OECD
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

AUSTRALIA

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

APRIL 1974

BASIC STATISTICS OF AUSTRALIA

THE LAND

Area (1 000 sq.km)	7 686.8	Urban population, 1971, % of total (cities over 100 000)	64
Agricultural area, 1973, % of total	65.0	Population of major cities, 30.6.72 (1 000):	
Tillage and temporary grassland, 1973, % of total	5.6	Sydney	2 851
		Melbourne	2 544
		Brisbane	888
		Adelaide	855
		Perth	725

THE PEOPLE

Population, 30.6.1973 (1 000)	13 132	Civilian employment, 1973 (1 000)	5 640
No. of inhabitants per sq.km	1.7	*of which:* Agriculture	407
Natural increase rate, per 1 000 inhabitants, average 1962-1972	11.7	Industry	2 004
Net immigration rate, per 1 000 inhabitants, average 1962-1972	4.7	Other	3 229

PARLIAMENT AND GOVERNMENT

Present composition of Parliament:

Party	Senate	House of Representatives
Australian Country Party	5	20
Liberal Party of Australia	21	38
Australian Labour Party	26	67
Australian Democratic Labour Party	5	—
Other	3	—
Total	60	125

Present Government: Australian Labour Party
Next general elections for House of Representatives: at the latest December 1975

PRODUCTION[1]

Gross Domestic Product, 1973 ($ A million)	40 983	Gross fixed capital formation, 1973 Percentage of GDP	23.6
GDP per head (US $)	4 437	Per head (US $)	1 045

THE PUBLIC SECTOR % of GDP in 1973[1]

Expenditure on goods and services[2]	21.9	Current revenue	30.5
Current transfers	10.3	*of which:* Direct taxes	15.1

FOREIGN TRADE

Exports[1]		Imports[1]	
Main exports in 1973, % of total:		Main imports in 1973, % of total:	
Food and live animals	31.2	Machinery and transport equipment	36.1
Crude materials, inedible, except fuels	34.0	Manufactured goods	21.7
Manufactured goods	5.7	Miscellaneous manufactured articles	11.5
Machinery and transport equipment	8.0	Chemicals	10.3

THE CURRENCY

Monetary unit: Australian dollar	Currency unit per US Dollar, since Sept. 1973 :	0.6723

1 Fiscal year ended 30 June.
2 Current and capital expenditure. Including public enterprises.

NOTE An international comparison of certain basic statistics is given in an annex table.

OECD ECONOMIC SURVEYS

AUSTRALIA

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The Organisation for Economic Co-operation and Development (OECD) was set up under a Convention signed in Paris on 14th December, 1960, which provides that the OECD shall promote policies designed:

- *to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;*
- *to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development;*
- *to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.*

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The Socialist Federal Republic of Yugoslavia is associated in certain work of the OECD, particularly that of the Economic and Development Review Committee.

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The annual review of Australia
by the OECD Economic and Development Review Committee
took place on 21st February 1974.

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INTRODUCTION

The Labor Government which assumed office in December 1972—the first for 23 years following a succession of Liberal-Country Party coalitions—was elected on a programme which departed appreciably in a number of respects from that of its predecessor. The changes were most marked in regard to policies concerning social welfare, the labour market, government involvement in the operation of the business sector, foreign ownership and control and the distribution of power between the central and State administrations[1]. Among the steps already taken in the field of economic policy management are a sizeable uniform cut in tariff rates and two unilateral revaluations of the Australian dollar. By mid-January 1974 the dollar's effective exchange rate had risen 21 per cent since the Smithsonian realignments. While these steps were in line with the continuing process of economic development experienced over the past decade, their implementation was no doubt spurred on by the recent unusually buoyant conditions at home and abroad.

Other important facets of the Government's policies are still in the process of elaboration and in certain areas the administration is entering relatively uncharted waters where the extent of its constitutional powers remains yet to be defined. On the 8th December last the electorate rejected a referendum for a constitutional amendment which would have accorded the Federal authorities direct power over incomes and prices. Certain measures with far-reaching implications have been taken to amend the rules for overseas investment in Australia and foreign ownership and participation in the minerals industry, but the Government's detailed policies in this respect are still in the process of development.

Part I of the present Survey examines the main features of conjunctural developments and policy orientation during 1973, with particular emphasis on the problem of inflation, and assesses prospects for 1974. With the Government implementing part of its election programme in 1973, the growth of public sector outlays accelerated and Part II is devoted to a comparative study of the size and growth of public expenditure and its financing. Part III draws together some of the policy implications from the discussion in the two preceding Parts.

I RECENT DEVELOPMENTS AND SHORT-TERM PROSPECTS

Although clear signs were already evident of a recovery in economic activity at the time the last Survey was prepared[2]—indeed the turning point can probably be located at around mid-1972—the speed of the ensuing upswing

1 However, policy towards foreign ownership and control was already changing under the previous Government.

2 See pages 55 and 56 of the Survey published in December 1972. This was the first Survey of the Australian economy prepared by the OECD.

appears to have exceeded general expectations. A similar tendency was experienced in many other OECD countries. Nearly all major elements of domestic demand are at present expanding strongly, while demand for exports has remained buoyant. Expansion of domestic output has, however, been increasingly constrained by shortages of labour and materials. Imports, responding to deliberate stimulatory measures, are helping to relieve supply deficiencies in certain areas. Against this background of severe pressures on resources, the Government is seeking to initiate a reform programme with wide-ranging implications for the structure and magnitude of Government expenditure.

The rate of inflation, which had abated somewhat during 1972[1], accelerated throughout the course of last year to reach the highest rates recorded since the peak of the 1952 Korean boom. Although rebuffed in its attempt to gain direct controls over prices and incomes, the Government has launched a broadly-based attack on the problem. First indications suggest that one of the constituent measures, a prices justification procedure, has met so far with somewhat greater success than might have been expected a priori. Although demand remains buoyant at present, latest surveys of both households and businesses point to a somewhat less buoyant appraisal of the economy's prospects in the coming months. Responses to the Surveys appear to lack internal consistency in certain respects. Nonetheless, a turning point in the cycle may be approaching. The uncertainty created by the oil crisis during the closing stages of what had already proved a highly eventful 1973 may have evoked more cautious attitudes. Being largely self-sufficient in the production of hydro-carbons, Australia counts among those Member countries least affected directly by the threat of disruptions to oil supplies and by the sharp increases in crude oil prices. But the general slowing down expected in the OECD area this year, and in particular in Japan—given the importance for the Australian economy of the Japanese market—has injected an important element of uncertainty.

The recovery gathers momentum

The recovery in domestic demand last year was broadly based. Stimulated by sizeable taxation concessions contained in the 1972/73 Budget as well as by subsequent increases in social security benefits, *private consumption* rose by some 6 per cent in volume. As might be expected, purchases of consumer durables constituted the most dynamic element of household expenditure. The number of motor vehicles registered during October reached an alltime record, exceeding that of the corresponding month in 1972 by one-third. Higher expenditure on such non-durables as food and clothing largely reflected price increases. *Investment in dwellings*, a source of strength during the preceding slowdown, has remained strong, encountering limitations on the supply rather than the demand side. The number of approvals for new houses and flats during 1973 exceeded the corresponding figure for 1972 by almost 24 per cent. Some slowing down in the rate of increase,

1 Unless otherwise specified, references to years indicate the calendar year rather than the Australian fiscal year which runs from July 1 to June 30.

however, became evident (in seasonally adjusted terms) during the latter part of the year. The strain being placed on the industry's productive capacity has been manifested in a sizeable increase in the ratio of approvals to actual building starts during the period from mid-1972[1]. After a normal lag, investment in both *nond-welling construction* and in *machinery and equipment* started to recover during the June quarter of 1973. Following completion of major mining developments towards the end of 1971, non-residential construction has been largely sustained by a boom in office building in the major metropolitan areas. Purchases of machinery and equipment have been stimulated by the recovery of rural incomes, and capital expenditure by manufacturing industry, which accounts for about one-half of this category of investment, appears to be reviving after some hesitancy. While the volume of public sector capital expenditure continued to decline throughout the first three quarters of last year, current expenditure rose by some 10 per cent compared with the corresponding period of 1972, but this was largely due to deliveries of military aircraft from abroad[2].

Markets for Australia's principal *exports* have been experiencing boom

Table 1 **National product and expenditure**

	1973	1970	1971	1972	1973
	$ million	*Percentage change (volume)*			
Consumption					
Private	25 931	4.5	3.2	4.1	6.3
Public	6 101	3.4	1.6	3.0	8.4
Gross fixed asset formation	10 330	4.1	4.3	–5.3	1.8
Private	6 775	5.2	5.0	–7.9	4.3
of which: Housing	2 331	3.8	0.8	7.6	9.0
Other building/construction	1 444	8.4	15.8	–15.2	–3.9
Machinery and equipment	3 000	4.7	2.7	–12.8	5.1
Public	3 555	2.2	2.8	–0.2	–2.7
Stockbuilding	365				
Gross domestic expenditure	43 869	4.0	3.2	0.3	9.5
Exports of goods and services	7 531	14.3	8.6	6.7	1.5
Imports of goods and services	6 210	7.5	2.6	–5.7	24.3
Gross domestic product	45 191	5.1	4.3	2.2	5.6
Gross farm product	3 836	5.2	7.0	0.3	–9.0
Gross non-farm product	41 355	5.1	4.0	2.4	7.1

Source: Australian Bureau of Statistics.

1 The ratio rose from 1.00 in the second quarter of 1972 to 1.22 in the fourth quarter of last year. A substantial boost in the government-owned housing construction programme is under way.

2 Since this equipment is entirely imported, its acquisition does not add to domestic income formation.

conditions on a scale unknown since Korean war days. Some two-thirds of these exports consist of agricultural and other primary products. Here again the limiting factor has been largely supply shortages. Owing to partial crop failures, the volume of cereal sales abroad during the first half of 1973 fell by some 42 per cent, while wool exports declined by 15 per cent due to the diminished flock resulting from the previous recession in wool prices. On the other hand, shipments of metal ores and meat were increased. The volume of *imports* has been expanding at an exceptionally rapid rate since the December quarter of 1972[1]. Apart from the pick-up in domestic activity, the net appreciation of the Australian currency and an across-the-board cut in tariffs (see page 25 below) have no doubt contributed to this development. Imports of chemicals, textiles and motor vehicles as well as of construction materials have expanded particularly strongly.

As indicated above, the rate at which *non-farm output* could be stepped up to meet the upsurge in demand has been severely hampered by shortages of labour and materials. It should be recalled that for almost two years up to the end of 1972 the volume of investment in machinery and equipment had actually been declining. Even so, according to the most recent survey of manufacturing activity (conducted in December) businessmen clearly held the shortage of labour to be the most serious constraint on expanding output. Regular surveys of the construction industry have also highlighted the acute shortage of labour and materials. The situation has been aggravated by some deterioration in industrial relations; during the ten months ending October 1973 the number of working days lost was some 30 per cent above the corresponding 1972 figure[2]. The two sectors where demand pressures have been among the strongest—manufacturing and building/construction, which together account for over one-third of total GDP—were severely affected by strikes. A manifestation of the tight supply situation is the record low level to which stocks have been depleted relative to sales. The volume of *farm output* rose sharply in the September quarter to regain the level recorded 1½ years ago. The preceding decline in production reflected the combined impact of adverse climatic conditions, Government measures to restrain output (e.g. wheat quotas) and the familiar lagged type of response by producers to previous poor markets. Wheat stocks have also been reduced to well below normal carry-over levels while the Australian Wool Corporation stocks were at a low level.

During the course of the 14 months following August 1972 the rate of unemployment fell from the relatively high cyclical peak of 2.1 per cent of the labour force (seasonally adjusted) to 1.4 per cent. November saw a

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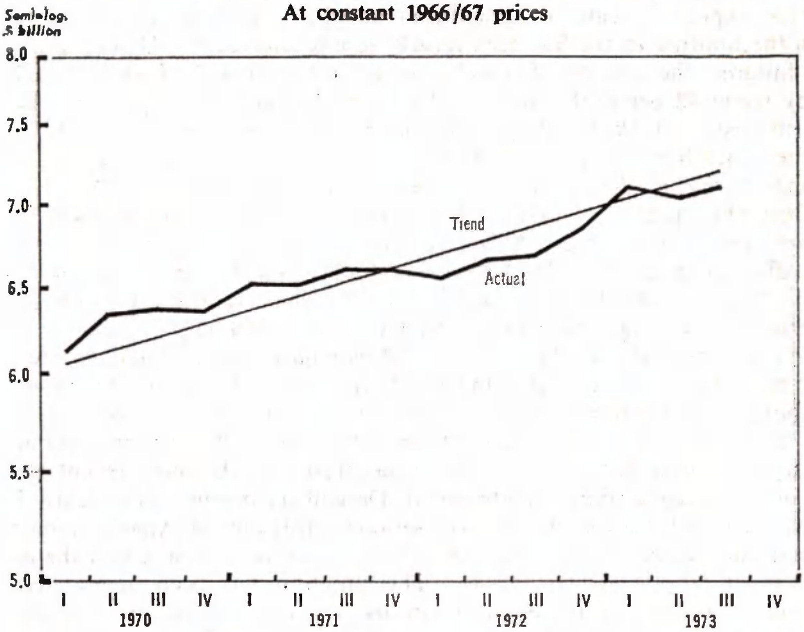
1 Excluding military equipment and other " exogenous " items, the volume of imports rose by 20 per cent during the first nine months of 1973, compared with the same period of 1972.

2 Implications concerning the relative magnitude of output foregone cannot be easily drawn from a simple comparison of numbers of working days lost. For instance, stoppages in the power industry, which was severely affected last year, bring disruption to a wide range of industries (days lost in industries so affected are not included in the statistics). Furthermore, the fact that last year stocks had been depleted to a very low level meant that the impact of supply disruptions were transmitted more rapidly than usual. Also of relevance was the fact that while the number of workers involved fell, the average length of strikes rose substantially.

Diagram 1 **Development of non-farm gross product**
At constant 1966/67 prices



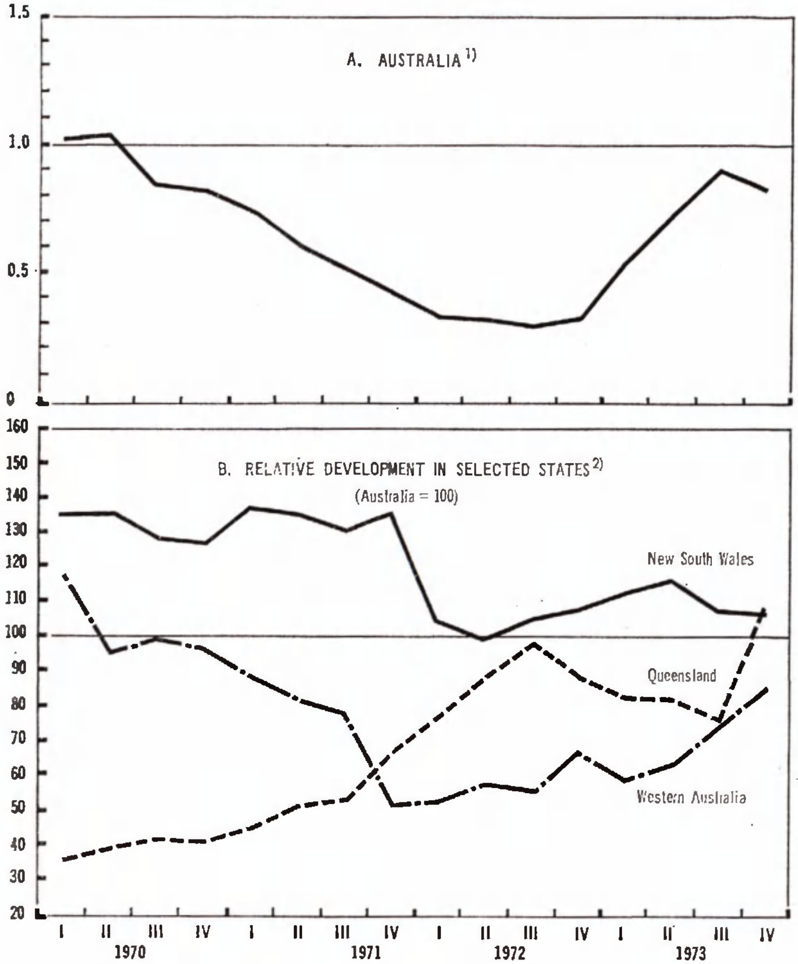
NOTE Trend has been estimated by regression on the period 1959:III-1973:III.
Sources: Australian Bureau of Statistics, Secretariat estimates.

slight rise to 1.5 per cent and this rate was maintained in December[1]. Within the context of an unmistakably " tight " labour market, regional and occupational disparities have been pronounced (Diagram 2). Indeed, a striking feature of the upswing has been the very rapid growth in unfilled vacancies relative to the decline in unemployment; skilled jobs in manufacturing and construction in the principal cities (Sydney and Melbourne) have proved the hardest to fill[2]. One of the more important factors contributing to the growing imbalances has been the sizeable reduction in the net intake of immigrants, whose participation rate is typically higher than that of the resident

1 As from July 1973 the definition of unemployed has been revised to exclude certain school-leavers. However, for reasons of comparability the figures quoted in the text above refer to the old definition. It should be noted that, owing to the winding-down of special employment-supporting schemes (adding these persons to the unemployed in August 1972 would give a seasonally adjusted unemployment rate of 2.4 per cent) the decline in registered unemployment understates the underlying improvement in labour market conditions. At their peak in May 1973 these schemes engaged almost 25 thousand persons—or about 0.4 per cent of the work force. By October the numbers so engaged had declined to less than a thousand and were concentrated almost exclusively in rural areas.

2 In September, when unfilled vacancies (seasonally adjusted) reached the equivalent of 1.4 per cent of the work force, there were more than 4 vacancies for every skilled metal/electrical worker unemployed. On the other hand, the numbers of unemployed still exceeded vacancies for rural and clerical/administrative workers as well as for unskilled workers in general and for persons in the service occupations.

Diagram 2 **Overall and regional labour demand**
Seasonally adjusted



1 Ratio of registered vacancies to registered unemployed.
2 Ratio of registered vacancies to registered unemployed relative to ratio for all Australia.
Source: Australian Bureau of Statistics.

population and who tend to provide an element of increased flexibility to the labour force[1]. In December 1972 the Government announced a reduction in the immigration target but the number of settlers arriving under the Government-assisted scheme was already running well below the target originally

1 Net immigration fell from 101 thousand persons in fiscal 1970/71 to 42 thousand in 1971/72 and 28 thousand in 1972/73. International comparisons suggest that the size of the Australian workforce is particularly responsive to variations in the demand for labour—

set in the 1972/73 Budget. To some extent these deficiencies have been compensated for by increased overtime; the amount worked in manufacturing attained an all-time record of 4.0 hours on average per week (seasonally adjusted) in August, but has since receded slightly (3.9 hours in November). A further indicator of the state of the labour market is the large-scale entry of women into the work force[1].

Improved external balance

The 1972 Survey dealt at some length with the " embarrassment of riches " which a continuing substantial balance of payments surplus was causing the Australian authorities at that time. A marked turnaround has since occurred —reflecting not only the upswing in domestic activity but also a series of policy measures discussed in more detail below. Both the current and capital accounts have been affected, although the change in the latter has been by far the more spectacular in terms of the sheer magnitude of funds involved. As a result, the overall balance of payments as measured by net monetary movements swung from a surplus of about $US 3.2 billion in 1972 (equivalent to 6.1 per cent of GDP) to a deficit of around $US 0.5 billion last year.

The impact of " real " movements in trade flows on the *current account* has been masked by the sharply divergent development of export and import prices as a result of soaring world commodity prices and possibly some lag in adjusting to the effective revaluation of the Australian dollar (see Diagram 3)[2]. According to the implicit national accounts deflator, prices received for exports (of goods and services) in terms of Australian dollars rose on average by 20.9 per cent during 1973, while those paid for imports fell by 1.3 per cent.

While Australia has traditionally been a net importer of capital, a series of policy measures initiated in late 1972 led to a reversal in the direction of these movements last year[3]. Whereas a net inflow of about $A1.9 billion occurred in 1972, a net outflow amounting to some $A 720 million was recorded during 1973.

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as reflected in a large value for the " Okun multiplier ". According to a Treasury survey (The Australian Economy 1970) " it is generally reckoned that about half the net number of migrants goes into the work force ". The corresponding figure for the total population is *ca* 44 per cent. As discussed in the 1972 Survey (page 38) the impact of immigration on the per capita growth rate of total output is the subject of some debate, but in the immediate short-term it has undoubtedly served to ease labour market pressures.

1 During the 12 months ended November last year female employment rose by 7.9 per cent compared with 2.7 per cent for males.

2 During the 12 months to September 1973 the overall price index (measured in Australian currency) for the country's commodity exports rose by 29 per cent. The largest increases recorded were for: wool (61 per cent), cereals (41 per cent), dried and canned fruits (35 per cent) and meat (40 per cent).

Since Australia is to be regarded as essentially a price taker in both export and import markets, the effective revaluation of the $A can be expected to have little impact on the country's terms of trade.

3 See pages 20-22 below as well as Annex I " Foreign Investment in Australia ".

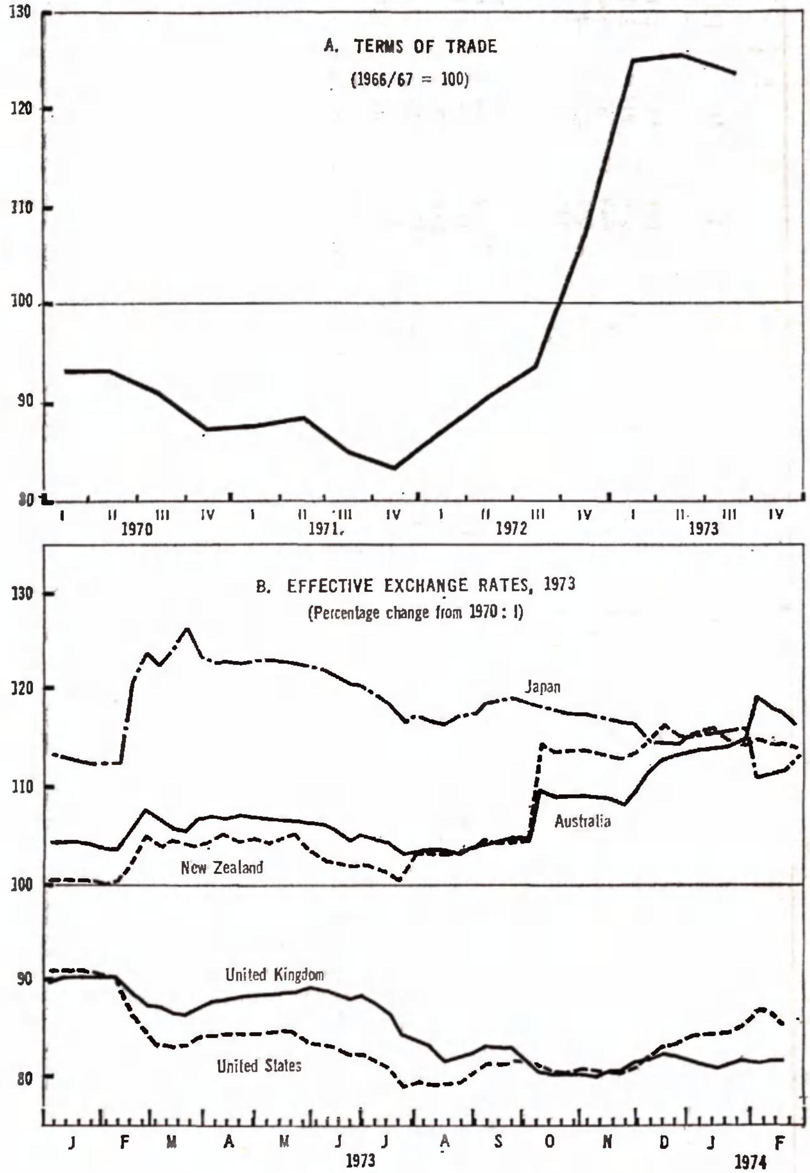
Table 2 **Balance of payments**
$ million

	1972	1973	1972				1973			
			I	II	III	IV	I	II	III	IV
Exports (fob)	5 225	6 553	1 154	1 278	1 316	1 477	1 605	1 592	1 616	1 740
Imports (fob)	3 589	4 484	913	844	892	940	956	1 009	1 221	1 298
Trade balance	1 635	2 068	241	434	423	537	649	583	394	442
Invisibles (net)	-1 363	-1 668	-295	-389	-317	-362	-408	-429	-401	-430
Current balance	272	401	-54	45	106	175	242	154	-7	12
Capital account										
Government	-27	-52	1	-59	41	-10	-57	-64	74	-5
Marketing authorities	-52	80	-19	-39	12	-6	14	14	28	24
Other private	1 345	-384	352	373	369	251	-341	-35	-114	n.a.
Balancing item[1]	646	-367	81	235	116	214	-188	-25	-1	-153
Net apparent capital inflow	1 912	-723	415	510	538	449	-572	-110	-13	-28
Net monetary movements	2 184	-322	360	555	644	625	-331	44	-20	-15

1 Other private capital inflow (excluding undistributed income) for December quarter of 1973 is included in balancing item. Undistributed income during this quarter is estimated at $ 106 million.

Source: Australian Bureau of Statistics.

Diagram 3 **Terms of trade and exchange rate**



NOTE Terms of trade have been estimated from the Commonwealth Statistician's export price index (converted to a 1966/67 base) and the Reserve Bank's import price index.

Effective exchange rates represent trade-weighted weekly averages of daily figures.

Source: Secretariat estimates.

Resurgence of inflationary pressures

Australia has not been spared the intense inflationary pressures which OECD Member countries, without exception, experienced last year. Indeed, the rise in the GDP deflator—probably the most widely used overall measure of price increase—was among the highest in the entire OECD area[1] in 1973. It would appear, however, particularly inappropriate to refer to this measure in the context of considering Australia's " domestically generated " inflation last year since, as noted above, an exceptionally large movement took place in the country's terms of trade[2]. While the implicit deflators for the major components of gross national expenditure are listed below, attention will be focussed largely on the consumer price index (CPI) in the following paragraphs.

Implicit deflators of domestic expenditure

	1972	1973
Consumption		
—private	5.4	7.6
—public	9.4	10.5
Gross fixed investment		
—private	6.0	7.9
—public	7.0	9.3
Total major GNE components	6.1	8.2

The acceleration in the rate of price increase which began to emerge some time after the slowdown in domestic activity towards the end of 1970 could at the time be interpreted as a customary cyclical phenomenon. However, the subsequent tenacity of these inflationary forces exceeded normal experience of the lag between movements in output and prices and it seems that the National Wage decision in December 1970 was an important factor underlying the acceleration of prices in 1971. Nevertheless, behaviour of the CPI during 1971 and 1972, as revealed in Table 3 below, suggests that some success was being obtained in bringing these pressures under control —the severe 1971/72 Budget was primarily addressed to this very task. From a peak December 1971 figure of 7.2 per cent, the annual growth rate of the index declined in successive quarters of 1972 to 4.5 per cent.

However, the course of events as portrayed in Table 3—which represents growth rates over the corresponding quarter of the preceding year—is open to challenge. Diagram 4 presents in graphic form movements in the same

1 The Australian GDP deflator is estimated to have risen by 11½ per cent in 1973 (total OECD 8 per cent) compared with 7.5 per cent in 1972 (total OECD 4.8 per cent).

2 To the extent Australia is a price taker, these changes in foreign trade prices must be viewed as exogenous. The deflator for GDP is expected to exceed that for GNE by about 2.3 percentage points. At the other end of the scale, the UK, a major importer of primary materials whose currency has weakened relatively, is expected to be in the reverse situation with its GNE deflator about 2½ percentage points above the GNP deflator.

Table 3 **Consumer prices, wage rates and earnings**
Annual rate of change
Per cent

		Consumer prices	Weekly award wages	Average weekly earnings
1971	I	4.9	10.9	13.2
	II	5.4	11.0	13.5
	III	6.7	11.6	11.5
	IV	7.2	13.6	11.5
1972	I	7.1	6.8	9.0
	II	6.2	9.2	8.1
	III	5.7	9.4	7.6
	IV	4.5	8.9	8.4
1973	I	5.7	10.6	9.0
	II	8.2	12.1	11.4
	III	10.6	13.7	13.8
	IV	13.2	14.0	15.2

NOTE Rate of change is estimated on corresponding quarter of previous year. The weekly award wage series refers to a weighted index of minimum award rates payable to adult males. The average weekly earnings series is estimated on an equivalent " male unit " basis.

Source: Australian Bureau of Statistics.

index (and its major components) on a quarter-on-previous-quarter basis[1]. From this presentation the overall improvement in 1972 over 1971 is also evident but the steady progress indicated in Table 3 is no longer apparent. The year-on-year easing in the September and December quarters, especially in the latter, followed from the fact that the corresponding periods of 1971 had witnessed unusually large increases (an important contributing factor being boosts in various government charges)[2].

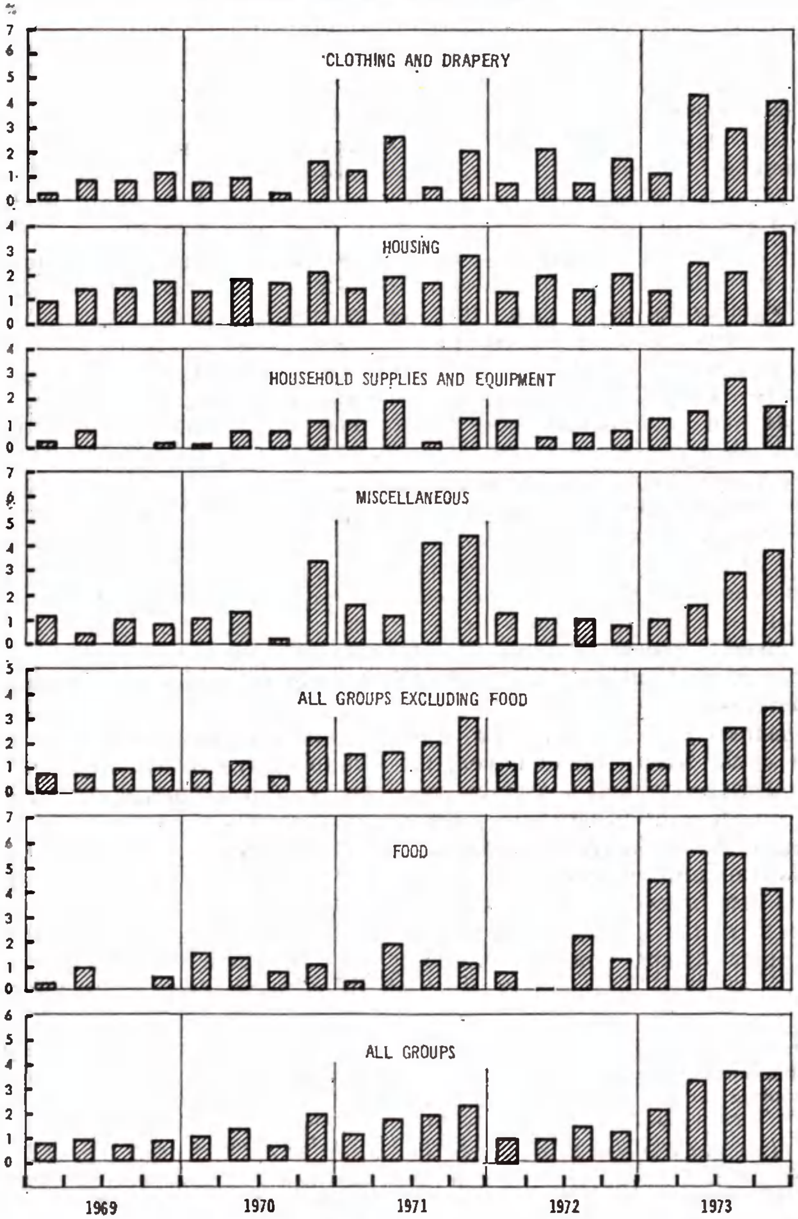
It is against this background that the acceleration in the index last year should be viewed. In the second half of 1973 consumer prices rose at an annual rate (seasonally adjusted) of 14½ per cent—a pace unequalled since the peak of the Korean war inflationary boom in mid-1952. In common with other Member countries, including the other large net food exporters, Canada and the US, food prices have played a leading role in this upsurge[3].

1 The Commonwealth Statistician does not publish a seasonally adjusted version of the Consumer Price Index. An examination by the Secretariat of the overall index as well as of its principal constituent groups failed to reveal any significant overall seasonality.

2 These included (State) government charges for fares and (Commonwealth) rates of customs and excise on tobacco (and tobacco products), as well as radio and TV licence fees and postal/telephone charges.

3 It is interesting to note that in the September 1973 quarter the food group caught up for the first time with the overall value of the index (i.e. since the base year of fiscal 1966/67). The weighting accorded this group in the index (31 per cent) is at present significantly greater than the share of food in the national accounting item of private consumption expenditure (19 per cent); the deflator for the latter rose by 8.1 per cent during the first three quarters of 1973 (over the end 1972 level) compared with 9.3 per cent for the CPI.

Diagram 4 **Consumer price index**
Percentage change on preceding quarter



Source: Australian Bureau of Statistics.

Food contributed almost half of the overall increase in consumer prices during 1973—a figure close to that for other Member countries. At the same time, it is strikingly apparent from the diagram that all the major groups in the index are rising strongly. This is reflected in an acceleration in the " all groups excluding food " index which in the four quarters of 1973 rose by 1.1, 2.3, 2.7 and 3.5 per cent respectively[1].

Only fragmentary indicators of *wholesale* price movements are available and these relate to the building industry where pressures have been particularly intense. During the 12 months to the end of November, wholesale prices of such materials had risen by 14.1 per cent in the case of housing and by 11.4 per cent for other building. The composition of these increases reflects what one might expect on the basis of world commodity price movements, with the costs of timber and non-ferrous metals (except aluminium) rising significantly faster than other construction materials.

For purposes of policy prescription it would be advantageous to be able to identify with some degree of precision the source of these inflationary pressures—i.e. to indicate the relative importance of demand-pull and cost-push as well as influences more directly emanating from abroad. These different elements are, of course, not independent and attempts in practice to disentangle their respective impact are likely to prove illusory. Nevertheless, it would appear beyond doubt that spiralling world raw material and commodity prices as well as the resurgence of domestic demand added last year to what had earlier been predominantly cost-push pressures in the Australian economy. External influences have operated both through the cost effect of commodity prices and the income effect (on demand) of the sizeable boost given to exporters' earnings[2]. As will be discussed below, the impact of these external influences was considerably attenuated by deliberate policy countermeasures.

Diagram 5, tracing comparative movements in earnings as well as unit labour costs, gives a broad indication of shifts in the relative strength of of demand and labour cost pressures. The revival of domestic demand led to profits rising faster than earnings during the latter part of 1972 and int oearly 1973[3]—indeed when allowance is made for seasonal influences, there was an absolute decline in average unit labour costs in the December

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1 During the period 1959/60 to 1969/70 the trend rate of growth of the major groups of the Consumer Price Index were:

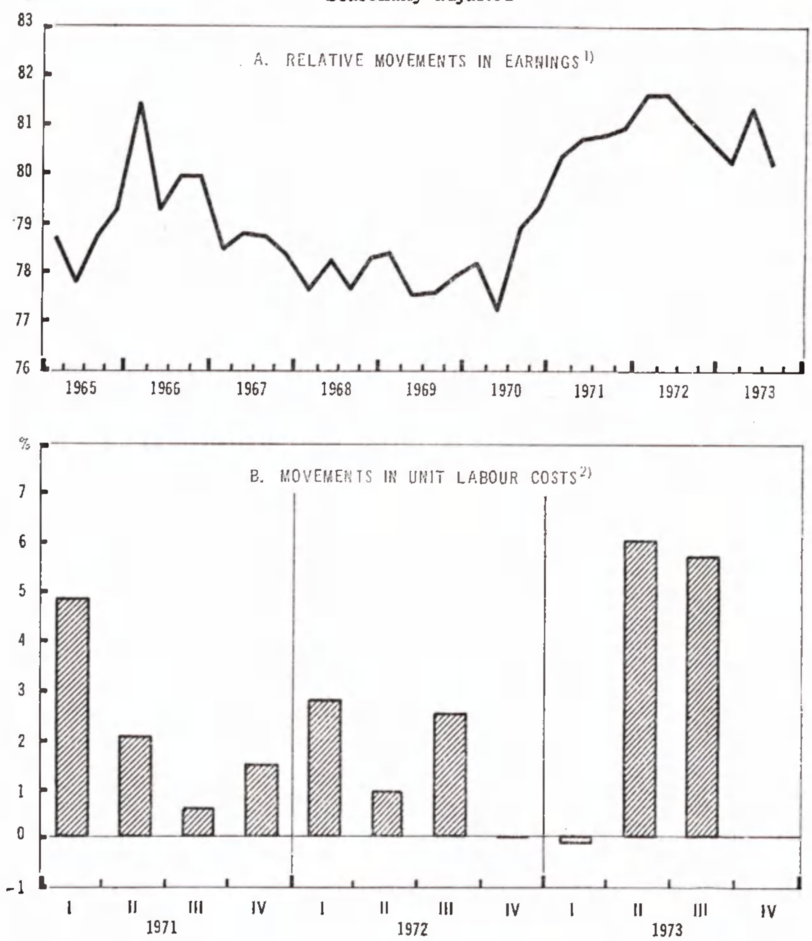
Food	2.5 per cent per annum
Household supplies and equipment	0.9
Miscellaneous	3.0
Housing	4.4
Total index	2.5

2 Last year (realised) farm incomes were almost 50 per cent higher than in 1972. As noted above, the rural recovery has stimulated purchases of farm machinery and equipment, fertilizers and other items of deferred expenditure. On the other hand, household consumption patterns tend to be relatively stable, with fluctuations in farm incomes tending to be reflected in savings to a greater extent than is the case with other households.

3 It should be borne in mind, however, that during cyclical upturns there is a tendency for self-employment in the non-farm sector to increase relatively rapidly (probably, subcontracting in the construction industry is an important element).

and March quarters[1]. However, the rapid appearance of bottlenecks imposed by the scarcity of available resources together with sharply rising raw material costs led to the abrupt re-emergence of cost pressures toward the middle of the year. This pattern seems to be confirmed by the results of business surveys of manufacturing industry. The index of minimum award wage

Diagram 5 **Earnings and unit labour costs**
Seasonally adjusted



1 Earnings (wages, salaries and supplements) expressed as a percentage of earnings plus gross operating surplus of companies.
2 Percentage change on previous quarter in average earnings per unit of non-farm gross output.
Source: Secretariat estimates.

1 This result may, however, have been influenced by distortions introduced by the seasonal adjustment procedure.

rates rose by 13 per cent during the 12 months to end-September; about two-thirds of this increase can be attributed to the (postponed) 1972 National Wage Case decision and to the second instalment of the 1972 Metal Trades Award, both of which took effect about the same time (end May/early June)[1]. Average earnings rose by about the same amount as these minimum rates during the same period. Consumer surveys last year suggested that inflationary expectations among households were beginning to contribute to demand pressures (especially for durables). In the housing market speculative pressures led to a spiralling of property prices.

Tightening policy

At the beginning of last year the economy was in a highly liquid state, due primarily to a growing current account surplus and a very high rate of capital inflow which were adding rapidly to the money base. There was at the time considerable uncertainty in some quarters as to the immediate prospects for the economy, and the new Government quickly expanded the scope of existing unemployment relief schemes and raised the rates of certain welfare benefits[2]. However, as the strength of the recovery became increasingly evident, the policy stance was modified—beginning with an upward movement of interest rates in February and the announcement in April of an increase in the commercial banks' Statutory Reserve Deposit (SRD) ratio[3]. Prior to this a series of measures had been taken in September and December 1972 aimed specifically at the external account. The most important of these were a revaluation of the Australian currency, imposition of an embargo on short-term borrowing abroad and introduction of a variable deposit requirement scheme on other foreign borrowing. The operation of these policies—particularly that of the variable deposit scheme—contributed materially to stemming the growth rate of private sector liquidity. During the ensuing months of the year monetary and external policy was further tightened. Fiscal policy, on the other hand, has taken a neutral stance.

Due essentially to the expenditure decisions taken in the course of the fiscal year, the 1972/73 budget recorded a domestic deficit of \$ 215 million (equivalent to about ½ per cent of the preceding year's GDP) compared with the forecast \$ 60 million. Although demand was rising strongly at the time of preparation of the 1973/74 budget[4], the Government's scope for implementing a restrictive fiscal policy was strictly circumscribed by its earlier election pledges not to raise personal income tax rates and to expand a range of outlays

1 The National Wage award provided for an increase in weekly wage rates of \$2.50 plus 2 per cent of award and for a \$9 per week increase in the minimum wage, with effect from the first pay on or after the 29th May, 1973. The Metal Trades decision had provided for an increase of \$3 per week from September 1972 and a further \$3 as from June last year.

2 It was stated, however, that the increased rates of social security benefit payments were motivated by social rather than demand management considerations.

3 Statutory Reserve Deposits are the legal minimum reserves which the banks are obliged to hold with the Reserve Bank. Required holdings are expressed as a percentage of the trading banks' Australian deposit liabilities.

4 In his Budget Speech the Treasurer reported that: " The main elements of the economic situation are strongly rising demand, vigorous growth in output, full employment and external strength. These favourable features are, however, coupled with persistent inflation. "

associated with its programme of social reform. As a result, a domestic deficit is again being budgeted for—though, at $ 53 million, of smaller magnitude than the 1972/73 outcome[1]. Outlays are expected to rise by 19 per cent in 1973/74; this is considerably less than the growth rate of expenditure during the final four months of fiscal 1972/73, which reflected the various postbudgetary actions. The difficulties of assessing the budget's effect on the economy are well known. Nevertheless, examination of the broad categories of expenditure suggests that its impact may prove rather expansionary. The major boosts in expenditure are in functional categories likely to have relatively higher multiplier effects or in areas such as construction where the claims on resources are already running at a high level[2].

An indication of the strong reliance which has been placed on measures other than budget policy is provided by Table 4 which analyses changes in the money base. Comparing the first halves of 1973 and 1972, by far the most important factor contributing to the marked contraction in primary liquidity was the abrupt reversal in direction of private capital movements. While calls to the banks' Statutory Reserve Deposits also lent support, the domestic surplus recorded by the Commonwealth budget was smaller than during the corresponding period of either of the two preceding years. It is difficult to assess the relative contributions of individual measures in bringing about this net capital outflow[3], but the direct controls on foreign borrowing have certainly been of prime importance. The September 1972 measures had some effect on capital inflow. With the introduction of the variable deposit requirements scheme in December, new borrowing overseas effectively ceased. When in September/October 1973 movements in foreign, relative to domestic, interest rates again raised the possibility of borrowing abroad becoming attractive, the authorities promptly raised the deposit rate from one-quarter to one-third.

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1 Budget outlays are estimated to rise by 18.9 per cent on the 1972/73 outcome. At unchanged rates of taxes and charges, revenue would have increased by 17.0 per cent (of which income tax receipts account for 11.4 percentage points). Discretionary measures are estimated to add a further $339 million to receipts, raising the overall rate of increase to 20.6 per cent. Of this $339 million, almost 40 per cent is accounted for by the implementation of recommendations of a special committee appointed to review the expenditure policies of the previous government (the Coombs Task Force).

2 On the other hand, a sharp decrease is budgeted for in procurement of defence equipment and stores (which normally has a relatively high import content).

3 See Calendar of Main Economic Events. Briefly, the main measures having a direct effect on the capital account were:

September 1972	Embargo placed on short-term borrowing abroad.
	Guidelines restricting borrowing in Australia by foreign companies abolished.
	Easing of effective prohibition on portfolio investment abroad by Australian residents.
	Controls placed on foreign takeovers.
December	Appreciation of the $A by 7.05 per cent.
	Introduction of variable deposit scheme for borrowings abroad exceeding 2-year maturity (deposit rate initially set at 25 per cent, raised in October 1973 to 33⅓ per cent).
February 1973	Extension of borrowing controls to cover indirect forms of borrowing.
	Gold parity of $A maintained following devaluation of $US.
September	Revaluation of the $A by 5 per cent.

Table 4 **Main determinants of change in private sector primary liquidity**[1]
$ million

	1971			1972			1973		
	I	II	Total	I	II	Total	I	II	Total
Balance of payments current surplus[2]	–390	–406	–796	–9	281	272	396	–5	391
Net apparent private capital inflow[3]	1 029	935	1 964	983	956	1 936	–561	–110	–671
Budget domestic deficit[4]	–1 238	1 230	–43	–1 635	1 351	–306	–1 137	1 326	189
Reserve Bank rural credits advances	–64	–61	–125	17	–66	–49	13	–91	–78
Reduction in trading banks SRD accounts	16	1	17	61	–41	20	–185	–264	–449
Total	–658	1 675	1 017	–588	2 454	1 866	–1 474	856	–618

1 Primary liquidity equals cash plus holdings of Australian Government securities.
2 Includes government current account items which do not influence private sector liquidity.
3 Excludes government capital transactions and includes marketing authorities transactions, other private capital inflow and the balancing item. This last item includes net errors and omissions, and balances to a net monetary movements figure on an official parities basis rather than a market values basis.
4 Including net advances to Australian Wheat Board.

Source: Treasury Information Bulletin.

The importance of the role of revaluation of the $A in stemming the rate of capital inflow is difficult to assess in quantitative terms. Undoubtedly it will have had some such effect, but available evidence indicates that at least until towards the end of 1972 the speculative element was relatively minor[1]. Nor is it possible to quantify the effect of the screening operations of the Committee on Foreign Take-overs. In the administration of the Companies (Foreign Take-overs) Act 1972-1973, which came into operation on 9th November, 1972, no more than 4 per cent of the 375[2] takeover proposals which have been submitted to the Government have been disallowed, while 3 per cent of the proposals were subsequently withdrawn when stay proceedings were instituted by the Government[3]. It is, of course, impossible to assess the extent to which the existence of controls *per se* has discouraged the making of bids. The cautious easing of restrictions on portfolio investment abroad by Australian residents has been of negligible impact in the overall picture so far.

Despite this tightening in markets the money supply continued to grow rapidly. For example, money supply narrowly defined rose at a seasonally adjusted annual rate of 30 per cent in the second quarter of 1973 and 20 per cent during the third quarter[4]. Nevertheless, given the high rate of inflation, the overall liquidity ratio of the economy (ratio of money supply to gross national expenditure valued at current prices) fell during the September quarter for the first time in 2 years (see Diagram 6). Domestic banks were quickly called upon to replace overseas sources of funds, and the utilization ratio of overdraft limits rose rapidly. Several calls have been made to the SRD accounts, pushing up the minimum ratio from 6.6 per cent of total deposits at the beginning of the year to 9 per cent by the end of August. The timing of the original call in April produced maximum effect[5]. The banks ran down their holdings of Treasury Notes to help finance these demands on their resources, this being reflected in a quite rapid fall in their free LGS ratio (see Diagram 6)[6]. On the occasion of the September revaluation the Government

1 Following the decision to maintain the official parity of the $A when the $US was devalued in February last, there was a large outward movement of funds. This reflected the repayment of loans contracted in US dollars, movements in trade credits and other private capital transactions.

2 In over 50 per cent of proposals received, action is not available under the act, In a further 30 per cent of cases the proposals involved assets of less than $ 1 million, where current practice is not to intervene in cases where considerations of national interest are not involved.

3 The relevant figures, which cover the period to 31st January, 1974, are :

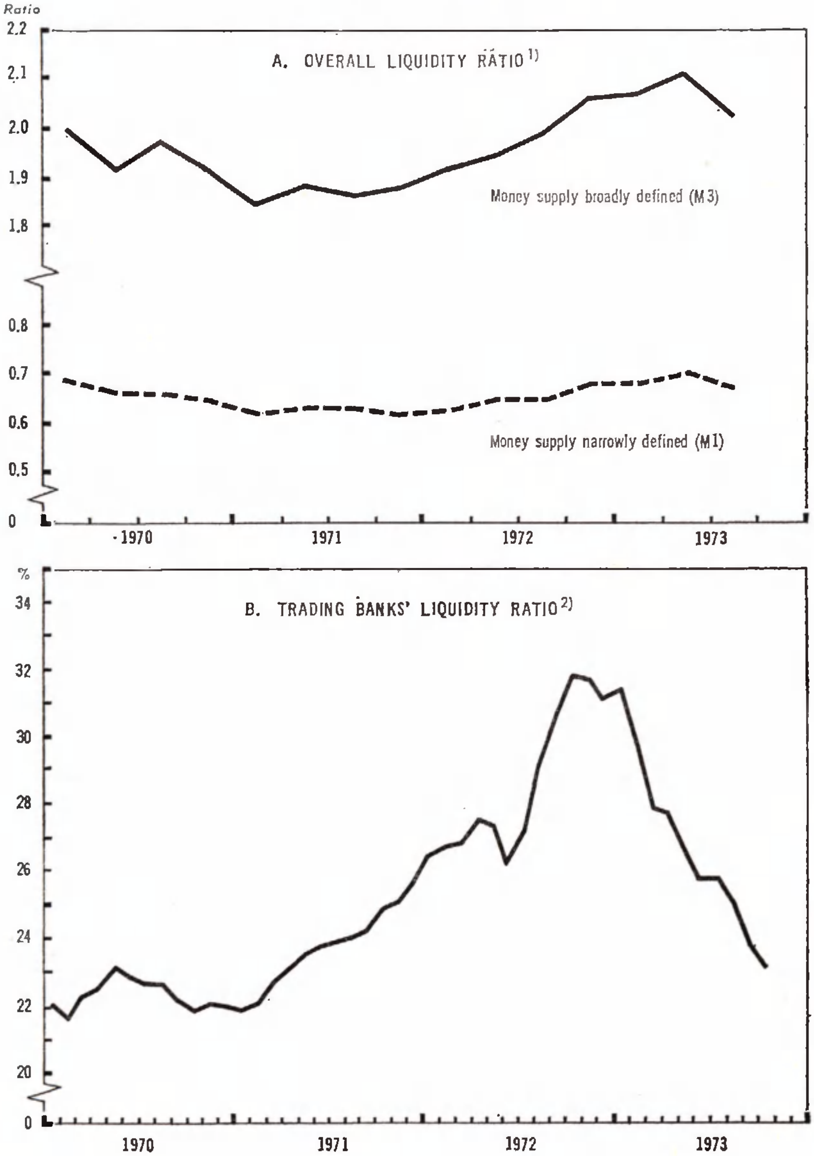
Allowed to proceed	311
Disallowed	15
Withdrawn	11
Under consideration	38
	375

4 According to the broader definition of the money supply, by 23 per cent and 29 per cent respectively.

5 This was in fact only the second time that the SRD ratio had been increased during the period April-September. Typically, adjustments during this period are downward to accommodate the banks in meeting a seasonal tightening of liquidity.

6 The banks' LGS (" liquid assets and other Australian Government securities ") ratio is the ratio of their holdings of cash and Australian government securities to their deposit liabilities. The commercial banks experienced, however, a very sharp rise in their fixed deposits from August onward in response to increases in deposit interest rates.

Diagram 6 **Liquidity indicators**
Seasonally adjusted



1 Ratio of money supply to gross domestic expenditure.

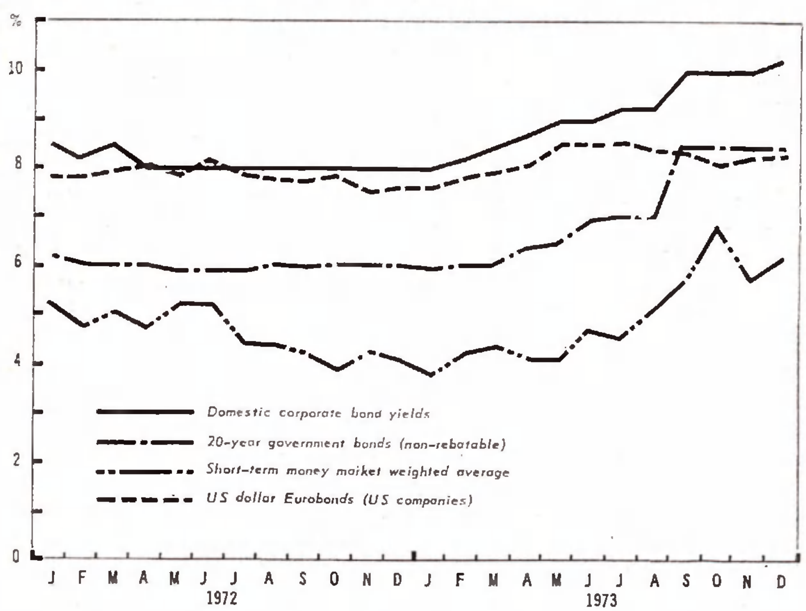
2 Major trading (i.e. commercial) banks' holdings of liquid assets and other Australian government securities (LGS assets) expressed as percentage of total deposits. By agreement the banks maintain a minimum holding of 18 per cent.

Source: Secretariat estimates.

announced that the Reserve Bank had been instructed to press its open-market sales of government securities vigorously[1]. Credit availability began to tighten and in October the growth rate of bank advances was slowing. In the December quarter bank advances grew at a seasonally adjusted annual rate of 11 per cent compared with an annual rate of 46 per cent in the first three quarters of 1973.

Interest rates, after reaching a cyclical low at the beginning of 1973, began rising in February and by the final quarter of the year had reached historically high levels. As the future course of policy became clearer and the market adjusted to rising yields, a government securities issue in May offering a rate on 20-year bonds (a key rate in the yield spectrum) only slightly above what the market had already established was poorly received. A period of considerable uncertainty followed, which was only terminated by the July loan in which the rate was raised to 7 per cent. The substantial jump to 8.5 per cent offered in the October loan (the highest level ever recorded) is to be viewed against the fiscal policy stance implicit in the August budget as well as the official announcement in September concerning the pursuit of open-market operations. Short-term rates have moved up even more sharply, reducing substantially the yield gap between these and long maturities.

Diagram 7 **Movements in selected interest rates**



Sources: Reserve Bank of Australia Statistical Bulletin; Morgan Guarantee Trust, " International Financial Markets ".

1 By the end of September the trading banks had reduced the value of their holdings of government securities by almost one-quarter compared with the beginning of the year, and the authorised money market dealers by about 34 per cent.

Although some uncertainty still remained about future movements in short rates, by November there were signs that long rates might have stabilised. The terms announced recently for the February 1974 loan broadly maintained previously established rates.

As inflationary expectations became more firmly entrenched, their deterrent effect was increasingly emasculated by the facility with which cost increases could be shifted forward to prices[1]. Other policy initiatives were taken to come more directly to grips with the problem of rising prices. On the basis of a report prepared by a special committee appointed to investigate possible means of stimulating imports (to relieve supply shortages), a 25 per cent across-the-board cut was made in July[2] in all tariffs except those applying to goods also subject to excise duties. The Committee estimates implied that the effect on prices of import-competing goods would be slightly less than that of a 6 per cent revaluation and would boost imports to the tune of about 1 per cent of GDP[3]. A Parliamentary Joint Committee detailed an impressive list of circumstances under which the benefits from the December 1972 revaluation might not be fully passed on to the final consumer, but nevertheless concluded: " particularly against the background of continuing world inflation, that the upvaluation of the Australian dollar has arrested the increase in import prices and that these prices would have been significantly higher without upvaluation "[4].

In March 1973 the Government announced its decision to establish a Prices Justification Tribunal to which, in principle, companies with a turnover of $ 20 million or more per annum would be required to notify intended price increases[5]. It is particularly difficult to assess how effective the Tribunal will prove to be[6]. Nevertheless, experience to date is considered encouraging. Up to late March 1974 some 2 000 notifications had been received by the Tribunal and nine public enquiries initiated. In each of the completed enquiries the companies concerned have accepted the recommendation for a lowe price increase than that sought. At least as important as these public enquiries, however, have been the results obtained at preliminary private hearings held prior to any decision to proceed with public investigation. In a large number of instances intended price rises have been either substantially reduced or completely withdrawn.

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1 Implying at the same time that real rates were not following the movement in nominal interest rates.

2 As around two-thirds of Australian imports enter at non-protective rates (i.e. less than 12½ per cent, ad valorem), the effect of the tariff cut on import prices would be slightly more than that of a 2 per cent revaluation. Of course, to the extent that protectivetariffs are reduced, the share of imports at non-protective rates can be expected to decline.

3 This figure is derived from the estimate of $ 390 million quoted by the Committee.

4 The Parliament of the Commonwealth of Australia, " Import Prices Inquiry —Price Effects of Currency Changes—(Report No. 1) ", November 1973.

5 See Appendix 2 for further details. A number of exemptions have been admitted to the notification procedure—price rises resulting from volatile world market prices (e.g. for metals and meat); prices fixed by open-market tendering; prices for work undertaken under contractual specification.

6 As at present constituted, the Tribunal relies on " moral suasion ".

Prospects

Even prior to the oil crisis a slowing down in the growth rate of OECD output and trade was expected this year. The general world outlook is currently much more uncertain, with output in the seven major OECD countries expected to grow by only about 1 per cent compared with 6.6 per cent in 1973. Although the immediate threat to oil supplies has eased, potential uncertainty remains, and the very substantial increases in oil prices have to be digested. Being 70 per cent self-sufficient in respect to oil supplies, Australia is one of the most favourably placed among Member countries and also has relatively abundant alternative energy sources. Nevertheless, the country is largely dependent on foreign sources for its supplies of fuel oils. Furthermore, the indirect repercussions via the effect on trading partners must be taken into account. First and foremost, this applies to Japan, Australia's most important trading partner, whose import requirements are now estimated to grow by about 6 per cent this year compared with almost 30 per cent in 1973.

On the domestic scene restraints to expanding output seem more likely to continue emanating from supply shortages than from a deficiency of demand during the coming months. A marked slowing down was discernible during the course of 1973 in the growth of non-farm output which declined from an annual rate of 8½ per cent (seasonally adjusted) during the first 6 months to 4½ per cent in the final half. However, the impact of the various policy measures taken earlier to promote imports, together with increased availability of supplies from overseas sources, should help relieve the severe shortages which have no doubt contributed to holding back the growth of output. Nevertheless, recent surveys point to a marked increase in business pessimism concerning the short-term outlook for the economy as a whole. These views contrast strongly with the current buoyancy of business conditions recognised by respondents and may be heavily influenced by recent events on the international scene.

With a considerable amount of work in the pipeline, building and construction activity is likely to remain buoyant, even though the impact of the severe monetary policy on the cost and availability of credit is already affecting demand. Public sector programmes seem likely to absorb any slack in this sector which may appear later. Retail sales remain buoyant, and surveys suggest that demand for consumer durables may continue firm. The rebuilding of stocks should constitute an important element of demand. The outlook for exports is notoriously difficult to assess, being heavily reliant on sales of rural products which in turn depend not only on domestic output, but also on that of other major suppliers. Substantial increases are expected in shipments of wheat[1]. On the other hand, some decline is expected in the volume of wool sold abroad in 1974. Any further appreciation of the Austra-

1 The Bureau of Agricultural Economics has estimated the growth rate of rural output during fiscal 1973/74 at 10 per cent. The wheat crop is expected to increase by some 80 per cent and beef and veal by about 10 per cent, while a small decline is expected in the output of wool, mutton and lamb. Severe floods and heavy rains in eastern Australia during early 1974 are expected to lead to a downward revision of the December 1973 estimate of the gross value of production of rural origin which was at a record level of $ 6.22 billion for 1973/74. Wheat production and quality have been adversely affected, the loss of sheep is reportedly heavy and there has been extensive damage to horticultural and cotton crops.

lian dollar would add to difficulties for manufacturing exports which are already facing a slowdown in the growth rate of their markets[1].

There are indications that the intensive demand pressures for labour are easing. While employment growth remained strong through the period to November, the seasonally-adjusted unemployment rate rose marginally in October and has since shown little change. Manufacturers were expecting a reduction in overtime during the March quarter. While much of this may be seasonal, movements in an indicator of job advertisements tend to confirm this assessment. On the other hand, the recent upsurge in rural incomes plus the expected increase in rural output this year should stimulate the demand for labour in these areas where unemployment is at present concentrated. Furthermore, the easing in labour market conditions, which should be viewed against the marked slowing down in the growth rate of non-farm output, could well be arrested by the expected easing of shortages in materials supplies.

According to latest estimates the rate of increase of food prices has now been slowing down since September, and an easing in the escalation of property prices is discernible. Nevertheless, with the expected very high rates of inflation abroad—the GNP deflator for the OECD area as a whole this year is estimated to rise by about 10 per cent—the pressure from external sources is likely to remain severe. A sharp increase in international freight costs can also be expected. On the other hand, the impact on domestic costs of the substantial increase in international oil prices is likely to be much less severe than in most other Member countries, as domestic crude oil prices are at present fixed under long-term contracts until September 1975[2]. Better balance in the labour market can be expected, but the outcome of the National Wage Case begun in February, and of the Metal Trades Award will be of considerable significance[3].

With the volume growth of imports expected to exceed that of exports by a wide margin, prospects for the balance of payments on current account will depend critically on the course of commodity prices. Some fall from the present very high levels could possibly occur in the prices for meat and wool, although contracts written earlier should ensure a substantially higher average price for wheat. As mentioned above, the freight bill is likely to rise steeply and the extra cost of oil imports may be in the region of about $A 300 million (or about 6½ per cent of last year's total merchandise import bill). Under these circumstances it is probable that the current account will experience a deficit this year.

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1 Over 60 per cent of manufactured exports are directed to Pacific and Asian countries, the largest market being New Zealand.

2 Taking into account the fact that only 30 per cent of supplies are imported, the average overall increase in the cost of crude to Australian refiners should amount to about 50 per cent. It should be noted, however, that application has already been made to the Prices Justification Tribunal for a 6.9 per cent increase in the price of petroleum products.

3 The Australian Council of Trade Unions (ACTU) lodged a claim for a $ 10 a week increase, which is equivalent to about a 9 per cent increase on present male average weekly earnings, but following publication of the December quarter consumer price index it announced that this claim would be lifted to $ 11 a week. In addition, the ACTU will again seek restoration of wage indexation to consumer prices. For purposes of estimating revenue during fiscal 1973/74 the Budget assumed an increase in average earnings of 13 per cent, which is slightly above the average rate recorded during the first three quarters of last year. In the event that the ACTU claim is awarded in full, the increase in average earnings in the current year will be considerably above that in 1973.

II THE PUBLIC SECTOR IN THE ECONOMY

In April 1973 the newly-elected Government established a high level Task Force to review the effects of the continuing expenditure policies of the previous Government, with the object of making room for its own higher priority programmes. Presenting its findings to the Government in June 1973, the Task Force drew attention to the need to prevent demand pressures bringing about inflationary rises in costs and prices. With the Government committed to substantially increased expenditure programmes and the economy operating at full capacity, there was little scope for increasing the public sector's demands on resources without some compensating reductions in existing programmes. The relationship between demand-management requirements, public expenditure and inflation are well-known, but in recent years other aspects of public sector operations have attracted increasing attention as one possible source of deteriorating price stability in Member countries. In Australia the growth and financing of public sector operations is of particular interest[1]. The following sections examine these aspects of the public sector in Australia and draw comparisons with trends in other countries.

The growth and size of the public sector[2]

Although public expenditure experienced a major expansion in relation to GDP in Australia over the period 1955/56 to 1970/71, its rate of growth was below the average for Member countries listed in Table 5. Over this period public expenditure in Australia increased at a rate 21 per cent faster than GDP. For Member countries shown in Table 5, the average comparable rate was 24 per cent. At the same time, Australia was the only Member country where the expenditure elasticity in the sub-periods 1955/56-1960/61, 1961/62-1965/66 and 1966/67-1970/71 showed a steady deceleration. The elasticity was particularly low in the latter period when the proportion of public expenditure in GDP barely increased.

The longer-term tendency for the growth of public expenditure in relation to GDP in Australia to slow down continued up to 1970/71. But consi-

1 When considering the role of the public sector from the point of view of its influence over resource allocation, it should be borne in mind that the authorities may affect patterns of demand by policies whose direct impact may not be revealed in public sector financial accounts. Taxation concessions, the extension of loan guarantees, etc. may be cited in this context. The granting of taxation concessions, the effect of which conceptually could equally well be equated with expenditure by the government as a reduction in revenue, illustrates the necessity of considering the income and expenditure sides of the public sector accounts together if the net impact of government operations is to be assessed. It also illustrates one of the difficulties inherent in attempting international comparisons of the size of the public sector; for example, country A may rely relatively less on tax concessions (which do not appear explicitly in the accounts) than country B but relatively more on income transfers (which have a similar impact on the beneficiaries' disposable income but which appear explicitly in the government accounts).

2 The following discussion refers to general government; i.e. the combined Australian, State and local government sectors, excluding public enterprises.

Table 5 **Income elasticity of public sector expenditure**[1]

	1956-60	1960-65	1965-70	1956-70
Norway	1.86	1.32	1.33	1.41
Denmark	1.06	1.40	1.59	1.39
Belgium	1.86	1.15	1.35	1.34
Canada	1.98	1.02	1.35	1.34
Switzerland	1.26	1.41	1.28	1.33
United States	1.45	1.07	1.49	1.33
Netherlands	1.22	1.38	1.31	1.32
Sweden	1.20	1.33	1.40	1.32
Greece	1.21	1.30	1.25	1.26
Spain	1.02	1.01	1.66	1.23
Ireland	0.55	1.40	1.33	1.22
Australia	1.24	1.10	1.00	1.21
Germany	1.20	1.29	1.04	1.18
United Kingdom	1.03	1.23	1.24	1.18
Austria	1.08	1.25	1.10	1.15
Finland	0.88	1.36	1.16	1.15
Italy	1.26	1.28	0.98	1.14
France	0.84	1.30	1.01	1.05
Japan	1.09	1.14	0.89	1.03
OECD	1.23	1.27	1.25	1.24

1 Elasticities have been estimated with respect of GNP/GDP at current market prices. Public sector expenditure includes defence but excludes interest on public debt. capital transfers and current transfers abroad.

Source: Secretariat estimates.

derable counter-cyclical measures were taken in late 1971 in order to boost demand as well as reduce unemployment and the 1972/73 budget was reflationary, so that the underlying trend for the expenditure elasticity to fall has been reversed in recent years. With the new Government implementing some of its election pledges in 1973 and 1974, total public expenditures are expected to rise rapidly, indicating an increasing share of resources coming under public sector influence, either directly or indirectly. The potential difficulties arising from a sharp increase in public outlays have been recognised by the Australian authorities who for some time have been developing a system of three-year estimates of expenditure to assist in the efficient incorporation of new programmes into the existing expenditure structure.

In Table 6, developments in Australian public expenditure are summarised by function. An important feature emerging from the table of the growth of the public sector up to 1970 was the increase in defence expenditure in the years 1962/63-1967/68 in response to a major re-equipment programme. Over the whole period 1955/56-1970/71 Australia had the highest elasticity for defence expenditure among the Member countries listed in the table, but the share of resources going to defence has since been reduced. In the 1973/74 budget there was practically no change in the total defence vote from the previous year. The expenditure elasticity on education has also been comparatively high by OECD standards, especially in recent years. This reflects a number of factors, among which the most important have been a large increase in the school-age population, the raising of the school-leaving age, a rising

Table 6 **Public sector expenditure elasticities by function[1]**
1955-1970

	Canada[2]	United States	Japan[3]	Germany[4]	United Kingdom	Australia[5]	Denmark[6]	Sweden[7]	Switzerland[8]
General public services	1.4	1.5	0.8	1.3	1.4	1.3	1.1	1.5	1.1
Defence	0.5	0.8	0.8	0.5	0.6	1.2	0.9	0.7	0.8
Education	1.9	1.6	0.9	1.5	1.6	1.6	1.6	1.4	1.5
Health	2.1	1.4	0.9	1.4	1.3	1.3	1.5	1.8	1.2
Social security and welfare	1.2	1.6	1.0	0.7	1.6	0.9	1.4[9]	1.8	1.2
Housing and other community amenities	1.6	1.7	1.3	0.2	1.4	1.2	..	1.3	2.4
Other community and social services	..	1.5	..	0.9	1.7	2.0	..	1.7	1.7
Economic services	1.1	1.1	0.9	1.0	1.5	1.3	1.5	1.0	1.2
Other purposes	1.6	1.0	-1.3	1.8	1.0	1.0	1.3	2.0	1.4
Total public expenditure	1.3	1.2	0.9	1.0	1.2	1.2	1.4	1.4	1.3

1 Elasticities are estimated with respect to GNP/GDP.
2 1955-1969 (financial years).
3 1960, 1965-1970 (financial years).
4 1963-1969.
5 1955-1970 (financial years).
6 1955-1969.
7 1963-1971.
8 1961-1970.
9 Including child and personal allowances from 1961 onwards.
.. Function not distinguished in national sources.

Source: Secretariat estimates.

proportion of students attending government schools and increased financial aid to students and private schools. The 1973/74 budget provided for further substantial increases in outlays on education. Another area of rapid growth has been the provision of general public services where, again, the Australian expenditure elasticity was at about the average in Member countries. In this case the fast growth rate is largely attributable to the general expansion of the role of government, extension of representation abroad and higher outlays on law and order.

Unlike the position in most European Member countries, the public sector in Australia has not been mainly responsible for the provision of most medical services. The major part of health expenditure is covered by private medical insurance funds but who administer partly matching government payments. Since 1961/62 public sector expenditure on health has risen at much the same rate as GNP. This is also the case with outlays for social security and welfare. The system of non-tax financing of some social and health services in Australia is one reason why the expenditure elasticity progressively declined up to 1973. At the present time the Government intends to introduce a national health insurance scheme as well as other improvements in welfare benefits which could add importantly to the size of public expenditure in the future.

The faster growth of public expenditure than GDP partly reflects exogenous changes such as demographic factors in educational outlays and in earlier periods defence re-equipment. In addition, rising demand for provision of economic services and for improvements in education and health transfers has contributed to the growth in the share of resources going to the public sector. Some part of the rise in public expenditure may also be explained by the faster rise in prices paid by the public sector for goods and services than in other prices. This reflects the composition of public expenditure rather than higher prices being paid for similar purchases made by other sectors.

To finance the considerable rise in total public outlays, taxation revenues have increased as a share of GDP from 21.2 per cent in 1955/56 to 25.2 per cent in 1972/73. The faster growth in taxation revenues than GDP has resulted largely from increases in personal taxation revenues. Over this period revenue from indirect taxes has remained more or less constant as a share of GDP. Partly in response to the substantial rise in total taxation revenues, private consumption as a proportion of GDP has fallen from 65.3 per cent in 1955/56 to 58.4 per cent in 1972/73, which raises the question of counter-reactions on the part of taxpayers for compensation[1]. In the case of the two main categories of tax, such reaction typically takes the form of wage claims being formulated in terms of after-tax increases in income and of demands for indexation of wage rates to consumer prices respectively.

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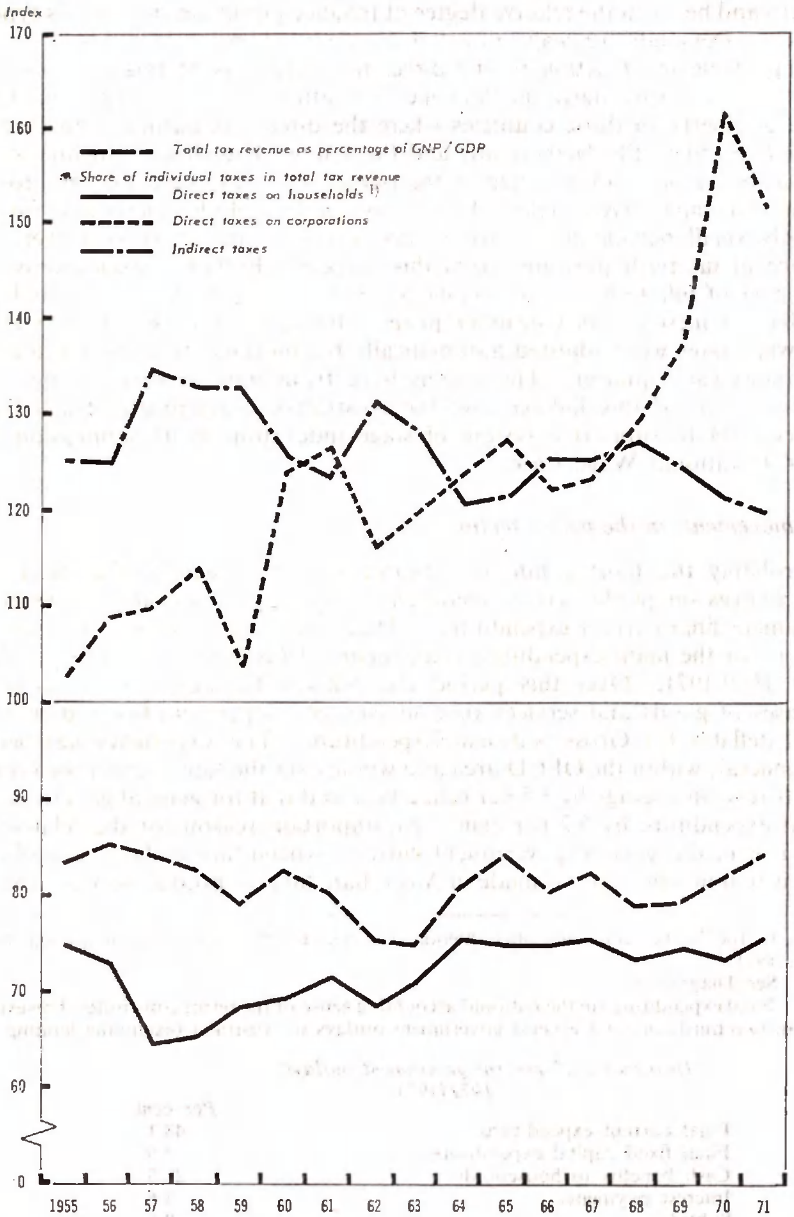
1 Although the electorate may be conceived of as deciding on a given public expenditure programme via the ballot box, the degree of control is at best indirect and exercisable at relatively infrequent intervals. Probably even less well defined is the degree of acceptance of the methods of financing such expenditure (if for no other reason than that political programmes are likely to give less precision to this aspect). Under these circumstances it is of importance for governments to devise " optimum " financing tactics—optimum in the sense of being least likely to provoke counter-reactions on the part of taxpayers for compensation.

Diagram 8 **Comparative tax burden in Australia**
OECD total = 100



1 OECD total includes social security contributions (which are not accounted for separately under the Australian system).
Source: Secretariat estimates.

Within the OECD area there are marked differences between members in respect of both the overall tax burden (i.e. total tax revenues as a percentage of GNP) and between the relative degree of reliance placed on the various types of taxes. Demands for wage rate linkage to price movements are of long standing, while the reaction to the direct tax burden is of relatively recent vintage. Not surprisingly, the tendency for after-tax wage bargaining has tended to emerge in those countries where the direct tax burden is relatively high (e.g. Sweden, the Netherlands and the United Kingdom)[1]. In line with the relatively modest overall size of the public sector in Australia, the total burden is comparatively light. Direct tax on households accounts for a relatively small percentage of overall tax revenues, and there is as yet no evidence of tax-push pressures from this source[2]. Rather, consciousness of the impact of inflation on real income appears to have been concentrated to the effect of increases in consumer prices. Between 1921 and 1953 federal basic wage rates were adjusted automatically for movements in the consumer price index each quarter. The unions have from time to time sought the re-introduction of this linkage and the Australian Government decided in January 1974 to support a system of wage indexation in its submission to the 1974 National Wage Case.

Price movements in the public sector.

Probably the most common indicator used to illustrate the effect of price changes on public sector operations is the implicit deflator of general government final current expenditure[3]. Diagram 9 compares the changes in deflators for the main expenditure components of GDP in Australia over the period 1960-1971. Over this period the deflator for government current purchases of goods and services rose on average 1.8 per cent faster than the overall deflator for Gross National Expenditure. This experience has been quite general; within the OECD area as a whole over the same period the GDP deflator rose on average by 3.5 per cent a year and that for general government current expenditure by 5.2 per cent. An important reason for the relatively faster rise in the general government current expenditure deflator described above is that no allowance is made in Australian data for productivity increases

1 In the Netherlands this phenomenon was met by the indexation of income tax rates in 1971.

2 See Diagram 8.

3 Final expenditure (in the national accounting sense of the term) constitutes, however, less than two-thirds of total general government outlays in Australia (excluding lending) :

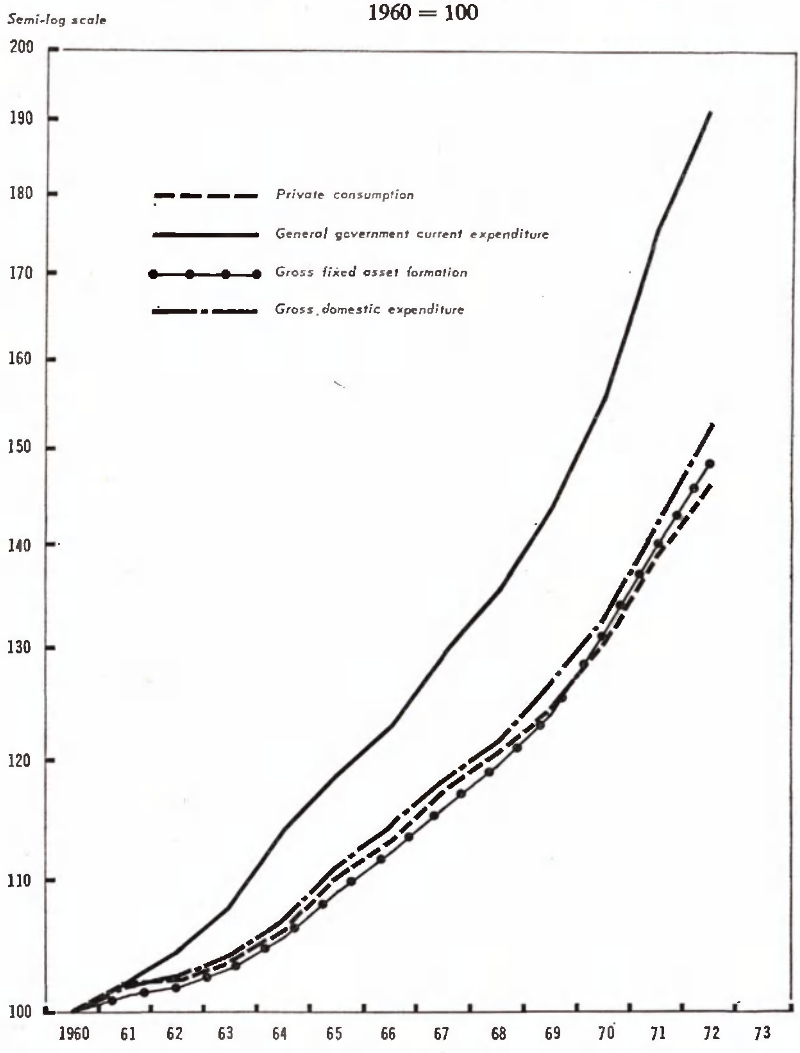
Distribution of general government outlays 1972/1973

	Per cent
Final current expenditure	48.1
Final fixed capital expenditure	14.9
Cash benefits to households	22.9
Interest payments	8.6
Subsidies	2.8
Transfers abroad	2.2
Grants	0.6

When net lending and other minor items are included, the share of final expenditure declines to less than 60 per cent.

in the public sector. In fact, among Member countries, only Belgium makes a major provision for the explicit imputation of an annual productivity increase, which is reflected in the fact that this country has one of the lowest deflators for general government current expenditure in the OECD area[1].

Diagram 9 **Principal domestic expenditure deflators**
1960 = 100



Source: Secretariat estimate based on the Australian National Accounts.

1 According to Belgian practice, a 2 per cent annual increase in public sector productivity is assumed.

Turning to the supply side, it can be seen from Table 7 that the rate of increase in the cost of providing public services in Australia has outstripped that for most other sectors over the period 1959/60-1965/66. While the average annual deflators for total GDP amounted to 2.5 per cent, the cost of providing public services[1] increased by 5.5 per cent, or at over twice the rate. The two main elements of public services, public administration and defence, and community and business services rose in cost by 4.1 per cent and 6.2 per cent respectively. By way of contrast, the deflator for manufacturing industry rose by 1.2 per cent on average over the period. But probably more striking is that the deflator for private sector services amounted to only 2.3 per cent, partly resulting from the fact that wholesale and retail trade (commerce)—which has a relatively heavy weighting in the overall value of output—recorded the slowest cost increase of any sector[2].

Table 7 **Deflators of GDP by industry of origin**
Annual average percentage growth rate

Rural[1]	1.2	Finance and property	3.8
Mining and quarrying	2.7	All other industries	3.9
Manufacturing	1.2	Ownership of dwellings	6.8
Electricity, gas and water supply	2.4	Total	2.5
Building and construction	3.6	Total (excluding ownership of dwellings)	2.2
Transport and communication	4.0		
Commerce	0.7	All services[2]	3.1
Public administration (n.e.i.) and defence	4.1	" Public services "[3]	5.5
Community and business services	6.2	" Private services "[4]	2.3

1 Including fishing hunting and forestry.
2 Comprises: transport & communication, commerce, public administration & defence, community & business services, finance & property and all other industries.
3 Comprises: public administration & defence, and community & business services. It should be noted, however, that probably not much more than one-half of the community & business services sector (which includes professional services) belongs properly to the public sector.
4 All services less public services.

NOTE The table is based on data for the financial years 1959/1960-1965/1966. Constant price estimates are not available for more recent years.

Source: ABS "Estimates of Gross Product by Industry at Current and Constant Prices, 1959/60-1965/66".

At least part of the explanation for this comparatively rapid rate of cost increase can be attributed to the fact that, like other service sectors, the provision of public services is relatively labour intensive. Table 8 shows the cost structure for selected Australian industries[3]. Although the sectoral classifications in Tables 7 and 8 are not exactly comparable, it seems that while the provision of public services was subject to higher implicit price rises than that of other services, they were not more labour-intensive. Part

1 See note to Table 7.
2 According to the convention employed, output of this sector (commerce) is equated to the distributive margins on commodities traded. The constant-price index moves proportionately to a quantum index of sales.
3 The non-service industries shown in the table have been selected on the basis of relative importance in total usage.

of the explanation for this may well be a faster rate of increase of average remuneration in the public than the private sector. As regards the quality of the work force, it can be seen from Table 9 that the proportion of professional and executive staff is higher in the public sector[1] than in other sectors of the economy, but that this proportion declined in both the public and private service sectors between 1961 and 1971. However, there was a greater relative fall in the private than in the public service sector. In addition, average earnings in the managerial categories in the Government service were over 30 per cent higher than in the private sector[2].

Table 8 **Cost structure of selected industries**
Percentage distribution

	Wages, salaries and supplements	Intermediate usage[1]	Complementary imports[2]	Total
Health, education and welfare	75.3	24.7	—	100.0
Entertainment and personal services	69.0	28.1	2.9	100.0
Finance, etc.[3]	68.4	31.6	—	100.0
Public administration and defence	58.1	34.8	7.1	100.0
Other machinery and equipment	41.4	48.3	10.3	100.0
Basic metals	38.1	57.2	4.7	100.0
Transport equipment	36.7	40.0	23.3	100.0
Construction	35.6	64.3	0.1	100.0
Agriculture	31.0	68.5	0.5	100.0
Food manufacturing[4]	15.2	83.0	1.8	100.0
" Public services "[5]	66.3	30.0	3.7	100.0

1 Total input of goods and services from other industries.
2 Comprises both " complementary imports " and " competing intermediate imports " (for definitions of these terms see Source reference paragraphs 40 and 42).
3 Includes also insurance, real estate, and business services.
4 Comprises the two sub-groupings of food manufacturing —i.e. animal and vegetable origins. In integrating these two groups, intermediate transactions between them have been eliminated.
5 Comprises: public administration & defence and health, education & welfare.
Note The above table is based on input/output data for 1962/1963. Intermediate usage is shown at " basic values " (i.e. excluding commodity taxes) and complementary imports at c.i.f. values. Competing imports are allocated indirectly.
The non-service industries shown in the table have been selected on the basis of relative importance in total usage.
Source: Australian National Accounts: Input-Output 1962-1963 (Table 4).

1 Public administration and defence and community services taken together.
2 See Labour Report No. 56 (1971). For non-managerial employees, however, the difference was much smaller:

Average weekly earnings in $

	Private	*Government*
Managerial	134.40	176.90
Other	87.80	91.00
Total	95.50	98.90

The data refer to full-time adult male employees. Concerning the definition of " managerial " see page 118 of source reference.

Table 9 Occupational distribution of employed labour force
Per cent

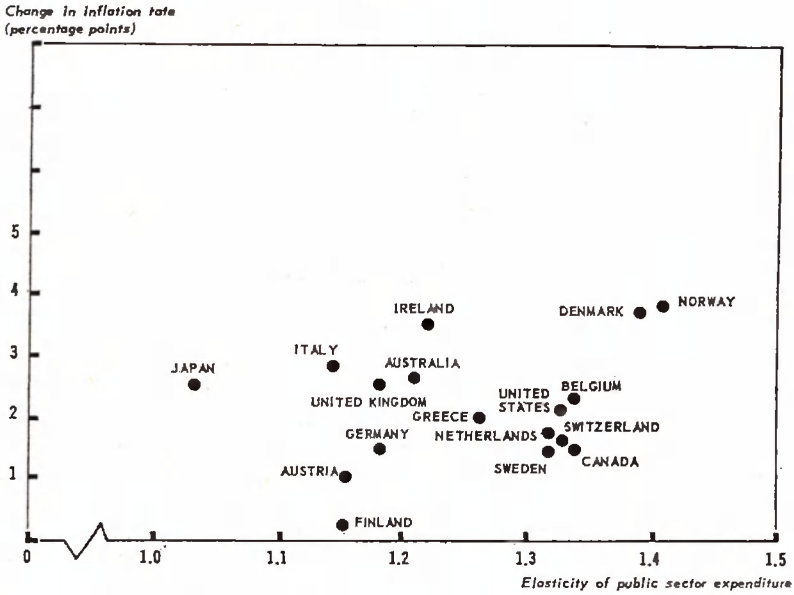
Sector	Professional technical		Administrative/executive/managerial		Clerical		Others		Total	
	1961	1971	1961	1971	1961	1971	1961	1971	1961	1971
Manufacturing	4.0	4.7	5.3	4.9	9.7	8.9	81.0	81.5	100.0	100.0
Finance, etc.[1]	12.7	13.7	12.9	9.3	62.9	59.3	11.5	17.7	100.0	100.0
Public administration and defence	11.2	11.3	4.8	3.6	36.3	34.6	47.7	50.5	100.0	100.0
Community services	66.8	62.0	1.3	1.2	7.4	10.9	24.5	25.9	100.0	100.0
Total	8.4	10.2	7.0	6.7	13.0	15.8	71.6	67.3	100.0	100.0

1 Includes insurance. real estate and business services.
Source: Tariff Board. Annual Report for year 1972-73.

The faster rise in the deflator for general government current expenditure than for GDP is largely to be expected, because of the labour intensive nature of the provision of public services and the convention of valuing general government services in current price terms at the net cost of purchased inputs. As noted earlier, no allowance is made in Australian practice for productivity increases in the public sector, so that increases in the volume or quality of output per man are not taken into account and the relative cost of providing government services may be overstated. If some reasonable allowance is made for productivity increases in the public sector, much of the difference between the deflator for government current purchases of goods and services and the overall GDP deflator is accounted for. Nevertheless, because productivity increases in the public sector as conventionally measured are generally lower than those in the economy as a whole, the expansion of public sector operations gives rise to an increase in the general price level which may be expected to show up in the overall rate of price increase in those countries where the expansion of the public sector has been fastest. The available evidence suggests that, while there is little or no correlation between rates of inflation and the elasticity of public expenditure in Member countries, the change in the rate of inflation has been greatest in those countries where the growth rate in the share of public expenditure has been most rapid (see Diagram 10). This suggests that the growth of the public sector relative to other sectors may be a contributory factor in explaining an acceleration in inflation.

In Australia's case, present Government policies are likely to involve a considerable boost in the relative size of the public sector, entailing not least increased recruitment of highly-paid professional staff. Given the risk that rapid increases in the share of resources going to the public sector may add to inflationary pressures, the development of three-year estimates of public sector outlays is timely. Such estimates will help to identify—and find solutions to—problems which may arise from the growth of the public sector.

Diagram 10 **Inflation and the growth of public sector expenditure 1956-1970**



NOTE Change in the inflation rate equals the percentage points difference between the mean compound rates of growth of the GNP/GDP deflator recorded in the periods 1956-1959 and 1967-1970. The elasticities of public sector expenditure are taken from Table 5.

Source: Secretariat estimates.

In addition, there is the problem of the efficiency with which given policies are implemented in order to ensure the optimum allocation of resources. In 1965 the Vernon Committee of Enquiry noted the shortage of skills available for project analysis and the essentially ad hoc basis on which many public decisions were taken. The Committee recommended the establishment of an independent " Special Projects Commission " to plan and co-ordinate major investment projects. Similarly the 1973 high level Task Force referred to above commented in its report on the lack of uniformity which exists within the various bodies of the central administration on methods of project analysis and on the limited use of techniques of cost/benefit analysis. The Task Force also drew attention to the fact that it is not easy to expand the public service while maintaining the standards of quality required.

If the tax burden in Australia is to rise to finance the expansion of public sector activities, increasing attention may have to be devoted to the possibility that inflation may be increased by the reaction of individuals to the impact of personal taxes on disposable incomes. An important element in devising an appropriate fiscal strategy is to ensure as broad a tax base as possible. In this context it may be mentioned that the 1973/74 Australian Government budget introduced amendments to the income tax laws which are akin to capital gains taxation existing in other countries[1]. It also appears that in certain areas greater resort may be made to user charges for public goods and services, which will both reduce the burden on general tax revenues and at the same time influence the level of demand for such goods and services. But while a number of European Member countries have gone over to the value-added system of indirect taxation, the sales tax at present operating in Australia appears to be quite narrowly based.

III CONCLUSIONS

A major feature of Australian economic policy since the last OECD Survey was the implementation of a number of important policy measures designed to reduce the disequilibrium in the balance of payments. The quantitatively most important measure was the introduction of the variable deposit requirement scheme in respect of overseas borrowings. The revaluation of the Australian dollar in December, 1972, capping as it did a long and at times vigorous domestic debate around exchange rate policy, represented a breakthrough in techniques of economic management in Australia and reinforced the measures already taken in September to achieve a better external balance. In similar vein was the sizeable uniform and unilateral cut in tariff rates, which had been widely held as incompatible with the existing institutional practices.

As a result of the policy initiatives, the large-scale accumulation of foreign-exchange reserves which had greatly compounded demand-management difficulties in 1971 and 1972, was replaced by a marked improvement in the external balance. The measures have had a significant impact on trade flows by stimulating imports; although because of the strong upswing in the terms of trade, the current account remained in surplus in 1973. There was, however, an important reversal of capital inflow induced by policy in order to improve the external balance and to reduce domestic liquidity which was exceptionally high at the beginning of the year. While the effects of the various measures have not yet fully worked through, the underlying position would seem to be much closer to equilibrium than earlier.

Economic policy, however, was not as successful on the domestic as on the external front. In line with the authorities' objectives, unemployment was greatly reduced, but the rate of inflation—although moderated by the revaluations and the tariff cut—accelerated significantly. Part of the acceleration emanated from external sources with domestic prices and incomes reflecting the sharp rise in primary commodity prices in world markets. The recovery of activity was strongly under way in the early part of 1973 and it seems likely that the extension of the unemployment relief schemes to

1 For the present it is limited to profits from the sale of real or personal property within one year of acquisition.

metropolitan areas and the increase in social benefit payments added to existing demand pressures. With demand rising rapidly some change in domestic policy stance was heralded by the upward movement of interest rates in the early part of the year and a call to Statutory Reserve Deposit Accounts in April. Policy was successively tightened during the year by monetary measures and the induced developments in the external accounts. But because of the exceptionally high liquidity of the economy at the beginning of the year, it was not till some time after the initial call to the SRD accounts that the impact of the reduced availability of credit became noticeable.

The very different circumstances prevailing at the beginning of 1974 as compared with the same time last year, together with the uncertainties created in the world economy by higher oil prices, suggest that demand-management policy has a delicate role to play over coming months. While demand pressures are still strong, the labour market is no longer tightening and business surveys reflect less buoyant attitudes. To a considerable extent the outcome of the National Wage Case will be important in determining demand-management policy. The immediate outlook, however, suggests that the present restrictive policy stance is largely appropriate.

Undoubtedly, the most pressing problem facing the Australian authorities, as indeed of most Member countries, is that of cost and price inflation. The appreciation of the currency and the revision of tariffs has undoubtedly exerted a moderating influence on prices, and the prices justification procedures appear to be working reasonably well. But these measures will not be sufficient to prevent a future strong rise in prices. Because of the constitutional position, the powers of the Australian Government to control wages and prices are severely limited. Within the Government's powers, the reporting procedures of intended price increases under the Prices Justification Act could be extended to cover a wider range of companies. The inflationary outlook emphasises the need for particularly close attention being given to demand management policy.

The current external account may move into deficit of some size this year, reflecting the effect of the balance of payments measures taken over the last couple of years, some deterioration of the exceptionally favourable terms of trade prevailing last year, and strong domestic demand pressures; higher oil prices are not a major factor behind the deficit because net imports of oil are not very large. The prospective deficit is not large in relation to Australia's external reserves and her borrowing possibilities abroad, and is clearly not a matter for concern. From an international point of view, such a deficit would be a welcome development. The OECD area is likely to incur a large current account deficit this year because of the massive increase in oil prices, entailing significant financing problems for many individual countries. The probable change in Australia's current account would ease the external position of some other countries.

The emergence of a deficit would also represent a return to what has been for Australia a typical balance of payments pattern. The deficit on current account has traditionally been offset by capital inflows designed to supplement domestic savings, for example, in exploiting the country's extensive natural resources. The authorities' balance of payments aims for the medium-term future will of course be influenced by a number of considerations. One development of some importance may be continuing strong world demand for food and other primary commodities of which Australia is a major producer. This could mean that the basic balance will remain strong, reflecting relatively favourable terms of trade and a tendency towards capital inflows. From the point of view of the world at large it is clearly desirable that the development of Australia's large resources should be encouraged.

A number of policy initiatives taken by the Government during the course of 1973 can be expected to contribute to a better domestic balance of resource allocation. Among these may be mentioned the establishment of the Industries Assistance Commission, which has a wider brief than the Tariff Board which it has replaced, the decision to restrict the high level of assistance currently given to the domestic shipbuilding and consumer electronics industries, and the appointment of a working group to enquire into all aspects of rural policy. The need to adopt a policy of increasing the efficiency of resource allocation was explicitly recognised by the present Government if scope was to be provided for its own plans for increasing the role of the public sector. In this respect it is desirable that major projects including public expenditure should be subject to cost-benefit analysis, and efficiency in their subsequent execution has to be ensured. The implementation of measures to improve working methods noted by the Task Force would be an important step in this direction. As mentioned in the Introduction, certain aspects of major programmes are still in the process of elaboration. A case in point is the national minerals and energy policy which will involve not only a large degree of direct involvement in the actual production and distribution activity of the industry but also in the degree of control exercised over companies already operating in this field[1]. It would seem important that policy be considered in terms of alternative opportunity costs of achieving given objectives, of which the non-economic concern about foreign ownership and control is one.

Similar considerations apply not only to expenditure but also to the public sector's revenue-raising operations. Aside from the shorter-term demand management aspects, consideration has to be given to the most efficient way of achieving the shift of resources away from the private sector which the Government programme will require. At present a Review Committee is enquiring into the whole structure of the Australian taxation system. As pointed out in Part II of this Survey, there would appear to be room for expanding the coverage of the present system of indirect taxation, which has become considerably eroded over the years. No doubt this will be one of the major questions to which the Committee will address itself.

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1 See Annex I concerning proposals for increased government involvement in the minerals sector.

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Appendix I

FOREIGN INVESTMENT IN AUSTRALIA

Foreign sources of capital funds have played a major role over the years in financing the development of the Australian economy. Until quite recently traditional Australian policy has been to welcome all available funds and this attitude has been accompanied by an officially sponsored migration programme. Last century it was essentially British capital which was responsible for the development of the country's pastoral resources and of the associated export industries. During the 1890's and early years of the present century the same sources switched their interest primarily to the mining industry. The succeeding fifteen years or so up to around 1920 saw a net outflow of capital on private account which was, however, more than offset by a substantial inflow on public account to finance large-scale infrastructure projects such as railways and rural development schemes. A resurgence of net inflows on private account took place in the 1920's when it is estimated they probably accounted for about one-quarter of total private industrial and commercial investment[1]. These years also witnessed for the first time a significant volume of direct investment from the United States. The period after 1945 again brought a very strong resurgence of capital inflow into Australia. The following paragraphs describe the structure of this foreign investment since 1947/48 and conclude with a description of the recently proposed institutional changes which are likely to have a profound impact on the future structure of capital inflow into the country.

Australia has typically incurred a deficit on the current account of the balance of payments. During the twenty-five years ending fiscal 1972/73 a surplus was recorded on only five occasions. These deficits provide a measure of the net addition from external sources to domestic saving and investment[2]. During the 1960's net inflow of capital averaged the equivalent of some 11 per cent of gross domestic saving. Focusing attention to the private sector only, the relative importance of overseas funds appears much greater; the net inflow to companies during the same period averaged almost 30 per cent of net private investment of fixed capital and stocks[3]. The magnitude of

1 Quoted from N. Cain in C. Forster (ed), "*Australian Economic Development in the Twentieth Century*", Allen & Unwin, London, 1970, page 86.

2 Strictly speaking, the volume of domestically-generated saving may not be independent of capital inflow. Thus, the net addition to total investment may be less than the amount of net inflow (adjusted for movements in reserves), the difference being accounted for by increased consumption.

3 Unlike the treatment of undistributed profits, depreciation allowances made by the Australian branches and subsidiaries of foreign companies are not included in estimates of capital inflow. Hence, it is more appropriate to consider capital inflow in relation to *net* domestic investment.

the deficit has of course fluctuated from year to year, as have also changes in Australia's holdings of foreign reserves. Up to as late as 1969/70, however, fluctuations in the latter tended to " even out ", but the succeeding three years saw a concerted rise in reserves.

The overwhelming proportion of capital inflow during the postwar period has been on private account. Less than 3 per cent of the total gross inflow[1] during the period 1947/48 to 1972/73 was accounted for by the purchase of Government securities[2]. This reflected the granting of loans by the International Bank for Reconstruction and Development during the 1950's and, from the later 1950's through the 1960's, borrowing in the United States by way of public bond issues as well as from the Export-Import Bank and other financial institutions. As at the end of June 1972 the total face value of outstanding Government securities domiciled abroad amounted to $A 1,445 million and of securities domiciled in Australia a mere $A 52 million (or together some 40 per cent of the value of official reserve asset holdings at that date)[3].

Practically all of the remaining 98 per cent of capital inflow has taken the form of private investment in companies. Both the overall volume of inflow as well as its composition have been influenced not only by market and institutional developments (relative movements in domestic and foreign interest rates, opportunities for large-scale development of natural resources and the establishment of a merchant banking sector in Australia) but also by policy measures taken from time to time by foreign authorities. For example, the imposition of an interest equalisation tax by the United States' authorities in 1963 possibly had some effect on foreign borrowing in that market, while the operation of a system of investment guidelines since 1965 (at first voluntary, but subsequently mandatory) had influenced direct investment by US companies[4]. Voluntary restraints on both direct and other investment were introduced by the UK Government in 1966[5]. On balance, the United Kingdom has been the most important overall source of funds, although it has ceded its markedly predominant position of the early postwar years.

1 The following discussion of overseas investment is presented in terms of *gross* inflows. Capital outflow has been of minor significance, amounting to only some 7 per cent of gross inflow during the entire postwar period. It has, however, increased in recent years. During the last four fiscal years ended June 1973 total private outflow amounted to $ 470 million, or 10 per cent of gross private inflow. The bulk of this outflow has taken the form of direct investment in subsidiaries, with Papua/New Guinea receiving two-thirds of the total. Portfolio investment has been of quite minor importance—being largely concentrated to the purchase of Government securities. The September 1972 package of measures to achieve better external balance eased, however, the restrictions on portfolio investment abroad by Australian residents.

2 This takes account only of Government debt domiciled abroad (i.e. denominated in foreign currencies). Data on transactions by non-residents in securities domiciled in Australia are only available since 1952/53; up to June 1972 these resulted in a net outflow of $ 60 million.

3 Converted at the exchange rate applying on June 30, 1972.

4 The interest equalisation tax was completely phased out at the end of January 1974, while the impact of the direct investment restraints was significantly attenuated from 1968.

5 These voluntary restraints were replaced in June 1972 by formal controls on capital movements to Sterling Area countries (including Australia).

Table 1 Gross capital inflow into Australia by sector[1]

	Government		Private				Monetary sector n.e.i.		Total	
			Companies		Marketing authorities					
Year ending June 30	$ Million	%	$ Million	%	$ Million	%	$ Million	%	$ Million	%
1948-1957	35[2]	2.3	1 450	94.4	33	2.1	18	1.2	1 536	100.0
1958-1967	248	5.6	4 326	96.6	–141	–3.2	47	1.1	4 480	100.0
1968-1973	17	0.3	6 420	96.9	–41	–0.6	232	3.5	6 628	100.0
Total	300	2.4	12 196	96.5	–149	–1.2	297	2.4	12 644	100.0

1 Data refer to " identified " capital inflow. The difference between this and " apparent " inflow shown in net terms in the balance of payments is made up by the " balancing item " which covers errors and omissions and balances to a net monetary movements figure on an official parities rather than market values basis.
2 Excluding during the period 1948-1952 investment in public securities domiciled in Australia, data for which are not available.

Source: Australian Bureau of Statistics.

Table 2 **Overseas investment in companies in Australia by country of origin**

Year ended June 30	United Kingdom		United States[1]		Other[1]		Total	
	$ Million	%	$ Million	%	$ Million	%	$ Million	%
1948-1957	928	64.0	381	26.3	141	9.7	1 450	100.0
1958-1967	1 864	43.2	1 817	42.2	631	14.6	4 312	100.0
1968-1972	2 239	36.2	2 208	35.8	1 730	27.9	6 177	100.0
	5 031	42.1	4 406	36.9	2 502	20.9	11 939	100.0

1 Canada is included with the United States up to 1965 and subsequently under "Other". During the 7 years 1966-1972 inflow from Canada amounted to 7 ½ per cent of that from the United States.

Source: Australian Bureau of Statistics.

Direct investment in companies

Direct investment, which covers all capital flows (fixed interest and equity) between overseas companies and their Australian branches and subsidiaries, accounted for almost two-thirds of the total inflow to companies between July 1966 (from when data are available) and June 1972 (see Table 3)[1]. Together, UK and US firms accounted for 80 per cent of such direct flows, the approximate composition of which was as follows:

	Per cent
Undistributed income	35
Shares and other securities held by foreign companies in Australian subsidiaries	25
Net liabilities of Australian branches of foreign companies	20
Inter-company indebtedness of Australian subsidiaries	20
	100

It is to be noted that no actual movements of funds takes place in the case of undistributed profits[2]. The same is largely true of inter-company indebtedness, which mainly reflects the deferral of payments for imported goods and services by the Australian subsidiary.

During the six years up to 1963 (the first period for which detailed information is available) direct investment flows were strongly oriented toward

Table 3 **Overseas investment in companies by category of investment and country of origin**[1]
1965/66-1971/72

	Direct investment		Portfolio investment and institutional loans		Total	
	$ Mill.	%	$ Mill.	%	$ Mill.	%
United Kingdom	1 504	31.9	1 121	42.1	2 625	35.5
United States	2 174	46.0	632	23.7	2 806	38.0
Other	1 045	22.1	911	34.2	1 956	26.5
Total	4 723	100.0	2 664	100.0	7 387	100.0

1 Direct investment relates to inflows to Australian branches and subsidiaries of overseas companies. Subsidiaries are defined as companies where 25 per cent or more of voting stock is held by one company (or group of companies) abroad or where 50 per cent or more of voting stock is held by individuals or companies resident in a single foreign country. Institutional loans are loans raised from financial institutions or companies which have no direct investment in, and are unrelated to, the borrowing company.

Source: Australian Bureau of Statistics.

1 See note to Table 3 for definition of terms.
2 A balancing " outflow " enters the current account.

the manufacturing sector, with chemicals, motor vehicles and metal-working/engineering attracting most of such funds. Subsequently, however, the volume of capital flowing to the tertiary sector (particularly finance and property as well as commerce) and later to the primary producing industries gained in relative importance. Minerals and oil exploration have accounted for virtually all the funds absorbed by the last-mentioned sector. For the past decade new foreign investment in manufacturing has fluctuated around a largely unchanged level. Examination of the total stock of investment indicates that the degree of foreign ownership in manufacturing tends to be greatest in the high technology industries: motor vehicles, oil and minerals, pharmaceuticals, chemicals, and non-ferrous metal working[1]. For manufacturing as a whole, foreign ownership accounted for about one-quarter of total output in the late 1960's. Overseas equity holdings in mining grew very rapidly during the 1960's and in 1968, the latest year for which statistics have been published, overseas ownership is estimated to have accounted for about 44 per cent of production. The value of production attributed to overseas control in the same year was 58 per cent. Both these proportions are likely to have increased since 1968.

Portfolio investment and institutional lending

From the early 1960's (with a break during 1964 and 1965 due to the effect of the US measures referred to on page 44 above), portfolio investment and institutional lending grew rapidly in relative importance. During the 5 years 1967/68 to 1971/72 this form of capital inflow amounted to over one-third of total foreign investment in companies, compared with less than one-tenth during the 1950's[2]. The guidelines for borrowing in the Australian market imposed on companies with a significant degree of foreign ownership largely contributed to this upsurge in borrowing abroad[3]. Portfolio investment received a strong impetus from the mining boom of the late 1960's. These flows were facilitated by the development of much closer links between Australia and other financial centres.

Reappraisal of policies towards foreign investment

While traditionally Australia has adopted an " open-door " policy toward foreign investment, attitudes have undergone a significant change in recent years. The first concrete manifestation of concern for bolstering the degree

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1 This relates to the position in 1966/67 as revealed by a survey conducted by the Commonwealth Statistician. Degree of ownership is based on the proportion of production attributable to overseas direct shareholding (ownership deriving from portfolio investment is excluded).

2 Owing to the various restrictive measures taken during the year as well as to the repayment of foreign debts by Australian firms following the US dollar devaluation in February 1973, a net outflow of $ 59 million was recorded in 1972/73.

3 For a description of these guidelines see OECD Economic Survey of Australia, December 1972. The guidelines were abolished in September 1972. At the same time, restrictions on outward portfolio investment were relaxed and restrictions on borrowing overseas were introduced.

of local ownership in the Australian corporate sector was the establishment of the Australian Resources Development Bank in 1968 by the major trading banks. This was followed by the creation of the Australian Industries Development Corporation (AIDC) in 1970 as a wholly government-owned enterprise[1]. The charters of both these institutions specifically refer to promoting the degree of Australian equity participation in local industrial development. While the Australian Resources Development Bank has the power to take an equity interest in projects, it has so far refrained from using this power; rather it has concentrated on the refinancing of loans granted by its affiliated banks[2]. In September 1972 an initial package of measures was taken to restrict the rate of capital inflow. While these actions were motivated by a need to ensure better external balance, one of the component measures which reflected a growing concern at the degree of overseas control and ownership of Australia's resources and industries involved the establishment of vetting machinery in respect of foreign takeover bids. The takeover measures were included in part in the Companies (Foreign Take-overs) Act of November 1972. This Act was regarded as an interim measure and was scheduled to expire in December 1973, but its operation has been extended to December 1974.

During 1973 the Government announced a number of steps which have the objective of maximising Australian ownership and control of industry and resources. Policy is being geared to a more selective approach to foreign investment than in the past to ensure that foreign capital inflows are in partnership with Australian capital and associated with productive investment which adds to Australia's real resources[3]. In industries other than uranium, oil, natural gas and black coal—where the general objective is 100 per cent Australian ownership of the development of these resources—it is intended to adopt a project-by-project approach. The Companies (Foreign Take-overs) Act is to be replaced with more permanent legislation by the end of 1974; a National Pipeline Authority has been established to assist in maximising Australian ownership of hydrocarbon developments, and a Petroleum and Minerals Authority is to be set up to control exploration and development of these resources. Applications for foreign exchange approval for non-resident purchase of real estate are subject to a careful scrutiny and determined on the merits of individual cases.

Legislation is now before Parliament to expand the scope and charter of the existing AIDC to secure participation, to the greatest extent practicable, of Australian residents in the ownership and control of Australian companies. This is viewed as a primary objective alongside industrial development. The legislation also aims at encouraging investment in manufacturing, mining and resource development as well as in the transportation and distribution of goods. Provision is also made for the establishment of a " National Interest Division " whereby the AIDC, acting as the Government's agent,

1 Although drawing its initial capital requirements from the Government it is not subject to any direction by the Government insofar as its normal commercial activities are concerned.

2 Total outstanding refinancing and direct loans granted by the ARDB as at the end of 1973 amounted to $ 290 million.

3 Taken from Government News Release M/157, 30th October, 1973.

would invest in projects considered to be in the national interest even though they may not appear purely commercial propositions[1].

Associated legislation provides for the establishment of a " National Investment Fund " (NIF) to mobilise capital from inter alia private individuals, domestic financial institutions and foreign investors in order to finance AIDC's expanded role. It is proposed to issue investment bonds to private investors with the Government contributing $ 10 for each $ 100 subscribed by the individual. The NIF would also provide a channel whereby investment in particular projects might be facilitated. The underlying intention would be that such equity interests of overseas investors would be of purely beneficial nature and would not accord any control over the direction of a project.

The Government has furthermore indicated that it does not generally favour the establishment of new foreign non-bank financial institutions and insurance companies. This does not, however, preclude the establishment of foreign-controlled institutions where it can be demonstrated that they would benefit the Australian economy.

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1 As well as new undertakings touching on key industries and regional development, " national interest projects " would include " buy back " operations (from foreign ownership) in the minerals and oil exploration and utilisation field.

Annex II

THE CONTROL OF PRICES

Under the Constitution, the Australian Parliament has no specific powers in peacetime to enact legislation to directly control prices except in its internal territories. These powers reside with the six State Legislatures, but apart from the period following the second world war, most State Governments have resorted rarely to price control. The most extended period of comprehensive statutory price regulation was during the Second World War when the Government established extensive controls over all aspects of the economy including prices[1]. At the end of the war the extent of price regulation was reduced gradually and in 1948 the Australian Government held a referendum in an attempt to obtain the power to control prices in peacetime. The electorate, however, voted against the amendment of the Constitution.

Following the 1948 referendum, efforts by the States to co-ordinate the regulation of prices met with little success. Apart from the difficulties of obtaining consensus among the States, the need for price control was reduced after the peak of the Korean war commodity price spiral passed, and between 1953 and 1956 price control was largely abandoned in all States except Queensland and South Australia. In these States the area of control was small and was subsequently reduced in Queensland. South Australia alone has continued with price controls on any scale[2].

From the time most States abandoned their controls in the early 1950's, there was little incentive to consider the regulation of prices until the beginning of the 1970's. Throughout the 1960's the rate of inflation was relatively

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1 From September 1939 until 1942 Commonwealth price control was administered under the National Security (Prices) Regulations which gave extensive powers to the Commonwealth Prices Commissioner to regulate the prices of a wide range of commodities by adjusting prices to cost changes. In 1942 the system was changed and prices were to be determined by reference to traders' cash profit margins ruling at April 1942. There was a further change on 15th April, 1943, when ceiling prices were fixed as those ruling that day. The ceiling applied to retail prices and to prices at every stage of production and distribution.

2 All States have some legislation which has the effect of controlling the prices of certain goods and services, but only three States have general price control legislation on their statute books. For New South Wales prices may be controlled directly under the Price Regulation Act 1948-1965, but at present this is applied only to bread and motor spirit. There are also other Acts which cover prices of goods and services such as milk and cream, wheat, gas, electricity and public transport. The main legislation in Queensland has not been used for some years but there is legislation to control prices of milk, cream, beer, electricity and gas. The South Australian Commissioner for Prices and Consumer Affairs has the power to fix maximum prices, mark-up margins, delivery charges and discounts for specified goods and services. A voluntary system of notification of proposed price increases is also operated. Only milk and primary products are subject to price control in Tasmania but there is a system of prices justification under the Consumers' Protection Act. In Victoria, milk is subject to direct price control but some other prices of goods

low with the annual rate of increase in the consumer price index averaging 2½ per cent. But, as can be seen in Table 1, there was some acceleration in the rate in the second half of the decade. Since 1970/71 there has been a marked quickening in the rate of price inflation and the consumer price index for the December quarter of 1973 showed an increase of 13.2 per cent over the corresponding quarter of 1972.

Table 1 **Consumer price index**
Percentage annual increase
Year ending June

1959	1.6	1964	0.9	1969	2.6
1960	2.5	1965	3.8	1970	3.2
1961	4.1	1966	3.6	1971	4.8
1962	0.4	1967	2.7	1972	6.8
1963	0.2	1968	3.3	1973	6.0

It was against this background of rapid price inflation and the failure of the States to act uniformly, that the Australian Government which come into power in December 1972 announced a number of initiatives in the area of price control. A Parliamentary Joint Committee on Prices was appointed to report on a wide area relating to prices. Referenda were held in December 1973 on the questions of vesting in the Australian Parliament full constitutional powers to control incomes and prices. In the event, the referenda failed to be passed so that these powers remain with the States.

In May 1973, however, the Australian Government introduced the Prices Justification Bill which rests for its force on the so-called " corporations power" under Section 51 (xx) of the Constitution; that is power to legislate " with respect to foreign corporations and trading and financial corporations formed within the limits of the Commonwealth ". By this means, the Act so passed established a Prices Justification Tribunal to scrutinise prices and proposed price increases by major companies. The Tribunal commenced operations at the beginning of August 1973. Because of the constitutional position with respect to prices, the Prices Justification Tribunal was not given the power to enforce its decisions and no formal sanctions attach to them. The Tribunal is empowered, however, to enquire and report on whether the actual or proposed prices charged by companies or a group of related companies whose gross turnover exceeded $A 20 million in the preceding year are justified an dif not, what prices would be justified. All companies covered by the Act are required to notify the Tribunal of intended price increases and, having done so, are excluded from raising prices until a period of twenty-one days has elapsed or they are advised within that time by the Tribunal that an enquiry will not be held. In the event that the Tribunal decides that an enquiry is to be held, the enquiry and the report must be completed within three months of notifi-

and services are regulated under a number of Acts. As in the other States, Western Australia controls prices of some primary products and of public authority charges. Recently, the powers to control prices in the Australian Capital Territory have been used to cover goods such as petrol, bread and beer and a Controller of Prices has been appointed. In the Northern Territory the Prices Controller now controls quite a wide range of items.

cation. On completion of the enquiry the responsible Minister is obliged to make the report available to the public within fourteen days of his receiving it. The company is then free either to abide by the tribunal's finding or not, but it must within a further fourteen days inform the Minister of its intentions following the enquiry and the Minister then reports to the public on what action the company has taken or intends to take.

Companies which breach the sections of the Act relating to the notification of proposed price increases are liable to a series of financial penalties ranging up to $A 10,000. In addition, the Tribunal has full power to require a company to provide all information, including documents, which the Tribunal thinks is necessary in order to reach a conclusion about the justifiability of the company's pricing policies. Witnesses may also be called to give evidence. Again, the Tribunal's powers to obtain evidence are backed by penal sanctions. Thus, while the Tribunal has statutory powers to ask for relevant evidence and companies are obliged to comply with the reporting requirements of the Act, the findings of the Tribunal are not supported by formal sanctions. In effect, the Tribunal relies on the publicity surrounding its findings and the consequent force of public opinion to persuade companies to price in accordance with what the Tribunal thinks justified.

As noted on page 25 of this Survey, the Tribunal in the first seven months of its operations had received some 2,000 notifications of price increases and it had initiated nine public enquiries. Each of the four completed enquiries resulted in a modification of the price increases proposed by the companies concerned. In addition, the Tribunal has been successful in limiting intended price increases through the use of private discussions with companies. It has thus been responsible for the reduction of many notified proposals to raise prices, or their complete withdrawal in some cases. Private hearings are held with the companies before the Tribunal decides whether it will hold a public enquiry, and it seems that the possibility of publicity has proved decisive in many instances. The most notable examples of price increases being reduced following preliminary hearings are in the truck and agricultural equipment industry where the proposed rise of 10-10½ per cent was reduced to 3½ per cent, and the dairy industry where proposed increases in butter and cheese prices were not proceeded with.

Without a code or set of guidelines on which to base its activities, the Tribunal has wide discretionary powers of enquiry and reporting. The Act also authorises the Tribunal through the Chairman, to exempt a company or group of related companies from the application of the notification provisions of the Act. Apart from prices of goods and services to be exported, the Act does not specify any grounds for exemption, the determination of these being left to the discretion of the Tribunal. So far a considerable number of exemptions have been granted and these seem to have been based on the grounds of administrative impracticability or other factors such as the perishable nature of the goods or the volatility of price movements. Major retail companies have also been exempted but these exemptions are conditional on the companies supplying financial data requested by the Tribunal.

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Annex III

CALENDAR OF MAIN ECONOMIC EVENTS

January 1972 - December 1973

1972

1st February	Amended Restrictive Trade Practices Act comes into operation. Act now solely within the Commonwealth's corporations power under Section 51 (xx) of the Constitution and obviates the objection made to previous Act in the " concrete pipes " case by the High Court.
3rd February	Reduction in trading banks' deposit and loan interest rates by about 0.5 per cent and greater freedom given to banks in setting overdraft rates. Long-term Government bond rate set at 6 per cent.
8th February	Wheat quotas for 1972/73 harvest raised by 20 per cent to 407 million bushels.
14th February	Package of stimulatory fiscal measures announced: (*a*) Additional \$ 32 million granted for States' works and housing programme. (*b*) Additional \$ 10 million granted for semi-governmental programmes. (*c*) Special revenue grants of \$ 15 million to the States. (*d*) Loan of \$ 17.5 million to New South Wales. (*e*) Doubling of grants to States for non-metropolitan unemployment relief schemes from \$2.25 to \$4.5 million per month. (*f*) Reinstatement of 20 per cent special supplementary depreciation allowance on investment in new manufacturing plant and equipment. (*g*) Increase in rates of unemployment and related benefits (e.g. from \$ 10 to \$ 17 per week for adult males).
9th March	Quantities under Australian import restraint agreements into the United States for meat (beef, veal and mutton) raised by 7.2 per cent (to 600.4 million lbs.) for 1972.
5th April	Increase in Commonwealth grants (made via the States) for rural reconstruction. The \$ 56 million remaining from

the original $ 100 million grant to be spent over 2 fiscal years (1972/73 and 1973/74) instead of 3 and additional $ 15 million made available. Relaxation of the provision that funds be divided equally between debt reconstruction and farm build-up, to allow larger share for former purpose.

11th April Package of stimulatory fiscal measures announced.

(*a*) Halving of 5 per cent levy on personal income tax liabilities.

(*b*) Increase in various pension rates (old-age, invalid, widows' and repatriation) by $ 1 per week for single persons and 75c per week for married persons. Sickness benefits and war pensions also increased.

(*c*) Easing of means test for pension eligibility.

18th April Establishment of Committee of Inquiry into the Taxation System.

3rd May Tariff Board requested to investigate 1 000 items to identify areas where general tariff higher than necessary to protect existing Australian production.

5th May In National Wage Case the Arbitration Commission awards increase of $ 2 per week in total wage and $ 4.70 per week in minimum wage (to apply from May 19).

19th June Approval by Arbitration Commission for incorporation of 35-hour week into existing wage award for waterside workers, following earlier agreement between the union and employers.

22nd June Premiers' Conference and Loan Council meetings decide :

(*a*) Permanent increase in financial assistance grants of $ 112 million to the States.

(*b*) Extra $ 90 million made available for loan funds and $ 49 million for semi-governmental authorities.

(*c*) Grants for non-metropolitan unemployment relief raised by $ 1.5 million to $ 6.0 million per month.

(*d*) Special per-capita payments to New South Wales and Victoria of together $ 12.5 million.

23rd June Exchange controls on capital movements to Sterling Area countries (inc. Australia) announced by Bank of England.

Reserve Bank suspends dealings in foreign exchange by Australian trading banks.

Abolition of restraint agreements in respect to meat imports by the United States for remainder of 1972 (Australia is main foreign supplier to United States).

13th July Lifting of remaining restrictions on foreign exchange dealings by Reserve Bank.

3rd August	Reduction in interest rates on short and medium-term Government bonds.
4th August	Amendments passed to Conciliation and Arbitration Act. These include: (*a*) Conciliation and arbitration functions separated. (*b*) Amendments to sanctions procedures. (*c*) Arbitration Commission required to take into account overall economic consequences of its decisions in major cases.
15th August	Presentation of 1972/73 Federal Budget. Major provisions include: (*a*) Domestic deficit estimated at $ 60 million (about 0.2 per cent of 1971/72 GDP). (*b*) Personal income tax rates reduced on average by 10 per cent. (*c*) Rates of various pensions and other social security benefits raised. (*d*) Abolition of means test on old-age pensions within 3 years. (*e*) Immigration target set at 140,000. (*f*) Concessions including the investment allowance for manufacturers.
19th September	Establishment of National Urban and Regional Development Authority. The Authority's objective is to promote better balance of population distribution and regional development.
20th September	Metal Trades Award varied by Arbitration Commission to incorporate earlier agreement between employers and unions providing, inter alia, for: (*a*) Immediate $ 3 per week increase and further $ 3 in nine months' time. (*b*) Extra days holiday per year. (*c*) A 17.5 per cent annual leave loading.
26th September	Restrictions on capital inflow and foreign investment announced: (*a*) Embargo placed on borrowing overseas of 2 years maturity or less. (*b*) Abolition of guidelines introduced in 1965 to limit overseas companies' borrowing in the Australian market. (*c*) Relaxation of ban on portfolio investment abroad by Australian residents. (*d*) Establishment of authority to vet foreign takeovers.

12th October	Inaugural meeting of Australia-Japan Ministerial Committee.
8th November	SRD ratio of trading banks reduced from 7.1 to 6.6 per cent. Funds so released to be used for long-term loans to farmers.
14th November	Indonesian-Australian Trade Agreement signed.
15th December	Equal pay principle approved by Arbitration Commission. Equal pay to be phased in by mid-1975.
18th December	Responsibility for Tariff Board transferred from Minister of Trade and Industry to Prime Minister's Department.
23rd December	Australian dollar revalued. Gold parity raised from equivalent of $ US 1.2160 to $ US 1.2750; i.e. by 4.85 per cent. This entailed 7.05 per cent appreciation of actual market rate.
	Introduction of variable deposit requirement scheme for foreign borrowing with maturity exceeding 2 years. A proportion (initially 25 per cent) of such loan proceeds to be deposited in interest-free special account with Reserve Bank. Scheme not applicable to financing of normal foreign trade transactions or to borrowings of less than $ 100 000 in any 12-month period.
26th December	Immigration target for fiscal 1972/73 reduced to 110 000 persons (from 140 000 announced in Budget). Major review of immigration policies and practices to be undertaken.

1973

9th January	Planned establishment of a National Pipelines Authority announced. Authority is to construct and operate a national gas pipeline system.
23rd January	Committee to be appointed to prepare a National Compensation Scheme covering entire population for all injuries (at work, home, school, on roads, etc.).
31st January	Export controls to be extended to all minerals, in both raw and semi-processed form.
1st February	Restrictions on overseas borrowings extended to indirect forms of loans and all transactions having similar effect on capital inflow.
	Termination of United Kingdom-Australia Trade Agreement.
8th February	Committee of Enquiry into 7.1 per cent price rise for steel proposed by the BHP Company Limited (Australia's

	largest company) only considered a 3 per cent rise justified. Company accepted this finding. The committee had been appointed by Government as interim measure prior to establishment of formal prices justification machinery.
12th February	Foreign currency exchange market closed by Reserve Bank. Forward exchange dealings already suspended on February 9th.
14th February	Gold parity of Australian dollar to remain unchanged following 10 per cent devaluation of $US and floating of yen on February 13th. Exchange rate moves from $US1.2750 to $US.1.4167.
13th March	Rates of pension, unemployment and sickness benefits increased retroactively from December 1972 to a common level of $ 21.50 per week for single persons and $ 37.50 for married couples.
15th March	Legislation introduced to establish a Joint Parliamentary Committee on Prices.
20th March	Exchange control approval for foreign investment in real estate suspended, pending completion of a study on all aspects of overseas investment in real estate. Committee of Enquiry into National Superannuation Scheme established.
9th April	SRD ratio of trading banks raised by 1 percentage point.
12th April	Decision to establish a National Petroleum and Minerals Authority for the exploration, production and refining of petroleum.
7th May	Termination of petroleum search subsidy scheme and of income tax concessions on capital subscribed for mining and prospecting.
8th May	In National Wage Case the Arbitration Commission awards increase in total wage of 2 per cent plus $ 2.50 per week. National minimum wage increased by $ 9 per week. Government long-term bond rate raised to 6.5 per cent in May loan.
6th June	Local government councils empowered to form regional groupings to seek Federal grants directly via the Grants Commission. Hitherto funds have passed via State government authorities.
29th June	Premiers' Conference and Loan Council meetings decide: (*a*) Federal Government to provide extra $ 25 million in tax reimbursement grants to States during fiscal year 1973/74.

	(*b*) Advances to States for welfare housing increased by 26.1 per cent.
	(*c*) States announce increase of 1 percentage point in rate of payroll tax.
3rd July	New system of tariff preferences for manufactured imports from developing countries. Tariff rates to be initially set 10 per cent below " general " rates and most quota restrictions removed.
	Federal Government decision to negotiate joint establishment with States of Development Corporations to assist in planning and development of new cities and regional centres.
6th July	Government long-term bond rate raised to 7 per cent in July loan.
18th July	Across-the-board cut of 25 per cent in protective tariffs.
23rd July	Decision to phase out the $ 27 million annual dairy industry subsidy. At same time dairy reconstruction scheme to be boosted.
1st August	Prices Justification Tribunal commences operation.
2nd August	SRD ratio of trading banks raised by 1 percentage point to 8.6 per cent.
3rd August	SRD ratio of trading banks reduced by 0.6 percentage point; funds so released to be transferred to banks' term and farm development loan funds.
19th August	Priorities Review Staff to be established within Department of Special Minister of State.
23rd August	Presentation of 1973/74 Federal Budget. Main provisions include:
	(*a*) Domestic deficit estimated at $ 162 million (0.4 per cent of 1972/73 GDP).
	(*b*) Expenditure to increase by 19 per cent (on 1972/73 outcome). Largest increases in socially oriented programmes—housing, community amenities, education etc.
	(*c*) Immigration intake unchanged from revised 1972/73 figure of 110 000 persons.
	(*d*) Introduction of amendment to income tax laws to include as assessable income for taxation purposes the profits on resale within one year of real and personal property.
	(*e*) Various revenue concessions withdrawn following report of a special Task Force appointed earlier in year to examine existing expenditure programmes.

	(*f*) System of collecting company tax in 4 quarterly installments (instead of once a year) to be phased in.
28th August	SRD ratio of trading banks raised by 1 percentage point to 9.0 per cent.
9th September	Australian dollar revalued by 5.0 per cent. New exchange rate with US dollar now $US.1.4875. Announcement that Reserve Bank would press open-market sales vigorously.
14th September	Reserve Bank announces increased bank loan and deposit interest rates.
4th October	Government long-term bond rate raised to 8.5 per cent in October loan.
11th October	Prices Justification Tribunal found 5.5 per cent increase in steel prices justified, compared with the 9.42 per cent sought by the B.H.P. Company Limited. The company accepted this finding.
25th October	Variable deposit on longer-term foreign borrowing raised from 25 to 33⅓ per cent.
8th December	Referenda to amend Constitution to give Australian Government power over prices and incomes defeated. " No " votes accounted for 55 per cent of total in respect to prices and 65 per cent in respect to incomes.

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STATISTICAL ANNEX

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Table A Gross Domestic Product

$ million, current prices

Year ended 30 June	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
EXPENDITURE										
1 Private consumption	11 193	12 110	12 858	13 835	15 067	16 220	17 791	19 540	21 579	24 052
Durables	1 558	1 692	1 632	1 700	1 919	2 044	2 269	2 454	2 674	2 968
Other	9 635	10 418	11 226	12 135	13 148	14 176	15 522	17 086	18 905	21 084
2 Government current expenditure	1 804	2 066	2 407	2 725	3 076	3 360	3 673	4 235	4 802	5 524
3 Gross fixed capital formation	4 513	5 259	5 708	5 994	6 524	7 218	7 949	8 730	9 395	9 653
Residential	817	963	975	1 056	1 182	1 367	1 570	1 629	1 840	2 168
Other building and construction	1 709	1 921	2 152	2 220	2 444	2 726	2 936	3 355	3 636	3 749
Machinery and equipment	1 987	2 375	2 581	2 718	2 898	3 125	3 443	3 746	3 919	3 736
4 Change in stocks	125	569	117	360	128	668	495	352	–115	–250
5 Exports of goods and services	3 163	3 049	3 138	3 487	3 568	3 901	4 757	5 052	5 627	6 915
6 Imports of goods and services	2 873	3 485	3 629	3 711	4 155	4 276	4 764	5 123	5 224	5 333
7 Statistical discrepancy	–125	–6	–103	–153	–176	–120	–168	–131	138	422
8 GROSS DOMESTIC PRODUCT AT PURCHASERS' VALUES	17 801	19 563	20 497	22 536	24 031	26 972	29 733	32 656	36 202	40 983
ORIGIN										
1 Agriculture, hunting, forestry and fishing	2 197	2 184	1 904	2 357	1 844	2 348	2 189	2 036	2 308	n.a.
2 Manufacturing	4 519	5 046	5 247	5 644	6 127	6 769	7 411	7 999	8 558	n.a.
3 Other industry	2 069	2 334	2 577	2 786	3 032	3 427	3 982	4 455	4 907	n.a.
4 Services	7 230	8 026	8 616	9 465	10 534	11 678	13 121	14 850	16 723	n.a.
5 Indirect taxes less subsidies	1 786	1 973	2 153	2 284	2 494	2 750	3 030	3 316	3 706	4 269
6 GROSS DOMESTIC PRODUCT AT PURCHASERS' VALUES	17 801	19 563	20 497	22 536	24 031	26 972	29 733	32 656	36 202	40 983

Sources: Australian submission to the OECD and Australian National Accounts.

Table B Gross Domestic Product
$ million, average 1966-67 prices

Year ended 30 June	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
EXPENDITURE										
1 Private consumption	12 303	12 892	13 249	13 835	14 599	15 280	16 163	16 765	17 437	18 459
Durables	1 560	1 704	1 642	1 700	1 909	1 987	2 165	2 265	2 344	2 527
Other	10 743	11 188	11 607	12 135	12 690	13 293	13 998	14 500	15 093	15 932
2 Government current expenditure	2 059	2 247	2 538	2 725	2 935	3 054	3 123	3 256	3 305	3 493
3 Gross fixed capital formation	4 940	5 576	5 898	5 993	6 343	6 771	7 149	7 400	7 448	7 178
4 Change in stocks	148	594	115	360	139	703	480	356	–142	–229
5 Exports of goods and services	3 106	3 091	3 140	3 487	3 690	3 960	4 723	5 123	5 536	5 792
6 Imports of goods and services	2 987	3 575	3 666	3 711	4 151	4 271	4 709	4 871	4 761	4 970
7 Statistical discrepancy	–133	–2	–103	–153	–168	–108	–142	–101	122	336
8 GROSS DOMESTIC PRODUCT AT PURCHASERS' VALUES	19 433	20 822	21 172	22 536	23 386	25 389	26 786	27 928	28 944	30 058

Sources: Australian submission to the OECD and Australian National Accounts.

Table C **Income and Expenditure of Households (including unincorporated enterprises)**

$ million, current prices

Year ended 30 June	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Compensation of employees	8 875	9 919	10 687	11 658	12 678	14 028	15 735	18 056	20 241	22 518
Wages and salaries	8 580	9 601	10 346	11 284	12 262	13 569	15 221	17 474	19 516	21 709
Supplements to wages and salaries	295	318	341	374	416	459	514	582	725	809
Income from property and entrepreneurship	4 132	4 318	4 215	4 841	4 599	5 361	5 563	5 839	6 536	7 885
Income from independent traders	3 106	3 222	3 045	3 544	3 169	3 796	3 831	3 930	4 416	5 502
Interest, rents and dividends	1 026	1 096	1 170	1 297	1 430	1 565	1 732	1 909	2 120	2 383
Current transfers from Government	1 038	1 090	1 168	1 262	1 314	1 432	1 630	1 810	2 113	2 623
Current transfers from the rest of the world	104	115	122	138	159	168	186	181	226	235
INCOME	14 149	15 442	16 192	17 899	18 750	20 989	23 114	25 886	29 116	33 261
less: Direct taxes payable on income	1 304	1 533	1 696	1 933	2 083	2 427	2 861	3 123	3 828	4 094
Consumer debt interest	121	126	128	132	143	167	185	218	239	281
Current transfers to Government	93	108	120	130	142	164	174	181	219	249
Current transfers to the rest of the world	62	66	74	81	86	92	114	134	172	210
DISPOSABLE INCOME	12 569	13 609	14 174	15 623	16 296	18 139	19 780	22 230	24 658	28 427
Consumption expenditure	11 193	12 110	12 858	13 835	15 067	16 220	17 791	19 540	21 579	24 052
Food	2 482	2 666	2 838	3 026	3 199	3 342	3 570	3 819	4 101	4 528
Clothing	1 199	1 271	1 316	1 389	1 479	1 553	1 659	1 793	1 928	2 142
Rent	1 248	1 359	1 483	1 630	1 793	1 981	2 226	2 544	2 863	3 206
Other	6 264	6 814	7 221	7 790	8 596	9 344	10 336	11 384	12 687	14 176
SAVING	1 376	1 499	1 316	1 788	1 229	1 919	1 989	2 690	3 079	4 375
(Per cent of disposable income)	10.9	11.0	9.3	11.4	7.5	10.6	10.1	12.1	12.5	15.4

Sources: Australian submission to the OECD and Australian National Accounts

Table D Labour Market

Calendar year averages	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
	Thousand persons									
Civilian employment: total[1]	4 495.6	4 628.0	4 760.6	4 880.4	5 001.4	5 150.9	5 329.2	5 436.5	5 488.8	5 640.2
in manufacturing[2]	1 357.9	1 401.4	1 415.9	1 457.7	1 468.1	1 493.0	1 531.1	1 559.8	1 414.6	1 442.3
Unemployment[3]	63.3	60.7	71.5	79.1	77.8	80.0	74.7	87.6	125.9	107.7
Unfilled vacancies[4]	45.9	53.5	43.7	37.5	37.1	44.3	50.9	40.8	32.4	64.0
	Per cent									
Unemployment	1.4	1.3	1.5	1.6	1.6	1.6	1.4	1.6	2.2	1.9
Participation rate: male	84.2	84.0	84.1	83.8	83.4	83.3	83.2	82.7	82.5	82.2
female	33.4	34.4	35.3	36.3	36.8	37.6	38.8	39.3	39.4	40.5
	Hours									
Average weekly hours paid for[5]										
all industries	42.8	[6]	43.0	43.1	43.3	43.6	43.5	43.2	42.9	n.a.
manufacturing	43.4	[6]	43.5	43.7	43.7	44.1	44.0	43.5	43.2	n.a.

1 Estimates for 1972 and 1973 not comparable with those for earlier periods due to exclusion of trainee teachers from labour force since 1971 (about 24 thousand at August 1971).
2 Including electricity, gas and water. Estimates for 1972 and 1973 not comparable with those for earlier periods. The 1966 census classification of industries has been used prior to 1972 and Australian Standard Industrial Classification for 1972 and 1973.
3 According to labour force survey.
4 Registered with Commonwealth Employment Service.
5 Refers to full time adult male employees (other than managerial, executive, professional and higher supervisory staff) in private employment (excluding rural industries and private domestic service) as at the last pay-period in October each year.
6 Data from October 1965 survey not comparable with that for other years.

Sources: Survey of Weekly Earnings and Hours; Australian submission to the OECD.

Table E Prices and Wages

Year ended 30 June	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
	1966-67 = 100										
Implied GDP deflator, total	88.3	91.6	94.0	96.8	100.0	102.7	106.2	110.9	117.0	125.1	136.7
Private consumption	89.5	91.0	93.9	97.0	100.0	103.2	106.1	109.9	116.6	123.8	130.6
Gross fixed asset formation	89.8	91.4	94.3	96.8	100.0	102.8	106.6	111.2	118.0	126.0	134.5
Consumer prices : Total	89.8	90.6	94.0	97.4	100.0	103.3	106.0	109.4	114.6	122.4	129.8
Food	87.8	89.0	93.9	98.4	100.0	104.7	105.8	108.1	112.4	116.8	125.7
Non-food	90.7	91.4	94.0	96.9	100.0	102.7	106.1	109.9	115.6	124.9	131.7
Foreign trade prices : Exports	96	109	100	102	100	95	97[6]	98	96	99	128
Imports	96	96	97	99	100	99	101	104	108	115	114
Terms of trade	100	113	103	103	100	96	97	95	88	86	112
	Dollars										
Hourly wage rates[1]											
All activities[2]	0.92	0.94	0.99	1.02	1.09	1.14	1.22	1.28	1.39	1.54	1.70
of which: Manufacturing	0.91	0.93	0.98	1.00	1.06	1.12	1.19	1.25	1.34	1.50	1.64
Hourly earnings[3]											
All industries[4]	1.21	1.29	[5]	1.42	1.50	1.59	1.70	1.84	2.08	2.24	n.a.
Mining and quarrying	1.46	1.53	[5]	1.77	1.86	1.97	2.13	2.32	2.68	2.88	n.a.
Manufacturing	1.19	1.27	[5]	1.40	1.48	1.57	1.66	1.79	2.04	2.21	n.a.
Building and construction	1.29	1.37	[5]	1.52	1.59	1.72	1.80	2.02	2.26	2.42	n.a.

1 Weighted average minimum rates payable to adult males as prescribed in awards, determinations, etc. Average of twelve monthly figures.
2 Excluding the rural, shipping and stevedoring industries.
3 Refers to full-time adult males in private employment (other than managerial, etc. staff) and to conditions in October of respective year.
4 Excluding rural industry and domestic service.
5 Data from October 1965 survey not comparable with that for other years.
6 Interim Series, including additional items linked as at June 1969.

Sources: Quarterly Summary of Australian Statistics; Survey of Weekly Earnings and Hours; Wage Rates and Earnings; Australian submission to the OECD.

Table F **Liquidity Formation**

Changes in $ million

Year ended 30 June	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Government debt (net)	450	301	331	521	485	172	305	86	159	711
Reserve Bank transactions										
Gold and foreign exchange[1]	456	–308	–18	–170	–91	210	47	784	1 535	440
Rural Credits advances	–96	128	–69	184	–142	260	–140	–39	–44	–53
Statutory Reserve Deposits (—)	–(+232)	–(–22)	–(–184)	–(+2)	–(–17)	–(+110)	–(+111)	–(–59)	–(–62)	–(+227)
Term loan funds (—)	–(–25)	–(+2)	–(+3)	–(–8)	–(+11)	–(–22)	–(–10)	–(+5)	–(+27)	–(–31)
Farm development loan funds (—)	—	—	–(+50)	–(–17)	–(+13)	–(–21)	–(–15)	–(+22)	–(+6)	–(–18)
Miscellaneous[2]	29	–14	10	17	134	–16	71	–211	–239	729
Total (= LGS[3] assets of private sector)	632	127	385	575	379	559	197	652	1 440	1 649
less: LGS[1] assets of private non-bank sector	225	60	158	389	279	269	249	424	835	109
LGS assets of banks (excl. Reserve Bank)	407	67	227	186	100	290	–52	228	605	1 540
Statutory Reserve Deposits	232	–22	–184	2	–17	110	111	–59	–62	227
Loans and advances										
Trading banks	145	345	228	365	474	361	519	415	558	1 981
Savings banks	216	221	213	235	243	246	227	277	294	463
Other assets and liabilities of banks[4]	42	170	148	–1	99	61	–65	3	132	48
Notes and coin in the hands of the public	–3	–1	–30	99	82	101	122	150	131	235
Total (= Volume of money)	1 038	781	602	886	982	1 169	863	1 014	1 657	4 493

1 Valued at market prices.
2 Includes balancing item.
3 LGS = Liquid Assets and Government Securities, valued at average of weekly figures except for government securities held by private non-bank sector which are included on a last-day basis.
4 Including public deposits with Reserve Bank (+) and government and interbank deposits with trading banks (—).

Source: Australian submission to the OECD.

Table G General Government Receipts and Expenditure

$ million

Year ended 30 June	Total[1]					Australian Government				
	1969	1970	1971	1972	1973	1969	1970	1971	1972	1973
Current receipts	7 341	8 401	9 315	10 635	11 563	5 700	6 559	7 397	8 233	8 787
Direct taxes on income	3 408	4 042	4 603	5 284	5 701	3 408	4 042	4 603	5 284	5 701
Households	2 377	2 855	3 175	3 765	4 084	2 377	2 855	3 175	3 765	4 085
Corporations	1 031	1 187	1 428	1 519	1 617	1 031	1 187	1 428	1 519	1 617
Indirect taxes	2 973	3 292	3 594	4 080	4 583	2 005	2 214	2 458	2 522	2 635
Income from property and entrepreneurship	796	893	937	1 052	1 030	239	256	289	366	383
Compulsory fees, fines, etc.	164	174	181	219	249	45	47	47	60	67
Current disbursements	5 877	6 511	7 331	8 390	9 703	4 677	5 141	5 868	6 511	7 564
Goods and services	3 360	3 673	4 235	4 802	5 524	1 721	1 788	1 983	2 157	2 399
Subsidies	223	262	278	374	314	208	242	262	359	300
Interest on public debt	703	767	823	895	990	26	23	12	–14	12
Current transfers to domestic sectors	1 432	1 630	1 810	2 113	2 623	2 564	2 910	3 427	3 804	4 601
Current transfers to the rest of the world	159	179	185	206	252	158	179	184	205	252
Saving	1 464	1 890	1 984	2 245	1 860	1 023	1 418	1 529	1 722	1 223
Capital transfers	157	164	175	166	168	–226	–265	–513	–592	–686
Finance of gross accumulation	1 621	2 054	2 159	2 411	2 028	797	1 153	1 016	1 130	537
Investment expenditure	1 179	1 262	1 400	1 533	1 711	161	157	194	187	191
Net lending	442	792	759	878	317	636	996	822	943	346

1 Combined Australian, State and Local Sectors.

Sources: Australian submission to the OECD; ABS, " Commonwealth Authorities ".

Table H **Balance of Payments**

$ A million

Year ended 30 June	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Current Account										
Exports, fob	2 731	2 574	2 626	2 926	2 942	3 217	3 969	4 216	4 729	5 990
Imports, fob	2 237	2 739	2 822	2 837	3 159	3 203	3 553	3 790	3 791	3 797
Trade balance	493	–165	–196	89	–218	14	416	426	938	2 193
Invisibles, net	–553	–621	–694	–750	–925	–1 040	–1 177	–1 298	–1 353	– 1516
CURRENT BALANCE	–60	–787	–891	–660	–1 143	–1 026	–760	–873	–416	677
Capital Account										
Government	–46	–48	13	–28	86	70	–185	–63	–60	–90
Marketing authorities	31	–61	34	–75	33	27	–47	–43	–45	34
Other private	446	583	666	484	963	969	961	1 544	1 317	728
Balancing item[1]	77	16	234	156	140	108	68	32	646	–367
APPARENT CAPITAL BALANCE	508	490	947	537	1 222	1 174	797	1 470	1 858	305
Other foreign assets[2]	3	4	–16	18	–8[4]	–26	–6	71	31[4]	3[4]
Other monetary movements[3]	2	2	2	–26	3	20	12	10	8	11
Allocation of SDR's	—	—	—	—	—	—	75	64	63	—
CHANGES IN OFFICIAL RESERVES	453	–292	44	–132	73[4]	143	118	742	1 544[4]	996[4,5]
(*a*) Gold	16	10	–7	6	25	1	10	–14	6	–2
(*b*) Currency assets	437	–325	10	–165	–23	187	16	718	1 512	1 000
(*c*) IMF gold tranche	—	22	40	26	71	–45	13	–30	–37	1
(*d*) Special Drawings Rights	—	—	—	—	—	—	79	68	63	—

1 Includes errors and omissions and balances the figures for changes in official reserves on an official parities (rather than market values) basis.

2 Includes changes in the net foreign exchange assets of Australian trading banks adjusted for settlements pending with the Reserve Bank and changes in foreign exchange assets of the Australian Government other than in London.

3 Includes:

a) Drawings and repayments made by Reserve Bank of New Zealand under a special arrangement with the Reserve Bank of Australia for the purposes of financing Australian exports to New Zealand. Also included are small amounts for the purchase of shares in the Bank for International Settlements.

b) Changes in the balances of foreign central monetary institutions with the Reserve Bank of Australia and changes in Australia's currency liabilities (notes and coins in circulation) in Papua New Guinea.

4 Excludes effects of changes in official parity relationship between $ A and other currencies.

5 Excludes effect on official reserve assets of $ 26 million equivalent received in March 1973 under the Sterling Agreement compensation arrangements.

Source: Australian Bureau of Statistics.

Table I **Foreign Trade — Commodity and Geographic Structure**

Per cent

Year ended 30 June	Imports 1971	Imports 1972	Imports 1973	Exports 1971	Exports 1972	Exports 1973
SITC sections:						
Food and live animals	3.8	4.0	4.0	33.8	35.3	31.2
Beverages and tobacco	1.2	1.3	1.3	0.3	0.3	0.2
Crude materials, inedible, except fuels	5.7	5.5	6.5	29.5	27.3	34.0
Mineral fuels, lubricants and related materials	4.6	4.8	4.3	5.7	6.4	5.5
Animal and vegetable oils and fats	0.4	0.4	0.3	0.7	0.7	0.5
Chemicals	9.9	10.2	10.3	4.4	5.0	4.4
Manufactured goods, classified chiefly by material	20.9	21.3	21.7	11.8	10.9	10.4
Machinery and transport equipment	39.6	37.0	36.1	7.4	7.7	8.0
Miscellaneous manufactured articles	9.7	10.8	11.5	1.7	2.1	1.6
Commodities and transactions not classified according to kind	4.2	4.7	4.0	4.7	4.3	4.2
Total	100.0	100.0	100.0	100.0	100.0	100.0
OECD countries	83.1	81.1	80.0	63.6	64.1	68.3
North America	29.1	25.3	24.2	14.6	15.4	15.0
Japan	13.8	15.7	17.9	27.2	27.8	31.1
EEC	35.1	34.9	32.3	20.5	18.9	20.3
Other	5.2	5.2	5.5	1.2	1.9	1.9
Non-OECD countries	16.8	18.9	20.0	36.4	35.9	31.7
Sino-Soviet area[1]	1.4	1.6	1.8	3.8	3.5	4.2
Other developed countries	2.8	3.5	3.3	7.3	7.0	6.8
Developing countries	12.6	13.8	14.9	25.3	25.4	20.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

1 Including Mainland China, North Korea and North Vietnam.

Source: Australian submission to the OECD.

BASIC STATISTICS : INTERNATIONAL COMPARISONS

Indicator	Period	Unit	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland
POPULATION	Mid-1972	Thousands	12 959	7 487	9 711	21 848	4 992	4 624 [1]	51 700	61 669	8 866	209	3 014
Net average annual increase	1962 to 1972	%	1.93	0.49	0.52	1.61	0.72	0.29	0.96	0.82	0.48	1.39	0.63
EMPLOYMENT Total civilian	1971	Thousands	5 425	3 176	3 788	8 079	2 338	2 139	20 518	26 673	3 275	79 [13]	1 063
Agriculture		% of total	8.0	17.3	4.4	7.5	10.9	21.2	13.4	8.4	37.3	18.8 [13]	26.5
Industry [7]		% of total	38.8	41.9	44.2	31.0	37.2	35.2	38.6	50.1	24.6	36.8 [13]	30.9
Other		% of total	53.2	40.8	51.4	61.5	51.9	43.6	48.0	41.5	38.1	44.4 [13]	42.6
PRODUCTION GDP [4] per head	1971	$ [8]	3 170	2 210	2 980	4 340	3 510	2 450	3 180	3 550	1 190	2 920	1 530
GDP by sector: Agriculture	1971	% of total	7.2 [2 15]	6.0 [11]	3.9	4.4	7.5	13.7	6.0 [11 13]	2.8 [11]	19.5	..	16.4
Industry		% of total	38.1 [2 15]	49.0 [11]	43.8	37.0	38.7	42.3	48.4 [11 13]	53.5 [11]	30.5	..	35.6
Other		% of total	54.7 [2 15]	45.0 [11]	52.3	58.6	53.8	44.0	45.6 [11 13]	43.7 [11]	50.0	..	48.0
GDP [4] [23] annual volume growth	1971	%	3.0 [15]	5.6	3.7	5.5	4.0	2.3	5.1	2.7	7.6	9.9	3.8
	1966 to 1971	%	5.0 [15]	5.2	5.0	4.4	4.9	5.2	5.7	4.7	7.5	1.9	5.1
INDICATORS OF LIVING STANDARDS Private consumption per head	1971	$	1 880	1 230	1 810	2 480	2 080	1 280	1 870	1 910	810	1 860	1 040
Public expenditure on education	1970	% of GNP	4.00 [9]	4.60 [2]	5.40 [2]	9.10 [2]	7.00	6.30	4.70	3.50	2.00 [2]	4.30	4.90 [2]
Dwellings completed, per 1 000 inhabitants	1971	Number	11.0	6.0	4.4 [22]	8.9 [22]	10.1	10.8	9.3	9.0	14.0	6.6	5.1
Passenger cars, per 1 000 inhabitants	1970	Number	306	162	211	312	219	137	245	237	22	200	122
Television sets, per 1 000 inhabitants	1971	Number	227 [13]	213	216 [13]	349	277	230	227	299	10 [2]	196	164
Telephones, per 1 000 inhabitants	1971	Number	324	207	224	468	356	270	185	249	137	360	109
Doctors, per 1 000 inhabitants	1970	Number	1.18 [19]	1.85	1.55 [2]	1.41 [2]	1.45 [18]	1.02	1.33	1.69 [2]	1.55 [2]	1.41	1.09 [2]
GROSS FIXED INVESTMENT [23] Total	1967-71 average	% of GDP [4]	26.5 [15]	28.0	20.8	21.7 [24]	23.3	24.1	26.1	25.4	27.2 [25]	29.2	23.4
Machinery and equipment		% of GDP [4]	11.7	12.1	9.0	8.0	11.9	8.8	11.7	11.8	10.5	8.6	11.6
Residential construction		% of GDP [4]	5.1	15.8 [28]	4.8	4.2	11.4 [28]	5.6	6.5	5.3	7.4	5.5	4.2
Other construction		% of GDP [4]	9.7	— [28]	7.0	9.5	—	9.7	7.8	8.3 [29]	9.4	15.1	7.7
GROSS SAVING	1967-71 average	% of GDP [4]	25.7	28.5	24.6	22.5	18.5	29.1	27.3	27.2	22.0 [25]	..	20.4
PUBLIC SECTOR [30] Total current revenue	1971	% of GDP [4]	29.5	37.0	35.5	35.7	44.6	37.6	37.7	38.4	27.4 [13]	33.3 [18]	34.2
WAGES/PRICES Hourly earnings [32]	Annual increase 1966 to 71	%	6.9 [34]	8.5 [16]	8.7	7.9 [34]	11.7 [35]	10.7	10.2 [36]	8.3 [34]	8.8 [34]	12.9 [37]	12.1 [34]
Consumer prices	Annual increase 1966 to 71	%	3.7	3.8	3.5	3.7	6.3	5.3	4.9	3.0	2.1	12.0	6.5
GDP [4] deflator	Annual increase 1966 to 71	%	4.6	3.8	4.0	3.8	5.7	5.9	5.2	4.2	2.5	13.4	7.1
FOREIGN TRADE Imports [46]	1971	$ million [8]	5 870 [15]	5 060	12 020	19 550	5 350	3 190	26 180	43 900	2 090 [13]	290	1 960
		% of GDP [4]	14.5	30.7	41.6	21.1	30.7	28.1	16.1	20.2	22.3	48.0	43.3
Exports [46]	1971	$ million [8]	6 310 [15]	5 030	12 670	21 020	5 080	2 970	27 390	47 010	1 000 [13]	250	1 640
		% of GDP [4]	15.7	30.5	43.9	22.7	29.1	26.1	16.8	21.6	10.7	41.4	36.3
BALANCE OF PAYMENTS Current balance	1967-71 average	% of GNP	−3.2 [15]	−0.3	1.9 [21]	0.0	−2.6	−1.3	−0.3	0.9	−3.7	−5.5	−3.3
Official reserves [47], end-1972: per cent of imports of goods in 1972		%	129.9	52.6	25.0 [21]	32.0	17.0	23.7	37.7	59.8	44.1	36.7	53.6
Change	Feb. 1973 - Feb. 1974	Mill. SDR's	−293	−148	40 [21]	−34	31	−53	−2 098	1 950	−116	3	−91
NET FLOW OF RESOURCES TO DEVELOPING COUNTRIES [50]	1972	% of GNP	0.96	0.54	1.12	0.95	0.57	— [51]	1.06	0.67	— [52]	— [51]	— [51]
EXPORT PERFORMANCE [53] Growth of markets [54]	1971 to 1972	%	16.7	17.9	19.8	18.3	19.7	21.1	18.8	18.6	14.7	..	22.4
	1960-61 to 1970-71 (average)	%	..	11.5	11.5	13.5	10.3	10.6	9.6	10.8	11.5	..	8.5
Gains or losses of market shares [55]	1971 to 1972	%	10.9	4.8	10.2 [21]	−4.1	−0.3	3.9	6.6	−0.2	16.8	..	0.5
	1960-61 to 1970-71 (average)	%	..	−1.5	0.5 [21]	−2.0	−1.6	−2.0	1.0	1.0	0.3	..	1.2

Indicator	Period	Unit	Italy	Japan	Luxembourg	Netherlands	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia
POPULATION	Mid-1972	Thousands	54 344 [3]	106 960 [6]	347	13 330	3 933	8 590	34 365	8 127	6 385	37 010	55 877	208 842	20 770
Net average annual increase	1962 to 1972	%	0.67	1.19	0.78	1.22	0.78	−0.41	1.06	0.72	1.20	2.49	0.45	1.14	0.99
EMPLOYMENT Total civilian	1971	Thousands	18 700	51 140	148	4 604	1 497 [13]	3 033	12 442	3 860	3 063	(13 639) [13]	24 329	79 120	7 651 [5]
Agriculture		% of total	19.5	15.9	10.2	6.9	13.9 [13]	31.1	28.6	7.8	7.2	(71.5) [13]	2.7	4.3	50.4
Industry [7]		% of total	44.1	36.0	47.3	38.0	37.3 [13]	36.3	37.5	37.6	47.5	(11.8) [13]	45.7	(31.0)	49.6
Other		% of total	36.4	48.1	42.5	55.1	48.8 [13]	32.6	33.9	54.6	45.3	(16.7) [13]	51.6	(64.7)	
PRODUCTION GDP [4] per head	1971	$ [8]	1 880	2 150	3 180	2 820	3 350	760	1 070	4 410	3 780	350	2 430	5 130	760
GDP by sector: Agriculture	1971	% of total	11.5	5.9 [11]	4.1 [13]	6.2 [13]	5.3	16.2	13.5	4.4 [11]	6.4 [10]	30.2 [12]	2.9 [14]	2.9 [11]	19.3 [13]
Industry		% of total	40.5	44.3 [11]	56.9 [13]	42.0 [13]	37.8	44.3	34.4	39.3 [11]	49.6 [10]	25.7 [12]	43.5 [14]	33.1 [11]	41.1 [13]
Other		% of total	48.0	49.8 [11]	39.1 [13]	51.8 [13]	56.9	39.5	52.1	56.2 [11]	44.0 [10]	44.1 [12]	53.6 [14]	63.9 [11]	39.6 [13]
GDP [4] [23] annual volume growth	1971	%	1.5	6.3	0.7	4.5	5.0	6.2	4.5	0.2	3.8	7.9	1.6	2.5	..
	1966 to 1971	%	5.0	11.3	3.4	6.1	4.6	6.6	5.7	3.5	3.8	6.3	2.3	2.5	..
INDICATORS OF LIVING STANDARDS Private consumption per head	1971	$	1 210	1 120	1 760	1 610	1 780	580	720	2 390	2 230	260 [13]	1 510	3 230	390
Public expenditure on education	1970	% of GNP	4.20 [2]	4.00 [2]	4.90 [2]	7.00 [18]	5.90	2.00	2.20 [2]	8.20	4.10 [2]	3.70 [18]	5.50 [2]	5.40 [2]	4.30 [18]
Dwellings completed, per 1 000 inhabitants	1971	Number	6.3	14.4 [13]	5.3 [13]	10.4	9.8	2.9 [13]	9.1	13.2	10.7	4.8 [13]	6.7	8.3	6.1
Passenger cars, per 1 000 inhabitants	1970	Number	187	85	267	194	193	47	71	279	221	4	213	432	35
Television sets, per 1 000 inhabitants	1971	Number	191	222	208 [13]	243	229	40 [13]	132	323	222	3	298	449	100
Telephones, per 1 000 inhabitants	1971	Number	188	282	346	280	307	92	151	557	509	18	289	604	40
Doctors, per 1 000 inhabitants	1970	Number	1.80	1.11 [2]	1.03 [2]	1.19	1.37	0.85	1.34 [2]	1.30 [2]	1.59	0.44	1.18 [9]	1.49 [2]	1.10
GROSS FIXED INVESTMENT [23] Total	1967-71 average	% of GDP [4]	19.9	37.8	24.2 [25]	26.7	28.2	18.0	24.1	23.0	27.8 [49]	..	19.3	16.6 [26]	..
Machinery and equipment		% of GDP [4]	8.2	31.3 [27]	7.3	12.6	13.9	8.0	12.6	8.3	9.5	..	9.4	7.0 [26]	..
Residential construction		% of GDP [4]	6.1	6.5	16.9 [28]	5.2	5.1	3.0	3.9	5.1	7.1	..	3.4	3.3	..
Other construction		% of GDP [4]	5.6	— [27]	—	8.9	9.2	7.0	7.8	9.6	11.2	..	6.5	6.3	..
GROSS SAVING	1967-71 average	% of GDP [4]	23.3	39.1	30.2 [25]	26.2	28.0	20.4	22.7	22.8	28.9 [49]	..	19.4	17.3	..
PUBLIC SECTOR [30] Total current revenue	1971	% of GDP [4]	33.7	22.3	35.7 [13]	42.5 [13]	47.3	24.0	22.6	49.1 [31]	27.1 [2]	..	38.6	30.5	..
WAGES/PRICES Hourly earnings [32]	Annual increase 1966 to 71	%	10.1 [38]	15.2 [39]	..	9.2 [40]	9.9 [41]	10.2 [33]	12.3 [42]	9.0 [43]	6.1 [44]	..	7.8 [45]	5.5 [20]	14.7
Consumer prices	Annual increase 1966 to 71	%	3.4	5.7	3.3	5.3	5.5	7.8	5.4	4.6	3.8	10.0	5.7	4.5	9.1
GDP [4] deflator	Annual increase 1966 to 71	%	4.4	4.7	5.1	5.3	5.7	3.8	5.5	4.8	5.1	7.7	5.6	4.4	..
FOREIGN TRADE Imports [46]	1971	$ million [8]	18 670	20 720	730 [13]	17 710	5 360	2 130	5 610	8 410	8 240	990 [13]	28 750	62 440	3 750
		% of GDP [4]	18.5	9.2	70.9	47.5	41.0	31.5	15.4	23.5	34.5	7.7	21.5	5.9	23.9
Exports [46]	1971	$ million [8]	19 770	27 010	850 [13]	17 700	5 130	1 650	5 840	8 770	8 090	620 [13]	30 650	56 220	2 860
		% of GDP [4]	19.6	12.0	81.8	47.5	39.3	24.5	16.0	24.5	33.8	4.8	22.9	5.3	18.2
BALANCE OF PAYMENTS Current balance	1967-71 average	% of GNP	2.2	1.3	—	−0.5	−0.8	2.8	−0.1	−0.3	1.5	−0.7	0.6	0.0	..
Official reserves [47], end-1972: per cent of imports of goods in 1972		%	31.5	78.2	—	27.9	30.3	105.9	75.8	19.7	75.9	92.6	20.3	23.7	22.5
Change	Feb. 1973 - Feb. 1974	Mill. SDR's	−838	−5 997	—	434	372	223 [17]	712 [48]	524	−661	481	39	234	472
NET FLOW OF RESOURCES TO DEVELOPING COUNTRIES [50]	1972	% of GNP	0.46	0.93	— [51]	1.42	0.37	(2.15)	— [52]	0.66	0.58	— [52]	1.11	0.64	— [52]
EXPORT PERFORMANCE [53] Growth of markets [54]	1971 to 1972	%	19.5	14.8	—	19.9	19.6	..	19.1	18.8	19.2	19.7	14.5	16.7	..
	1960-61 to 1970-71 (average)	%	10.9	10.1	—	11.1	10.2	..	10.6	10.5	11.1	10.8	9.8	9.8	..
Gains or losses of market shares [55]	1971 to 1972	%	3.1	4.3	—	−2.0	8.3	..	6.9	−2.5	−0.1	11.7	−6.8	−5.6	..
	1960-61 to 1970-71 (average)	%	2.8	7.9	—	0.8	0.5	..	3.4	−0.1	−0.3	−4.2	−2.9	−2.1	..

1 Does not include total net migration between Finland and the other Nordic countries.
2 1969.
3 Total resident population.
4 GDP in purchasers' values.
5 Private and socialised sector.
6 From 1972, including Okinawa prefecture.
7 According to the definition used in OECD Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
8 At current prices and exchange rates.
9 1967.
10 The estimates for GDP by sector for Switzerland have been published in "La Vie économique", November 1969.
11 GDP at market prices.
12 Net domestic product.
13 1970.
14 Including stock appreciation.
15 Fiscal year-Beginning July 1st.
16 Monthly, wage earners.
17 Dec. 1972 - Dec. 1973.
18 1968.
19 1966.
20 Manufacturing, gross earnings per production worker.
21 Including Luxembourg.
22 Dwellings started.
23 At constant (1963) prices.
24 Excluding transfer costs of land and existing assets.
25 1966-1970.
26 Government and government enterprise expenditure on machinery and equipment is included in government current expenditure.
27 "Other construction" included under "machinery and equipment". Work in progress on heavy equipment and ships for the domestic market are included in fixed asset formation.
28 "Other construction" included in "residential construction".
29 Including transfer costs of land.
30 General government.
31 Including depreciation.
32 Industry.
33 Monthly.
34 Manufacturing.
35 Including bonuses.
36 Hourly rates in manufacturing.
37 Hourly wages rates, unskilled workers.
38 Hourly rates in manufacturing, excluding family allowances.
39 Monthly earnings in manufacturing. Cash payments including bonuses, regular workers.
40 Hourly rates in industry, males.
41 Males.
42 Manufacturing, including salaried employees.
43 Mining and manufacturing, males.
44 Hourly rates.
45 Hourly rates in manufacturing, males.
46 Goods and services, excluding factor income.
47 Including reserve position in the IMF and special drawing rights.
48 Jan. 1973 - Jan. 1974.
49 1965-1969.
50 According to the DAC definition. Including flows to multilateral agencies and grants by voluntary agencies.
51 Not Development Assistance Committee member.
52 Considered as a developing country for purposes of DAC reporting.
53 Values, percentage change. Figures are subject to many limiting factors. For an explanation see OECD Economic Outlook, simple definition, December 1970, pp. 65 and 69.
54 The growth which would have occurred in a country's exports if it had exactly maintained its share in total OECD exports to each of 19 broad geographical zones.
55 The difference between the growth rates of markets and exports.

NOTE Figures within brackets are estimates by the OECD Secretariat.

Sources: Common to all subjects and countries, except Yugoslavia (for special national sources see above): OECD: Labour Force Statistics, Main Economic Indicators, National Accounts, Balance of Payments, Observer, DAC and Statistics of Foreign Trade (Series A); Office Statistique des Communautés Européennes, Statistiques de base de la Communauté; IMF, International Financial Statistics; UN, Statistical Yearbook.

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