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DECISION ON AUSTRALIAN CURRENCY

NATIONAL TELECAST AND BROADCAST BY THE
PRIME MINISTER, MR HAROLD HOLT.



21ST NOVEMBER, 1967

Yesterday, the Australian Government made its decision to maintain the existing value of the Australian Dollar, following the devaluation of the Pound Sterling. It was an historic decision for Australia - a difficult decision, also - but in a sense it showed that we had come of age as a nation. We are not a large country in terms of population, but we loom large through our international trade. We rank amongst the twelve leading trading nations of the world. At the time we took our decision, we knew that of the other eleven, while Britain had devalued its currency, the remaining ten had decided to maintain their currency values undisturbed. After thoroughly reviewing our own situation, we decided that we should, also.

In the past, Australia's trade has been so closely linked with that of Britain that, when Britain devalued her currency last in 1949, we followed her, so that the relationship between our currency and hers remained unchanged. The situation today is vastly different.

I want to tell you why we made this significant break with the past. The rate of exchange between our Australian currency and the Pound Sterling has been unchanged since 1931, but in that period there has been a transformation of world economic and financial relationships. The Australian Dollar today is a currency in its own right. It has to stand on its own feet and it has shown itself capable of doing so. We have an enviable reputation abroad for political and economic stability. This has helped us to attract much capital and much interest on the part of other countries. But to pursue this independence we have to be strong in our own right.

In other days, Britain was our best customer, and we still remain one of her best markets. But times have changed. We have diversified our trade and strengthened our economy on a broader base. While primary produce still bulks largest in our overseas earnings, and Britain is a principal market, we are diversifying rapidly with our exports of minerals and manufactured goods. In fact, Japan has now become our largest market.

These things had to be taken into account when we took stock of what we should do. We are preserving the existing relationship with other currencies like the United States Dollar, most Western European currencies, as well as those of Japan, South Africa and a number of Sterling area countries.

Because our trade with Britain is still important, some may have thought that we should have followed Sterling down, if not all the way, by devaluing our Dollar against other currencies. But trade and commerce with the countries to which those currencies belong is far greater in total now than our trade with Great Britain, and all the largest of them had decided not to devalue. They took their decisions, no doubt, on a judgment of their own interests. But there was also, I believe, a significant element of international co-operation about it in an attempt to achieve a stronger world economy. They all saw that by devaluing

themselves, they might help to bring about a world-wide run of competitive exchange adjustments which could have caused international monetary chaos.

In Australia's own case, while some of our exporters would have gained a temporary increase in their incomes had we devalued, the long term outlook over the whole area of our economy and our international trading relationships, would have been heavily to our disadvantage. We certainly would not have helped Britain had we followed her down.

There is a mutual interest for us in seeing Sterling regain its strength, and Britain has, in fact, looked to us to do precisely what we have decided to do. In the long term, a growing British economy will offer larger market opportunities for world traders.

In other ways, too, our decision to hold the dollar at its present level avoids incurring long term liabilities. For instance, our indebtedness to the United States is something like \$1,000 million. If we had devalued to the same degree as Britain, we would have added, in effect, \$US140 million to this debt right away. It is true - in the same sense - that we lose something like \$A90 million from our sterling balances, but this is offset by a reduction in real terms of our Sterling indebtedness in the United Kingdom.

It is, of course, one thing for us to take a decision and another thing to live with that decision. But we are in a strong economic position with a comfortable level of external reserves. It was imperative that we did nothing to undermine confidence in the Australian Dollar. We believe that by acting as we have we are protecting the Dollar.

Let me say something of the effect that devaluation would have had on the home front. One likely effect would have been a rise in costs and prices. This would affect every housewife and every wage earner. While we have experienced some price rises, we have been free of serious inflation now for a number of years. There would also have been new burdens on certain areas of our manufacturing industries which would have disturbed the present stability we enjoy, and caused unnecessary difficulties in programmes of development and expansion.

I have said that some of our exporters would gain a temporary increase in their incomes, but the cost of our imports from those countries which have not devalued and all the other payments we make to them would be increased. These additional costs would spread with multiplying effects through the economy.

To arrest inflationary forces, we would have had to adopt strong measures of restraint - tighter money, perhaps more taxation and so on. This is what Britain has had to do.

Domestic inflation is no respecter of persons. It strikes at exporters as well as everybody else, and any gains from higher overseas earnings would have been offset to some degree, and perhaps more than offset, by higher costs at home.

I am sure the decision we have taken is the right one, and indeed the only one which measures up to our long term needs and the standing of our currency in the world today. The fact that we have been able to take up this independent position will, I hope, be a source of pride

to all Australians because it demonstrates the strength of our currency and the sound economic position of the nation.

I do not minimise the fact that there will be problems for many associated with this decision. I do not believe them to be nearly as great, or as numerous, as the problems which would have arisen had we devalued along with Britain. We recognised that by not following Sterling down, some industries who still depend largely on selling their products in Britain could be adversely affected, perhaps critically so. That goes for rural industries producing for export. There are other industries, like wool, which sell on a world market, but whose prices can be affected either by Sterling devaluation or by other measures the British Government has taken. These industries have already been labouring under difficulties due to falling prices, rising costs, drought, or a combination of these factors.

It was apparent to us, however, that since the impact would vary from industry to industry creating a different set of problems for each, the right course would be to study their problem intensively and decide what measures might be necessary in each particular case. The Government is acting speedily on this. In consultation with the Economic Committee of Cabinet, it is arranging for an urgent examination of areas of industry likely to be adversely affected by the Government's decision. We shall look to positive measures to ensure that a proper balance is maintained over the whole range of our economy.

There will undoubtedly be difficulties in some sectors of the economy in the short term. But I am confident they will not be permanent, nor will they be damaging in the long term. I am sure that you, my fellow Australians, will recognise the rightness of what we have done. I am confident that as a people we can meet whatever problems arise during the period of readjustment which lies ahead for some of our industries. These are the responsibilities which fall on us now that we have established a position of independence in the world of international finance and now that we have demonstrated over a considerable period our capacity to maintain a stable and progressive economy at home. We accept those responsibilities gladly, cheerfully and confidently.
