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Addendum

Statement on the Economy

The Australian Government has transmitted the following statement made by the Prime Minister on 27 September 1955:

On 24 August, my colleague, the Treasurer, delivered his Budget Speech. The prime purpose of a Budget Speech is the outlining of the Government's revenue and expenditure proposals and the announcing of any new proposals in either field.

This last Budget was also accompanied by a careful analysis of the present state of the economy; an analysis which deserves much careful study. When the Budget rejected proposals for reduced taxation or allowances, it did so against the background of a state of prosperity in which can be discerned certain tendencies of a dangerous kind. In brief, it was pointed out that although our prosperity is high and real and, indeed, unprecedented, certain factors are visible which can cause us great difficulty unless they are brought under control.

In the course of his speech, my colleague, in the clearest terms, directed attention to our shortages of labour, rising wages and other cost elements, the substantial deficit in our external trade, a serious running down in our overseas exchange reserves, a much too high level in the demand for imports; a demand due to the fact that internal demand for goods and resources in Australia is far greater than available local supplies, and the excess demand is thus spilling over into the field of imports. He drew attention to the existence of a boom, chiefly in consumer spending and in private investment. He pointed out the impact upon this boom of an over-expansion of credit on the part of the banking system and the rapid growth of hire purchase finance.

These problems have not fallen in magnitude since the Budget. On the contrary, the pressures in respect of most have grown even in the last few weeks. Above all, the wool sales have opened and there has been a substantial fall in the price of wool. This cannot be ignored. Therefore, before he proceeded overseas, my colleague had extensive talks with the Cabinet, and I, myself, indicated to him certain steps which I thought out to be taken notwithstanding his absence abroad. He entirely agreed.

It will, I think, assist the House and the people best, and add to general understanding, if I first of all indicate the aspects of the economy with which I propose to deal in this statement and then indicate the programme of action in the case of each. But even before doing this, it seems of vital importance to establish some balance and proportion in our own minds. Whenever there are economic problems

of critical importance to be dealt with, the first views to be heard are all too frequently extreme and unthinking views. Thus in a time of undoubted prosperity like the present, any proposals to guard against allowing that prosperity to be undermined will be greeted with instant hostility by some people, on the simple view that prosperity can always be allowed to look after itself - "Let's eat, drink and be merry, for perhaps tomorrow we won't die".

The people are, of course, entitled to expect more realism than this from a Government which has such intimate relationship to and so considerable a measure of responsibility for economic policy and the safeguarding of the interests of the people.

At the other end of the scale are those who see in every problem the sure and inevitable signs of disaster. Extravagant views of this kind are likely, in the long run, to do just as much harm by destroying confidence, as does the unthinking over-confidence of the first group.

My Government proposes, as in the past, to pursue a steady course: to be not unwilling to adopt unpopular measures; but to prefer so far as it is practicable an intelligent and willing co-operation on the part of the community to artificial orders and controls.

The Facts of Prosperity

I would not have Parliament believe that the Government is in some curious way worried about prosperity. On the contrary it takes great pride and pleasure in it. Its whole purpose is to and consolidate it. Employment has reached record heights. By June of this year it had risen b[illegible] better part of 200,000 in a matter of two years. The number of persons on [illegible]ployment benefit is now purely nominal. There are immeasurably more vacancies for employment than there are people seeking employment. For a variety of reasons (one of which is regrettable) the supply of goods has been large and increasing.

Let me explain what I mean when I say "one of which is regrettable". It is true that total market supplies in Australia have increased, thus permitting higher levels of actual consumption and investment. But this has only been possible because imports have to some considerable extent been paid for out of our international reserves instead of out of our current international earnings. Partly for this reason, actual nett consumption has, as I have indicated, increased remarkably.

Over the last two years prices have, on the average, changed relatively little, but expenditure on consumption goods, such as food, drink, clothing and domestic appliances has increased by 22 per cent. That is to say, standards of material living have risen because there has been a large increase in the quantity of goods consumed. Housing has proceeded very vigorously. The construction of houses and flats has been running at nearly 80,000 units a year and actual expenditure on dwelling construction is over £40 m. more than it was two years ago. One significant movement is to be found in the sales of motor vehicles. At present these sales are running at a rate well above 250,000 vehicles a year; the expenditure being 64 per cent greater than than it was two years ago.

In the production of commodities, the last two years have shown substantial improvements in basic materials, in power, in building materials, in farm products, and in fabricated products. But demand has grown even more.

Our prosperity for the most part is well founded, insofar as it springs from high levels of employment, active industry and improving standards of production. But it is ill-founded to the extent that it is eating into, largely for consumption purposes, our vital international reserves. When this is corrected, as it can and will be, the balance of our prosperity will be restored. It would therefore be a mistake to compare the present situation to the one which existed in the middle of 1951. At that time internal prices were rising at a startling rate of about 25 per cent per annum; there were severe shortages of basic materials; there were many bottlenecks and black-outs; there were great problems of public finance, and governments and other public authorities were running deficits. Under our new circumstances the average citizen may well find it difficult to believe that there is anything wrong. He has not the same consciousness of the harsh impact of inflation as he had four or five years ago. He may be very much diposed to say that if governments would only leave things alone all would be well. But even prosperity has its problems.

Problems of Prosperity

There are four major factors in our present situation.

The first is that we have at home a high and growing money purchasing power, which gives rise to a level of demand for goods and buildings and equipment and services higher than ever before in our history.

The second is that as such demand cannot, having regard to our population, materials, and equipment, be entirely satisfied by Australian products, we have had a vast demand for imported goods; and as that demand exceeds our export earnings, our external balance of payments is in heavy deficit.

The third is that any expansion of export earning is made more difficult by substantially increasing levels of wages and costs, partly arising from the competition for scarce labour generated by excessive demand.

The fourth relates to important matters external to Australia. Our true prosperity is deeply affected by international trade and therefore by economic conditions in the countries with which we trade. This exposes us a good deal to what I will call the "wind and weather" of the world's markets. The fact is that during the past two years the fortunes of international trade have not been as high for us. The terms of trade have moved against us; i.e. the prices of some of our major exports have declined, but the prices of other internationally traded commodities, such as rubber and the non-ferrous metals, have been rising as, indeed, have international shipping freights. On top of this, overseas trading practices are frequently not helpful. Particularly in the export of foodstuffs, we begin to encouter the use of subsidies and bilateral trade deals, as my colleague, the Treasurer, pointed out recently to the Governors of the International Monetary Fund.

In short, we have an over-rapid growth in demand for goods and for the resources with which to produce them, while at the same time we do not have the corresponding growth in the income we earn for our exports. Our economy therefore tends to become unbalanced, with a disposition in favour of a permanent debit on our international trading account.

All these factors tend to diminish our competitive power in the world and therefore tend to aggravate our want of economic balance.

I will elaborate these matters just a little. The Government believes that it is a great thing for every person able and willing to work to have a job. That is the best description of full employment. But it is a very different thing to have more jobs than men. That is, in truth, an undesirable state of affairs because it leads to increased and inefficient labour turn-over, and to the non-performance of work, sometimes of great importance, which stands ready to be done. The shortage of labour is of general community concern. It affects not only the industry directly involved, but also many other industries or enterprises which depend upon the first. It increases costs because expensive plant runs at less than full capacity, and invested capital is only partly used.

In the last year or two, our costs have been under pressure and have tended slightly, but perceptibly, to rise at a time when costs in some of our competitor countries have been tending to fall. But it is, nevertheless, true that our earnings and purchasing power have increased more than prices. One of the results of this is that there has been set free what I will call a surplus demand for goods and services which being incapable of local satisfaction have led to extraordinary demand for imports.

In 1954-55, the cost of imports, including freight, exceeded the value of our exports by £173 m., and by the time we had met other nett payments abroad for interests, dividends and the like, we had a deficit on current account of £256 m. Various loan and capital transactions modified this position, but allowing for them, our total external deficiency over the year was £142 m. and our international exchange reserves ran down by that amount. They fell, in fact, from £570 m. to £428 m. Our export income last financial year was £49 m. less than the year before. The cost of our imports rose by £184 m. Taking the internal and external matters together, it is clear enough that the cause of our present immediate difficulties is mainly to be found in the great increase in demand within Australia during the past two years; an increase that has not only maintained the volume of our imports but has led to a dangerous drawing upon our international reserves. To emphasize what has already been said, we have been paying for our current imported goods partly out of our earnings but also to an unreasonable degree out of our accumulated reserves. What the statistician calls "Gross Domestic Expenditure" is estimated by him to have risen in two years by rather more than £1000 m. or 27 per cent. Allowing for £200 m. of this being due to changes in stocks, the increase is still remarkable.

There are those who think that governments are principally to blame for this and that if only governments would reduce their expenditure all would be well. The simple answer to this proposition is to say that for the last three years the growth in public authority expenditure has been much less than the growth in private expenditure. In fact between 1952/3 and 1954/5, public authority spending increased by only 3.4 per cent. During the same period, private expenditure on fixed capital equipment increased by 23.2 per cent; private expenditure on ordinary consumption items increased by 22 per cent and private expenditure on cars and dwellings increased by 41 per cent.

If we take together the aggregate figures for expenditure on ordinary consumption articles - such as food, drink, clothing, household fittings and so on - and private expenditure on cars, expenditure is seen to have increased over the two years by no less than £635 m., compared with an increase of £86 m. on capital equipment and an increase of £29 m. in public authority expenditure. This makes it perfectly clear that the present condition is much more accurately described as a consumption boom than as a developmental boom. The inflationary difficulties of the past year or so cannot, therefore, be fairly laid at the door of the public authorities. The growth of demand during the past two years has been directed overwhelmingly towards ordinary consumption items and motor cars.

I think I could reinforce this statement by reference to the import figures. Over this period of two years, imports of finished consumer goods increased by 172 per cent, imports of producers' materials mainly for use in manufacturing by 86 per cent, and imports of capital equipment by 43 per cent. It is largely because we have been able to get all these additional imports that serious shortages have not yet shown up. But I repeat that we have been able to get these additional imports only by spending everything we earn abroad and in addition by cutting heavily into our accumulated reserves.

The Movement in our International Reserves

After the crisis of 1951-52, imports fell away to a low figure, partly through import restrictions, partly because stocks had been built up, and partly through a slackening of internal demand. In 1952-53 they were £511 m. f.o.b. That was a good export year. Wool was 82d. per pound and total export income was £846 m. International reserves rose by £189 m. We then made relaxations in the severe import restrictions which had been imposed in March 1952 and the process of relaxation continued over the next eighteen months. Imports rose during 1953-54 by £172 m., exports fell by £34 m., but at £812 m. the level remained comparatively high. Wool was still 81½d. per pound. Our international reserves increased by £9 m.

In April 1954, a large group of items was put on a "no quota restriction" basis, which meant that licences were given for any amount so long as it could be shown that goods were genuinely on order and available. The results were so dramatic that in last October it became necessary to discontinue the N.Q.R. system, which had proved a major factor in import pressure, and put the goods back on a quota basis. Wool prices fell in the 1954-55 season by about 11d. per pound. There were also some difficulties in selling wheat. Export income fell by £49 m. but imports continued to increase. International reserves fell. By March of this year it was clear that something would have to be done. As from 1 April, fairly severe additional restrictions were imposed on all classes of non-dollar imports, though as Honourable Members will realize, such restrictions do not bring about an actual reduction of imports for several months.

I should pause here to say that a sound judgment on the balance-of-payments problem depends to a great extent on tendencies and on estimates of future events. Our country for example may survive a trade deficiency at some particular time if it is seen that exports are likely to rise and imports to fall or if reserves are adequate. But the present position is different. So far as we can judge,

export income is likely to be substantially less than last year because there has been a fall in the price of wool. The rate of imports, though it will tend to fall as the result of the April restrictions, will still continue at a fairly high level, and the fall in our reserves has diminished our room for manoeuvre.

July and August are months of relatively low export earning in which it is expected that the international reserves will fall. But the fall is rather greater than might have been expected. Our reserves which, as I have said, stood at £428 m. at 30 June, have since then fallen by no less than £58 m., so that they stand at £370 m. This kind of process cannot be allowed to go on. I recognize that reserves are reserves, and that from time to time one must expect them to fluctuate. It would not inevitably be disastrous if by the end of next year our reserves were somewhat below £300 m. What would be disastrous would be for us to reach that point with nothing done to check the outward run on our reserves. In other words, we must by the time we reach the end of this financial year be in a position to know that our external payments situation has been brought into balance. It would be intolerable and dangerous from the point of view of the people if our international financial position were not brought into balance and, being unbalanced, led to a serious weakness of our currency with all that that involves.

We have considered all these matters and we have decided that our external payments situation must be brought into full balance not later than 30 June 1956.

How can this be done?

One immediate measure is, of course, the direct measure of intensifying import restrictions. Little as we like such things, we see no escape from them. Even when import restrictions are applied it is normally a matter of, at any rate, six months before they take effect in lower imports. It follows that the sooner they are applied the better. The Government has, therefore, decided that further restrictions designed to reduce the total of imports by around £80 m. f.o.b. will be brought into effect as from 1 October. We anticipate that these further restrictions, supplementing the measures applied by the orders of last April, will bring imports down to a level which we can reasonably expect by June 1956 to finance without further running down our external reserves. Naturally, we desire any import restrictions to interfere as little as possible with current Australian production. The details, therefore, have been examined with the greatest care to this end by a Committee of Ministers and expert officials. The Minister for Trade and Customs will make an announcement in point of detail.

You may ask, why £80 million?

Last financial year our imports were £846 m. The restrictions imposed in April were calculated to reduce imports to a rate of £720 m. to £730 m. Allowing for invisible items, including loan and other capital transactions, and for some possible limited borrowing, we cannot safely estimate our nett receipts for 1955-56 at more than £640 m. Any further import restrictions operating as from 1 October cannot under normal licensing and commercial practice begin to affect the flow of imports before 1 April of next year.

When I indicate that the object of the further restrictions is to save at the rate of £80 m. a year on imports, I therefore do not mean to say that we can, under these proposals, save the whole £80 m. in this financial year. On the contrary, we will begin to effect the saving only in the last quarter of the year, so that the actual saving within the financial year will be one-quarter of £80 m., or £20 m. This means that notwithstanding these import restrictions, our overseas balances will inevitably run down substantially by 30 June. But if our calculations are right, we will as on and after that date have brought our overseas earnings and our overseas payments into balance and the run on our reserves will have come to an end. The important thing is to have the rates of external receipts and payments equated by the end of the financial year.

There is, of course, another implication in what I have said. It is that if we want to arrest the fall in our reserves more quickly (and the sooner we do it the better), we cannot rely upon import restrictions alone. We must adopt domestic measures calculated to reduce the current demand for imports. In order to do this it becomes necessary to examine the reasons for the current excess demand for imports. Pretty clearly those reasons will be found in a greater readiness to spend on consumption, a dramatic extension of the hire purchase system, a high capital expenditure, a liberal advances policy on the part of the banks, and a wide-spread feeling, not uncharacteristic of periods of inflationary pressure and of rising population, that less than normal prudence in private expenditure is needed.

<u>What happens if our overseas balances get down very low?</u>

<u>Will it be such a serious matter?</u>

I would apologize for taking time to answer these questions if it were not for the fact that I myself have heard them seriously put forward, sometimes by businessmen. I will answer briefly by saying two things:

The first is that, unlike the United Kingdom or the United States, Australia's international earnings depend almost entirely upon the products of the land. Our export income, therefore, may fluctuate very widely, being, as it is, dependent upon seasonal failures or successes, and in particular the prices that the world will pay. It is also affected, as I have pointed out, by other overseas matters, including, recently, greater dollar puchases by European countries from our competitors. The plain fact is that there is no other country of comparable population which has seen such amazing fluctuations in its export income over the last ten years as Australia has. On the other hand, imports must be paid for if the nation is to remain internationally solvent. We should, therefore, at all times, have abroad reserves of money sufficient to pay for at least a few months of imports, since nobody can tell very far in advance whether a drought or a price slump is going to hit our current earnings. Adequate international reserves are therefore the vital condition of a continuance of our international trade.

But there is a second consideration which I think it my duty to explain quite clearly. The rapid running down of our international reserves would, if we did nothing or too little about it, give rise to speculative pressures against the currency. In other words, people would begin to gamble on the chances that we would be forced to depreciate our currency by changing the exchange rate. There have, before today, been periods in which it was strongly rumoured that the exchange rate might alter. Last time people were gambling on an appreciation of the currency and a lot of money came into Australia - "hot" money as it was called - in the hope that it might subsequently go out of Australia at a higher value. This time the pressure would be in the opposite direction. People would tend to take money out of Australia, gambling in some instances upon their prospect of bringing it back later on a higher value in terms of Australian pounds. These things are very dangerous. If allowed to occur, they could affect the cost of living and the real income standards of most people in the country. We do not propose to allow that to happen. On behalf of the Government, I state quite categorically that we are determined to have no depreciation of the currency.

I must repeat and repeat that the troubles which I have had such pains to analyze are the troubles created by a period of the most buoyant prosperity and that their cure, though it may be in some respects and for some people and for some period, uncomfortable, will in fact preserve the essence of our prosperity while giving to it much greater real endurance.

Bank Credit

As I have already told the House, the level of our overseas balances fell during 1954-55 by £142 m. The level of these funds has direct impact upon the liquid position of the banks in Australia. Normally one would expect that a fall in overseas funds would tend to produce a fall in advances in Australia so as to preserve a sound liquidity ratio for the banks. It is, indeed, one of the classical mechanisms of finance that a fall in international balances will in this way tend to counteract the inflationary forces which have been previously activated by a rise in the international balances.

However, for a variety of reasons in 1954-55, this did not happen. Total bank advances rose almost as much as our overseas balances fell.

I am not professing to be violently critical on this point. It has seemed to us to be much more profitable to get co-operation for the future on the basis of the most realistic mutual understanding of the problem than to conduct a post-mortem on the past.

I therefore invited into conference the trading banks, all of whom, including the Commonwealth Trading Bank of Australia, attended through their Chief Managers. Also present I had the Governor of the Central Bank and the Acting Secretary to the Treasury. In view of some of the foolish remarks

which I have read in a section of the press, it is proper to tell you that some days before this meeting occurred, the Governor (Dr. Coombs) had prepared a draft of a directive to the Trading Banks on credit policy and had sent that draft to them asking for their comment upon it. They had replied that they thought it reasonable and proper. I mention this because the document itself was issued in due form and became available to the public only after the conference with the bankers to which I have referred, and was regarded by some people as a sort of "bolt from the blue". I therefore point out that the Trading Banks were well aware of it and quite content to receive it. Indeed, my conference with the bankers, in the course of which I again went with care through the overall financial circumstances that I have been putting to the House, was I think a very great success,. The atmosphere was friendly. The nature of the problem was clearly seen. There was no banker present who did not agree that some tightening of credit was needed if the overseas balances problem was to be solved.

It is quite true that the banks all felt, as indeed I do myself, that the cure for these difficulties is not to be found in one simple remedy but ought to be attempted by a balanced programme. This is clearly right. I feel quite assured that quite irrespective of any formal directive by the Central Bank, the trading banks will co-operate with the Government in a matter the implications of which they are as well qualified to understand as anybody in the community.

Hire Purchase Finance

It is in modern times characteristic of boom conditions that we see a marked exp nsion of hire purchase systems. It is perhaps paradoxical that they make their smallest development in times of moderation or recession when one might expect to find the greatest demand upon their services, and reach their greatest proportions when purchasing power is high. The Government is not opposed to hire purchase finance as such. It is, on the contrary, a most useful system and it performs valuable social services, particularly for those younger people who are establishing themselves in life. I suppose we have all taken some benefit from it in our time. But we can have too much even of a good thing.

At the present time, hire purchase finance is growing too rapidly and is producing some economic and financial problems which can be averted by some reasonable restraint. As I have previously said, the great feature of our internal economy today is that we have more money to spend than things to buy. This may not manifest itself very clearly in the business of ordinary retail selling, but the great industries can all tell a of shortages of manpower and of materials, of the most substantial kind. Under these circumstances, it seems questionable whether the artificial stimulation of purchasing by hire purchase credit is needed to its current extent. But mor importantly for the esent purpose, Members will not have failed to notice that hire purchase finance organizations have been offering very high rates of

interest for short and medium term deposits and have, in fact, been securing vast sums of money, some of which would at least normally be available for filling the public loan issues. So rapid has been this expansion that it is estimated that in the last twelve months alone, hire purchase finance has added no less than £50 m. to its resources, or an increase of no less than 33 per cent over its previous £150 m. in one year.

I remind the House that the total Government Loan Works programme is under £200 m., of which it is thought that the loan market might provide £120 m.

If relatively short term money can be drawn off at interest rates of 5 or 6 or even 7 per cent into hire purchase finance, it is quite clear that there will be a good deal of selling of other investments with serious results for the banking system, for Commonwealth budgets, and for some government and municipal loan raisings.

For all these reasons we think it clear that there should be some moderation of the present rate of expansion of hire purchase finance. Primarily this kind of problem falls within the power of State Parliaments, but concerted action in the State field is, as we know, a slow matter and the major problem for us is an immediate one. True, the Commonwealth may have some ways and means of dealing with this matter: ways and means which we have under close legal examination. It seemed to me, and to my colleagues, that the quickest way to get sensible results was to seek them on a basis of complete candour and co-operation with the organizations concerned. I therefore invited into conference the leading executives of the major Hire Purchase Finance Corporations. I explained to them our balance-of-payments problem and its seriousness, the internal factors which were contributing to it and, in particular, discussed with them the very large part now being played by their own organizations. I said that we did not desire to cut them back; that on the contrary it seemed reasonable that they should continue to grow in the face of increasing demand, but that I would be glad if they could voluntarily agree to adopt some self-denying ordinance and limit their rate of growth to a percentage per annum; a percentage which would not be out of harmony with the growth of the economy, but which would not be so liable to continue what I regarded as the dangerous results of the last twelve months. The whole discussion was of the friendliest and frankest kind. The gentlemen present asked me whether they could continue their conference by themselves for a time. I of course agreed. A couple of hours later they presented me with a resolution which they had passed unanimously in the following terms:

> "That the Hire Purchase industry as represented here today agrees to recommend to its various Boards of Directors that they should peg turnover or outstandings at present levels with an allowance increase not exceeding 10 per cent between now and 30 June 1956, and that those represented here agree also to recommend a minimum down-payment of 33-1/3 per cent on motor vehicles and a maximum hiring period of thirty months."

I should add that since this conference I have been made aware of some differences of opinion in the Hire Purchase field, and therefore the resolution I have quoted should not be regarded as precise in its operation. But I have nevertheless been assured that by one means or another restraint will be exercised in respect of hire purchase and that the Government may expect a large measure of co-operation.

Subsequently to this conference, I conferred with the Retailers' Association representatives, some of whose members, of course, are substantially engaged in hire purchase and who in most cases conduct it out of their own financial resources. Obviously, it would be difficult to expect effective restraint in one sector of this industry if it could not be obtained from the other. As a result of my conference with the retail traders, of whose business hire purchase constitutes a relatively small proportion, I feel convinced that as in the case of the finance corporations, the national problem is clearly seen and a policy of caution will be observed.

Increasing Export Income

What I have had to say about restrictions and restraints may sound strange to Australians who are thinking in terms of national expansion. It is necessary to say, therefore, that it is just because expansion must remain our greatest objective that the Government is adopting in the short run what would normally appear to be restrictive policies. In every period of development, there must be from time to time intervals of consolidation. There can be no sound development upon an unsound foundation. To go on expanding under inflationary circumstances, with costs rising to a prohibitive level, would be before long to defeat expansion. As the Government believes that the development of Australia is and should be our great national ideal, we feel bound to review our circumstances so that we strengthen the foundations for greater growth in the future.

It may be thought that, under critical circumstances, governments tend too much to adopt negative solutions. To an extent, that is true. Financial difficulties of any kind have a habit of developing with some speed, and answers must therefore frequently be made which act quickly, the quickest answer being more import restrictions or rules or regulations or agreements calculated to reduce the dangerous factor. It is of course not true that all measures which appear to be negative are necessarily so. To prohibit the lending of money to a particular type of industry would appear to be a negative measures; but if the effect of that prohibition is to make some money available to a more useful industry, the effect is positive. Nevertheless we feel that, unless we are to have a permanently unbalanced economy in Australia, with import restrictions as a chronic feature of life, we must do something to stimulate our export income; we must open up new markets and retain and expand old ones. With our internal cost levels, this is not easy; and, indeed, it becomes more and more difficult as our domestic demands for more and more money and less work proceed. In the case of primary products, we are beginning to confront some

growing competition from vendor countries willing to give credit terms to buyers and, in some cases, to support those credit terms by Government guarantees at home.

In particular, if a sound basis can be found (and I hope that it can) for an export credit scheme - having regard to some of the special difficulties and peculiarities of Australia's export trade which distinguishes it from that of other countries - such a scheme will be introduced.

In common with most Honourable Members, I have always entertained hope of substantial export markets in processed and unmanufactured goods. But it is quite clear that we can enter the great markets that are waiting for us only if we can do so at competitive prices.

Another aspect in this export problem is one which invites positive action. Indeed in fairness to all concerned, including the Government, it might be said that thanks to positive policies, depreciation allowance for taxation purposes, investment in research and extension services, measures of price support and increasing supplies of capital equipment and materials, the great primary industries have expanded quite well in recent years. Export volume has grown some 15 to 20 per cent in the last three years, without which fact our total export earnings would have fallen heavily as overseas prices fell. To sustain our markets a considerable publicity drive is now well under way and our Trade Commissioner Service, well regarded for its quality, is being suitable strengthened.

Much has been done. However, there is more to be done and accomplished. We still have goods to sell: with a bit of sound common sense we could have more goods to sell abroad in the future.

The Government has been positive in the export field but will now step up still further the tempo of its efforts. It has reason to believe that all industry interests concerned will welcome this and extend their fullest collaboration.

I propose for onething to arrange discussions with farmers' representatives and I hope that all exporters will be willing as part of an export drive, to re-examine with us traditional trade practices if the prospect of new markets with old or new customers warrants this. Indeed, I do offer the general observation that as the world becomes more competitive, not less, the placid trade methods of earlier years may have to be modified in more ways than one before we are through.

We are prepared to send strong missions overseas with special tasks to develop new markets. These missions would comprise practical men who know their goods and are experienced in salesmanship. We will be prepared ourselves to subscribe money liberally for this purpose. We have already given an earnest of this in our approach to trade publicity expenditure.

Manufacturers should themselves see whether they cannot export more, even though overseas sales may occasionally be less profitable than sales at home. Postwar recovery in the United Kingdom has not been achieved without the phrase "for export only" becoming a commonplace in the language. Australia could, with no harm to its rising living standards, borrow a little of this philosophy. At the same time, its suppliers could develop a permanent place in the world's export markets.

We look forward to high co-operation from all industry for the extension of export sales. Between us we must be imaginative in the business of getting markets and we need more business-like suggestions to develop sound exports.

Conclusion

It will be seen that the essence of the Government's policy is to call upon the community to observe self-restraint in demand so that the problem of our falling balances may be speedily overcome. To the extent that we directly reduce imports by increased restrictions, we reduce the drain on our reserves, but we also reduce supplies in Australia. This involves the need for a wide public realization that, with reduced supplies from overseas, we will put a great upward pressure on prices unless we consciously and honestly set out to spend a little less, to save a little more, and to produce more out of our own Australian resources. This is not a time in our history when high prosperity can be inherited; it must be worked for and saved for.

My conferences have encouraged the Government to hope that there will be a wide and wise response. If this turns out to be wrong, we will not hesitate to take further fiscal or other measures to ensure that by 30 June 1956 our payments are in balance and our reserves secure.

The people may say - indeed many of them have already said - "Why doesn't the Government set an example?" That is a fair question, though it sometimes proceeds on an assumption that the Commonwealth Government could cut its expenditure in half it it wanted to! Of course, it could not. Unless it is prepared to reduce pensions and social services and repatriation benefits, or defence expenditure, or repudiate public debts and interest charges, or reduce the vast payments made to the States for the performance of their functions, there is indeed comparatively little that a Commonwealth Government can do to reduce the Budget.

I have no reason to suppose that the Commonwealth Civil Service is, by and large, less competent than any body of employees in outside industry. There are, today, fewer persons employed under the Commonwealth Public Services Act than there were in 1951. Can any other progressing enterprise say the same? The whole cost of Commonwealth administration is no more than

5 per cent of the whole Budget; or £50 m. Like others, we are, every time we think we have economized in staff, presented with a bill for more millions of pounds by the appropriate industrial tribunal.

In short, our only avenues of economy (apart from the constant review of efficiency and methods conducted under the Public Service Board) are in Public Works and Imports (already heavily pruned for the Estimates).

We have again reconsidered these matters, determined to practise what we preach.

The Commonwealth Government capital works programme stands in the Estimates at £104 m. We propose to defer this year projects totalling £10 m.

Commonwealth Government departments have, with some justification, been seeking import licences this year to a total of £59 m. on both defence and civil account. We are restricting them to a figure of £40 m.

With good reason, we appointed an Independent Committee to examine Parliamentary salaries and allowances in the light of today's circumstances. We now announce that we have requested the Committee to make no report until the end of the current financial year. That this will involve many Members of Parliament in real hardship we do not doubt; but in a community co-operative effort to cure a national problem all must play a part if we are to achieve that balance which will not only make our prosperity completely sound but will give us confidence for the future.

We have become increasingly conscious of the fact that public co-operation in these important fields will depend upon a high level of authoritative and accurate information about the basic economic facts. The Budget scarcely fills this need, for it announces policy and is, I fear, chiefly read for its changes (if any) in taxation or benefits. We have therefore decided that periodically (quarterly, if practicable) the Treasury will issue a Paper setting out, for public guidance, the principal economic facts, such as the movements of trade and payments, Government receipts and expenditure, loan raisings, Treasury Bill finance, and the like. In addition, we propose that in the autumn session, in March or April, the Prime Minister should present to Parliament an Economic Report on the state of the nation, not announcing policies, but presenting an objective account of trends and problems on export and import trade, industrial expansion, production and development, employment, Treasury finance, public expenditure, and other associated matters.

This should, by its contents and the Parliamentary debate which would occur upon it, do much to protect the community from being taken by surprise when economic difficulties emerge, as they certainly will emerge from time to time as long as we are living in a world of men.