That there were boom conditions in the building industry last year, as I've said to you, is unquestionable, and something had to be done about it. We applied our rules. It became apparent, not in a hurry but by about April of this year, that there was an undue fall in the rate of house construction. We didn't leave it alone. We at once got to work to see what could be done; and what have we done?

I would just like to tell you this because it is perhaps overlooked. In order to restore the level of home building, not to an exorbitant rate, but to a proper and healthy rate, we, the Government of the Commonwealth, were in touch with the Reserve Bank and the Reserve Bank was in touch with trading banks. The trading banks themselves, much to their credit, not being banks that usually lend money to a great extent on housing because it is not a normal banking transaction, have in fact been laying out more money, substantially more money, in the housing field. The savings banks? Why we made an arrangement only a month or six weeks ago which involved the Commonwealth Savings Bank in finding another £5m. on housing over the last three months, or two months. At the last Loan Council meeting last year's State works programme, a substantial percentage of which is paid for out of the Commonwealth Budget, and therefore out of Commonwealth taxes, was maintained and was added to by £10m. of which £6m. in the cut-up is an addition to last year's housing vote. These are large sums of money. You can hardly say that a Government is unconscious of the housing problem if by these direct means it succeeds in putting into circulation £6m. and £5m. and another £3m. on the other item that I mentioned. This is a large sum of money to be going into added operation at this time of the year.

We did that because we weren't particularly afraid of being told that we had changed our minds. We hadn't changed our minds. We were giving effect to our policy, which was to pull the boom down to normal and relax the severity of measures as opportunity offered, and as occasion required.

There is just one other matter that I want to put to you. I had almost forgotten this but my friend, the Chairman, told me last night that this was something I ought to say something about.

Not long ago my colleague, Mr. Holt, the Treasurer, made a statement to the House about a drawing that we had made from the International Monetary Fund. Now I am not going to bore you stiff by talking about these intricacies of international finance, but Australia happens to belong to the International Monetary Fund, we are a subscribing member, we've put a bit of money into it in our day, just as other countries that belong to it have, and we have certain drawing rights. Not a bad idea. If you put a bit of money in the Bank it's rather useful to know that you might be able to take it out when you want it. It's as simple as that. We had drawing rights in the International Monetary Fund, and we made a drawing. Not because we were desperate about our international reserves, but because it is a very good second line of defence if your imports remain high. This was done before imports began to fall, quite recently.

In the course of making our drawing we submitted a document to the International Monetary Fund. I may say that that fund, which is managed by some of the shrewdest and ablest banking minds in the world, were good enough to say that our policy in Australia was, to them, a classical example of the right policy to pursue in dealing with an inflationary boom. So you see - of course they don't have votes in Australia so they



can't help me at the next election - it's rather nice to think that they thought that way. But when you make a drawing you put a document in; and when this document was published in the House, tabled in the House - there was no secret about it - one or two newspapers, I regret to say, or perhaps I should be more particular, one or two rather hurried sub-editors in newspapers, put a flaring headline on the report "Credit Squeeze until June, 1962". Probably some of you saw it. It must have had a very depressing effect on a lot of people. It was quite untrue. The document didn't say that at all. So that there may be no misunderstanding I would like to read to you the two material paragraphs from the document that we presented to the fund. I don't think you will quarrel with a word of them. The first is this :

"Economic conditions in Australia are subject to rapid change" -

as indeed they are in this country of drought and fluctuating wool prices, and what have you -

"and are influenced by a number of external factors outside the Government's control. Policy has therefore frequently to be adapted to meet a shift in conditions. The declarations of policy made here must therefore be understood as applying only to conditions as they now appear. Should any major shift in the direction, or emphasis of policy become necessary during the currency of the arrangement the Australian Government would be ready to consult with the Fund, and, if necessary, reach new understandings before any further request is made".

There's nothing in that, is there, that indicates that we have padlocked ourselves until June, 1962? It's too silly, because since that headline you have seen two or three of these relaxations that I have talked about. Those of you who read the paper and cast a wintry look on the financial columns of the press will have noticed only two days ago the Commonwealth Bank has just made a substantial release, another £17½m. to the trading banks out of the special reserve deposits. This headline was always what they call, in homely terms, "a furphy", and was based, I suppose, on the next paragraph:

"Seasonal needs apart, the monetary authorities" -

that's in Australia -

"intend to keep a firm control over the liquidity position of the banks" -

that's quite right, the Banks would want that, and they do it themselves -

"with a view to limiting during the year ending June, 1962 the amount of outstanding bank advances to a total that would be consistent with the maintenance of financial stability".

Now if that isn't a perfectly good, cold, hard-headed, accurate description of the business of a central bank, then I'm a Dutchman. There it is. It's as plain and as simple as it can be. It's a sound statement of a sound policy. If any final proof were needed of the inaccuracy of this rather depressing headline it would be found in the fact, the undoubted fact, that bank advances, notwithstanding the squeeze that we've heard so much about, are today higher than they were a year ago.

All that, ladies and gentlemen, comes to this. I do ask you to believe, as I know you do, that we don't act impetuously. We do an immense amount of work on these matters. We do know what we are talking about on these matters. Many of us have had years and years of experience, working in the middle of all these problems, year after year. We are not newcomers, we are not novices, we are not theoretical people such as some of those I occasionally hear on the other side. What we have done we have done, I believe, quite rightly. I believe the results are justifying what was done. I know there are aspects of it which gives us all concern. There's rather too much unemployment under the circumstances that now exist. There had to be, no doubt, some transfer of people from one kind of employment to another if you were dealing with a boom.

This is not a permanent state of affairs. This is a temporary phase that we are going through. I venture to say, whatever the result of the next election may be, that not long after the next election, most of us, most of you, most of the people you know, will be looking back and saying, "Well, it was temporary. All that's over. We're back into the stream of normal prosperity. We have a wonderful future in our country, of course we have". I'm not afraid of depression in 1962. I would be afraid of an inflationary boom in 1962 if we hadn't taken the steps that we have taken. But having taken those steps I will go on record, tonight, as saying to you that I believe that 1962, next year, is going to be one of the happiest, most productive, most profitable years, that this country has ever known.

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