This report is restricted to those members of the staff to whose work it directly relates.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

RECENT ECONOMIC DEVELOPMENTS IN AUSTRALIA

August 24, 1951

Economic Department
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AUSTRALIA

Basic Statistics

Area: 2,974,581 square miles

Population: 8.0 million (estimated)

Currency: Australian Pound

Exchange Rate - A.£ 1 = US$2.24
(Par value) US$ 1 = A.£ 0.45 (9 shillings)
A.£ 1 million = US$2,240,000

<table>
<thead>
<tr>
<th>Trade Statistics</th>
<th>1949-50</th>
<th>1950-51</th>
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<tbody>
<tr>
<td></td>
<td>A.£ m.</td>
<td>US$ m.</td>
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<tr>
<td>Exports</td>
<td>604</td>
<td>1,455</td>
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<tr>
<td>Imports</td>
<td>536</td>
<td>1,305</td>
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<tr>
<td>Balance of Payments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1949-50</td>
<td>A.£ - 35 million</td>
<td></td>
</tr>
<tr>
<td>1950-51</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price Indexes (1937 = 100)</td>
<td>June 1950</td>
<td>May 1951</td>
</tr>
<tr>
<td>Wholesale Prices</td>
<td>222</td>
<td>271</td>
</tr>
<tr>
<td>Export Prices</td>
<td>396</td>
<td></td>
</tr>
</tbody>
</table>

1/ March.  
2/ April.

National Income (1949-50)

A.£2,220 million, or $4.95 billion ($620 per capita)

Foreign Assets of the Commonwealth Bank

June 1950 - A.£ 584 ($1,310 million)

May 1951 - A.£ 789 ($1,770 million)
Since 1946-47, the Australian economy has been subject to continued inflationary pressure and in the recent fiscal year, ending June 30, 1951, the upward movement of prices and wages has quickened. The inflation springs primarily from the high level of investment brought about by the attempt to overcome the arrears of capital formation and maintenance resulting from the war and at the same time to absorb a large volume of immigrants. The proportion of the national income devoted to investment has risen from 13.6% in 1946-47 to 20% in 1949-50. The cost of living index has been rising by about 10% per year and since, in each State, there is a basic minimum wage which is adjusted every quarter to changes in the cost of living index, this has contributed to an automatic wage-price spiral.

The maintenance of high investment has been facilitated by easy monetary and credit conditions. During the war there was a 130% increase in the money supply against a 64% increase in the national income so that in 1946 the economy was in a very liquid condition. Since then, the national income has increased faster than the money supply but nevertheless bank lending and an inflow of foreign funds have combined to produce a situation where investment demands could be easily financed. The inflow of external capital, mainly sterling, became important in 1948-49 and has been a substantial expansionary force. Although this movement has provided foreign exchange which might have been utilized to finance imports in order to offset some of the inflationary forces, this did not prove possible owing to the limited availability of goods against payment in sterling. Thus, in effect, the flow of capital to Australia has been a flow of money only, unaccompanied by a flow of real resources. Credit and monetary controls in Australia have not been sufficient to prevent the expenditure of this money within the country. The Special Account system, by which the Commonwealth Bank is empowered to require check-paying banks to hold part of their assets in special accounts which are not available as cash reserves, enables any secondary credit expansion as a result of central bank borrowing or inflow of overseas capital to be prevented. But it does not prevent the expenditure of the original increase in deposits. To sterilize the inflow of capital, it would have been necessary to pursue an offsetting contractionary credit policy.

In the period July 1950-June 1951, the inflation has been accentuated by the surplus on the current balance of payments of upwards of A.£1100 million ($223 million equivalent). This has come about entirely as a result of the rise in the price of wool. Wool prices rose rapidly between September 1950 and March 1951. For the eight-month period ending in February 1951, average prices were 140% above those paid in the year 1949-50. There was a further rise in March but at the end of March the market broke and prices fell by 40% or more. But a large part of the Australian clip was disposed of during the high price period with the result that the total proceeds from wool exports amounted to A.£635 million ($1,420 million equivalent) as compared to A.£313 million ($700 million equivalent) the previous year;
The fact that the increased incomes from the balance of payments surplus are concentrated on one section of the population - the wool growers - means that a larger proportion is likely to be saved than would have been the case had the increase been spread more evenly throughout the economy. The Government also introduced a special Wool Contribution by which wool growers will pay 20\% of the proceeds of wool sales to the Revenue Department as an advance payment against income tax liabilities. They will thus be paying tax on two years income at the same time. The Wool Contribution scheme was expected to bring in A.£103 million, but it should be noted that a measure such as this is apt to be a palliative rather than a cure for the inflationary disease, since the repayment of taxes does not in the long run reduce the level of money incomes. In any case, there have been clear indications of an intensification of inflation during the past year. The wholesale price index rose by about 15\% per year from June 1947 to June 1950 but in the eleven months from June 1950 to May 1951 it rose by 22\%. Retail prices, which had been rising by 10\% per year, increased by 11\% from the second quarter of 1950 to the first quarter of 1951. The average weekly basic wage has increased from A.£ 6.15 (1$15 equivalent) in June 1950 to A.£ 9.9 (1$21 equivalent) in August 1951.

The Government is now about to make a renewed attempt to counter the inflation. There has been a meeting of the Loan Council, a Federal body which reviews all Government and semi-government borrowing, to consider the operation of central bank credit, control of installment credit and a drastic cut in the scale of Commonwealth public works. The Prime Minister has announced that the Government would budget for a surplus. The Government also plans to prune the Commonwealth public service by up to 10,000 employees from the present total of perhaps 190,000. Finally, the rate of immigration is to be reduced, a measure which goes to one of the most important sources of high investment demand. It had been hoped to maintain immigration at the rate of 200,000 per year. Net immigration in 1950 was 152,000 and it has been reported that this rate will be reduced by at least a quarter. The necessary investment to establish one permanent immigrant has been estimated at A.£1,000, although this may not all be required immediately. As total investment in Australia is now running at something like A.£550 million a year, a decision to make any substantial cut in immigration would have a great effect on investment demand.

This action, of course, a retreat from the original high ambitions of the Government. But in view of the great and growing difficulties which inflation is causing in Australia, a decision to advance more slowly on this front may enable a much sounder advance to be made in the development of the economy as a whole. While in theory it might have been possible to proceed with the former program if the Government could exercise anti-inflationary controls forcefully enough, in practice it seems that this would involve a degree of self-restraint on the part of individuals, business and governments that, in present circumstances, is beyond reasonable expectation.
The future course of the Australian inflation will be greatly dependent on the success of the Government in obtaining cooperation from State Governments, Trade Unions and other organized groups in its latest anti-inflationary endeavors. Although the price of wool has fallen from its peak, it is still much higher than it was during the year 1949-50. Furthermore, the availability of imports is more likely to deteriorate than to improve. Any check to inflation in Australia must therefore come from inside the country rather than from events in the rest of the world.