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PRIME MINISTER'S DEPARTMENT CANBERRA
18 DEC 1967
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PM. NO. 135/1967

DEVALUATION : REAFFIRMATION OF GOVERNMENT'S DECISION

Statement by the Prime Minister, Mr Harold Holt

Since the Commonwealth Government decided on 20th November to maintain the value of the Australian Dollar when Britain devalued the Pount Sterling, the effect on Australian industries and the economic outlook in general have been under continuous study.

Nothing has emerged to alter the assessments made at the time of the British devaluation and on which the Government's decision was based. If anything, subsequent developments have strengthened our confidence in the wisdom of our decision. The Government was confident, and remains confident, that in sum, the net direct effects on our balance of payments and on our economy are not likely to be more than marginal. We believe they will, in the long term, be favourable.

We have recognised, however, that some particular industries might be significantly affected in the short term.

Representations on behalf of industries likely to be affected have been made to the Government and are being studied. The Economic Committee of Cabinet, the departments directly concerned with trade and industry, and the industry groups themselves, are also active in assessing effects and are in close consultation.

To ensure that during this period of adjustment misconceptions do not arise and thereby distort the decision the Government has taken and the reasons for taking that decision, it seems desirable to restate the basis on which our judgments have been formed.

My colleague, the Minister for Trade and Industry has suggested that the decision, as taken, was contrary to the traditional and technical indicators. Because of his absence abroad at the GATT meetings in Geneva, my colleague did not have the advantage of participating in the wide-ranging Cabinet discussions, nor did he have the detail before him of the latest appreciation of the likely effects of British devaluation on our own economy.

The facts we faced were that, while Sterling was beind devalued by a moderate percentage, most other countries, including those who have the largest share of our overseas trade today, decided not to devalue. The United States, Canada and the Common Market countries made immediate decisions, and we had the benefit of this in forming our own judgment. We knew that, of the twelve leading trading nations, including Australia, only the United Kingdom had devalued.

In the final result, of 107 countries who are members of the International Monetary Fund, only 16 devalued their currencies. The other 91 countries, which include all major countries of the Western World except the United Kingdom, decided to adhere to their exchange rates.

...../2

We had to see things in perspective. Only 13 per cent of our exports went to the United Kingdom last year and, all told, the countries which have devalued took only 20 per cent of our total exports. Had we followed Sterling, we would have been devaluing against the greater part of the Western World and our principal markets.

Such a step would have been justifiable only if our own domestic and external relations made it absolutely necessary.

There were no elements in our economic situation to warrant this. The economy is sound, and we have a steady growth rate.

While our external reserves have fallen to some extent from the very high level they reached in 1963-64, they are still relatively strong.

Our reserves in gold and foreign exchange amount to $1,070 million. Our drawing rights with the International Monetary Fund total $630 million. Therefore, our total first and second line reserves is $1,700 million.

On a longer view, our balance of payments prospects are highly promising. Our capacity to produce for export is growing rapidly. Developments in mineral production will add greatly to our export earnings. Our export capacity is also being enlarged in other directions, and import saving production is increasing.

We do not foresee any drastic reversal in the general level of capital inflow from abroad.

It has been said that, by maintaining the value of the Dollar, we appreciated our currency. The truth is we neither appreciated nor devalued it.

Since 1948, the Pound value of our currency in relation to other currencies has been established with the International Monetary Fund - as have the Pound values of most other national currencies outside the Communist world.

Most other countries took the same decision. They decided to stay where they were.

What happened was that the United Kingdom was forced into a devaluation of her currency because of a crisis in her balance of payments and her domestic economy. The leading trading nations of the world, including Australia, had no substantial reason to change.

There was no crisis in our balance of payments or in our domestic economy. There is none now.

Devaluation for Australia at this stage would have brought costs and penalties. It would have meant we would have had to pay more for our imports and, in our case, imports mean, very largely, materials for production and capital equipment. To add to their costs means adding to costs through industry, including export industry.

Furthermore, it could have set inflationary forces moving. It could have provided grounds for higher wage rates and for support to industries afflicted with excessive costs.

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These things we did not want to happen. We have a valuable reputation for stability and for good management of our economic affairs. We have no intention whatever of impairing that reputation.

It has been suggested that we face a massive inflow of cheap British goods competing with our own manufactures. This does not stand the test of facts today.

There will be changes in Britain which bear directly on her economy and on the extent of her new export potential. Sterling costs of Britain's imports will rise. Corporation tax is being increased from 40 per cent to $42\frac{1}{2}$ per cent. Export and selective employment tax rebates for most manufacturers will be abolished. These alone, it is estimated, could add 7 per cent to British costs. There is little doubt too, there will be increases in wage costs as time goes on.

The United Kingdom does not have a great deal of surplus capacity for production, and her work-force is more or less constant. To raise export production, resources will have to be shifted from other industries, and this will take time.

Our assessment here is that the United Kingdom will concentrate its export drive on North American and continental markets. We take only about 5 per cent of Britain's total exports, and it is reasonable to expect that, of any additional exports she builds up, only about that proportion will find their way into Australia.

In any case, some 70 per cent. of our imports from Britain come in free of duty, which indicates that largely they represent goods of various kinds which are not produced here.

There was no sound nor obvious justification for devaluation. Had we done so we would have struck at the confidence which other countries have acquired in the stability of Australia, and could have compromised our prospects of attracting a continuous and increasing capital inflow.

The question has been raised whether the International Monetary Fund would have approved an Australian devaluation. Under the rules of the Fund, members must secure approval for any variation in their currency values.

To support a claim for a change, it is necessary to establish a chronic external imbalance which shows no reasonable prospect of correction by increased exports or by reduced imports, or by the imposition of tolerable domestic measures.

We were not - and are not - in a state of economic ill-health. We did not seek approval from the Fund for devaluation. We had no case to make for devaluation, but we did have confidence in the strength of our own currency and the capacity of our economy and the Australian people to adjust to change.

Nevertheless, the Government is conscious that certain industries, which still depend largely on selling their products in Britain, could be adversely affected. It was apparent 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 would be necessary in each particular case.

The Government is doing this now. Until results of its current industry consultations can be weighed, Cabinet will not decide what new machinery, if any, is necessary to give effect to the Government policy, already announced, of giving special assistance in those areas where industry may suffer directly because of the British decision to devalue.

There have been, since the decision on 20th November, a series of talks with industry groups, departments and marketing boards. There is a good deal of information coming from overseas which also has to be weighed in our conclusions as to the future course of action.

What has been done by the Government has been designed directly and deliberately to protect the strength of the Australian Dollar. This is fundamental to the soundness of our economy and our prospects for continued expansion. We are satisfied we made the right decision on every count.

CANBERRA,
12th December, 1967