

ANSWERS BY THE PRIME MINISTER, THE RT. HON. R.G. MENZIES, TO QUESTIONS AT A CHAMBER OF COMMERCE LUNCHEON

Launceston, 6th July, 1961

Question:

Could I ask the Prime Minister: If the Government is opposed to direct import control what steps will be used to curb the import of non-essentials and thus maintain a favourable balance of payments?

Mr. Menzies:

Mr. Chairman this is a pretty comprehensive question, and perhaps lets me in for a rather longer answer than you might want.

I first of all want to remind you that the quantitative control of imports, such as by import licensing, is available to Australia only to protect our balance of payments. We are a nation and we are parties to international contracts; and we cannot face GATT, we cannot face the International Monetary Fund, we cannot face any of these bodies to which we are contractually engaged, if we use quantitative restrictions on imports except to protect the balance of payments, to protect our overseas reserves.

And that, of course, is one of the dominating reasons why, at a time when our overseas reserves were high and healthy, we did not feel able to continue import licensing and said that we must revert to the traditional and proper practice of tariffs to protect Australian industry.

Now what happened last year was this: that the volume of imports continued at a very high level. Whenever we are well off in Australia - and if I may recall you to these happy events, we have been pretty well off, haven't we, as a Nation? - it reflects itself in the buying of imports. Under those circumstances we had to decide whether we were to deal with that problem, the problem of our overseas balances by quantitatively restricting imports once more, or by pursuing internal financial policies which would tend to reduce the demand for imports. The first was really not lawfully available to us; the second was.

Now I have heard it said by a lot of people, quite a few people, that if we wanted to do the right thing we would restore import licensing, this vague, administrative, protective policy, this protection of Australian manufacturing industry at the whim of a Minister, or an official. We could do that, it was said, and, at the same time, loosen out on what I believe is known affectionately as "the credit squeeze". The answer to that, quite simply, is you can't do both.

I want to have it plainly understood that confronted by a boom in 1960 we had two weapons that we could employ - one was to increase the supply of goods to match the enormous purchasing power. The other one was to back up the action of the central bank, the Reserve Bank, in maintaining a control, a close control, of the Banking policy of the Banks. And we tried both. If we hadn't got rid of import licensing I just want to tell you that credit restriction in Australia would have needed to be much more severe than it was.

If you have two weapons to use in a fight against inflation, and you abandon one, then of course, obviously, you must use the other one more. We decided to use both; and to use both with discretion. And, I think, both with some success. Because in point of fact, Sir,

what has happened about imports? The domestic policies have not been, you know, half as severe as people think - the total of bank advances today is higher than it was a year ago - so don't let's exaggerate these matters by some particular, personal experience. Imports maintained themselves at a very high level in January, fell away a little in February, fell away a little - not too much, not enough perhaps, in March - imports in May and June have come down - from what? - from a little over £100m. in January to £78m. in May, to £74m. I read in the newspapers this morning, in June. The result of that is that our overseas balances, our overseas reserves, are immeasurably more healthy at the end of June than we ever expected them to be in November of last year. So that for better or for worse, for richer or for poorer, the policies, the domestic policies that have been employed, have corrected the balance of payments problem.

I don't need to say to any banker here today, or to any business man here today, that the state of our balances overseas has the most direct impact on the liquidity of the banking structure in Australia. All you need to do is to have your overseas balances come down £100m. a year, £150m. a year, and the Head Office of the Bank will very soon be telling its Branches that "to protect our liquidity in this state of affairs we must begin to call in overdrafts, we must begin to be a little careful about making new advances". These are, after all, elementary considerations. And I am, myself, very satisfied about the fact that in the last two months of this financial year results have been achieved from this unpopular policy - they tell me - results have been achieved which I am bound to tell you are better than I myself hoped for. Of course the effect of that is that so long as we behave sensibly, so long as we pursue moderate policies - not terribly severe policies, but moderate policies over the last 12 months - I would hope that in the next 12 months we would have no problem on our overseas balances at all. That is one big factor in the economic position which, under no circumstances, would be disposed of.

As for the rest, well, we will see how it goes. I am not going to tell any of you, because it wouldn't be true, that we are proposing to re-introduce import licensing; we're not, we're not. I have never believed that import licensing ought to be a second line of protection and I may look any manufacturer in Australia in the eye and remind him that at least six times a year, for years and years, I have publicly stated "This is not a line of protection; this is introduced to protect our balances of payments and it is not to be regarded by any industry as a sort of second protective tariff". And if people don't believe you, well, that's just too bad. It has been said time after time, "If you want good Government, if you want honest administration" - and of course you do - "if you want Australian manufacturing industry, which has achieved such magnificent results in Australia over these years, to be healthy, to look forward and grow in a state of health then let it depend on a protective tariff arrived at through the proper machinery and don't let it depend on the goodwill of a few politicians, or of a few civil servants".

Question:

Mr. Chairman I would like to ask the Prime Minister, leaving the domestic scene for the moment, to say something to us about the implications to the West of the possible signing of a Peace Treaty between Khrushchev and East Germany?

Mr. Menzies:

Well, Sir, this is a very interesting question to me because - how long ago was it? - about 9 months ago, 8 months ago, I had a long private discussion with Khrushchev in New York. This was one of the things we talked about. I wouldn't have you believe that Khrushchev is not incapable of bluff - he's the greatest master of it in the modern world - he's got a nice earthy sense of humour, rather

farm-yard sense of humour, if you simple Launcestonians understand, and his favourite threat even then was, "Well you know unless you are prepared to abandon this position that you have about Berlin I'm going to sign a Treaty, a Peace Treaty, with East Germany; and I'll invite all the people who fought against Germany in the late war". So I said, "that means of course, President, that we will be getting an invitation for Australia to attend?" He said, "Yes, that's quite right, quite right". And I said "The idea will be to have a Treaty with East Germany, and the making of a Treaty with East Germany will mean the permanent recognition of the division of Germany, the partition of Germany?" Yes, that's the position.

Now this is going to give rise to the most tremendous problems. It is very hard for us to know what the Russian mind is: I've seen Old K., you know, with the shoe off, beating on the desk with his shoe. All this rather silly propoganda, which is designed to affect weak-minded people - and, therefore, I am happy to say, has no effect whatever on us - all this kind of guff goes on. But I think that down underneath it all the Russians are afraid of a unified Germany. And of course we are pretty broad-minded people ourselves - we forget and we forgive - but it is still true that twice in this century a powerful Germany has set the world at war. Therefore one can understand this feeling: they are afraid of a unified Germany.

The whole difficulty about it is that they prefer a disunited Germany at the risk of a world war, to a united Germany with peace. And that doesn't make much sense to me; nor, indeed, to other people in a position of leadership in the Western world.

Khrushchev, of course, when the time comes, will put this thing very pleasantly. He will say, "Now we want Berlin to be a free city. We are not claiming territorial rights over it. We want it to be a free city. But there are to be no troops of western communities ensconced in west Berlin. And we will make a Treaty with East Germany". And of course a Treaty with East Germany, from the Soviet point of view, will be like a Treaty with Poland: it will finally incorporate East Germany into the Soviet zone. And the result of that, even in the balance in Europe, would be tremendous. But in the short run, I want to remind you that it is only a few years ago that the Berlin airlift incident occurred. I was in Berlin at that time and I saw it going on - an airlift by which the Western world challenged the Soviet Union - and succeeded - by feeding and supplying West Berlin by air over this forbidden zone. I think that Berlin is no longer to be regarded just as a city, just as an ancient capital of Germany, or the not so ancient, perhaps, but at any rate the capital of Germany; Berlin has become a symbol. If Berlin passes into the hands of the Communist group then this is their crowning triumph in Europe. And these people, when they have a crowning triumph, don't stop there; they decide to look for the next one. This is another great victory in the cold war - cold war meaning a war in which you get all you can without actually discharging nuclear weapons.

In Great Britain I think that that is understood. I am perfectly certain that in America it is well understood. There have been such tremendous achievements of friendship between De Gaulle and Adenauer, as I know as a result of discussions, myself, with each of them, that France itself feels that Berlin is a symbol. And I think we just have to keep our fingers crossed, because I think that K. will bluff and bluff and bluff up to the very point at which he feels convinced that this means a nuclear war. I don't think he wants a nuclear war. But if he finds that bluff pays off and that people will retreat, he may ultimately become so excited by his own advance that he takes the risk. If we reach New Year's Day 1962 with no explosion, great or small, over Berlin, I will be among the happiest people here present.

Question:

I would like to ask the Prime Minister what his opinion is of the possibility of Great Britain joining the European Common Market and the effect that that would have on the sale of our primary products in Great Britain?

Mr. Menzies:

Well, Mr. Chairman, you must not tempt me too much on this matter. When I leave here later this afternoon and go back to Melbourne this is a problem I am discussing with Mr. McEwen tonight, and with Mr. Duncan Sandys tomorrow, and the following day. And of course it is a tremendous problem, tremendous. It has political implications, and it has economic implications, particularly for our own primary industries; and even more for the primary industries of New Zealand.

For two years every time I have seen U.K. representatives I have said, "We must be consulted before you take any steps". And that has been long since agreed to. So the principle of consultation has been established very plainly over the last two years, but so far we haven't had any consultation. But consultation begins tomorrow afternoon - if I see the distance. Whether it will be consultation in the real sense of getting down to brass tacks or not, I don't know. But just so that you will see the general picture, here it is.

It may be that the United Kingdom should have joined the Common Market before it began - you know that is a bit Irish, but still you know what I mean. When the six powers were negotiating the Treaty of Rome it may be that the United Kingdom should have looked forward and said, "Now we must be in this on the ground floor so that as one of the original founders we can negotiate to protect the Commonwealth interests". I think there is an awful lot to be said for that view. But still that is water under the bridge. The fact is that they didn't. The European Common Market has been established.

You all of course know, broadly, what it means: here you have six powers each of them with varying industrial experiences. First, West Germany, thanks to the German genius for work, tremendously flourishing, France rather in the doldrums, Italy a bit each way; and then, as a result of this organisation with free access to the raw materials of each other, with a free movement of labour from one area to another, with, at the end of 12 years of which three have now gone, or four have now gone, a common barrier in customs against the rest of the world, this to produce a community of people rather larger than the United States of America. With all these internal advantages, it is a tremendous thing. The effect, so far, on the strength of the European economy has been enormous. And it will grow, and grow.

And so Great Britain comes along now, rather at a disadvantage, with Europe saying, "Well if you care to join, all right; but of course you sign on the dotted line". And if Great Britain says, "Well we can't sign on the dotted line, we have enormous obligations and advantages out of the Commonwealth structure. We have preferences in Australia which are even more valuable to us than the Australian preferences into the United Kingdom". Because that is true. But from our point of view what a calamitous state of affairs it would be if the goods that we now sell into the United Kingdom, duty free, had to be submitted to the Common External Customs barrier of the European Common Market. So you might be paying 15 or 20% duty on wheat, to take a simple example, into Great Britain.

And this, of course, is a tremendous problem. Can they go into the European Common Market without sacrificing Commonwealth interests? Can they go into the European Common Market on terms which the other six countries don't accord to any other of their members? I would have thought it was rather improbable.

That is why, in the economic field, I regard these discussions, which will open with a few "sighting" shots in my office tomorrow afternoon, economically, as perhaps the most important discussions we have ever had; certainly the most important in my political lifetime. So that is one aspect of it. And I assure you we are not going to surrender at the first blast, or the second, or the third. I know what the interests of my own country are, and they will be pursued and defended. I have the great advantage of knowing the people with whom I am conducting the battle.

But there is a second aspect of this matter and I would like you all to have it in mind; and that is the political aspect. This Commonwealth of ours has suffered a few changes, hasn't it, in modern times? I used to be regarded by people under the influence of a good dinner as a great Commonwealth man. I've got to a stage when I wouldn't be dogmatic about anything connected with the Commonwealth. I think we made an awful blunder at London by butting in on the domestic affairs of a Commonwealth country, a step from which there can be no retreat. But now, what are we looking at?

The object of the Treaty of Rome is not only economic, but political: to strengthen the political unity of Western Europe. Now that is a very fine thing. President Kennedy has undoubtedly been pressing this for political reasons: he wants to have Great Britain in the European community politically, so as to exercise judgment and wisdom and authority, and to maintain that community with an outward-looking eye, instead of being too domestic. There is no doubt about what is in his mind on this matter. At any rate I know what is in his mind on this matter.

But you know in the old Commonwealth - if I may speak with a certain amount of nostalgia - one discussed matters with Great Britain, these were family matters, you talked to Great Britain - not to Great Britain plus X Y Z, but to Great Britain. We knew their mind; they knew our mind. We sat around with the other members of the family and we might agree, or we might disagree; but we all knew in what capacity we were talking to each other. But if the European Common Market is to produce its political fruit, then the political fruit must be political unity in Western Europe.

Unity is an ambiguous word. Italy, and I think Adenauer in Germany, think of it in terms of an integration of the Western European world - one great new Western European community. But Charles De Gaulle who is, of course, a great nationalist, doesn't think of it in those terms; he won't have integration. But he does believe in Confederation - that an independent France and an independent Germany, and an independent Great Britain will all be bound together in a sort of Confederacy of States for the peace of the world.

Now gentlemen I am not pre-judging this matter. It may be a very good thing. It may be that we are living in a twilight world, and that this will be the new dawn. I don't know, I'm not automatically against it. All I am saying to you is that when Great Britain becomes not Great Britain, a single home nation of the British Commonwealth, but a member of a group of European nations with obligations to all the other members of the group, then the character of the British Commonwealth will have sustained its final change.

---