The Need of an Economic Policy for Australia

By

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The author of this article, Mr. W. F. Crick, recently spent some weeks in Australia at the invitation of the Bank of New South Wales. Mr. Crick, who is well known overseas as an authority on economic and financial questions, is the General Manager of Research and Statistics of the Midland Bank. He has been a member of many government committees, including the Committee on the Form of Government Accounts (1947-50), of which he was chairman. He was also a member of the important Royal Commission on the Taxation of Profits and Income, whose report has recently been published.

As an acknowledged expert in monetary matters, Mr. Crick's observations on the Australian financial system and the improvements he suggests will be noted with keen interest.

I CANNOT claim to write with profound knowledge of Australian affairs, but a short visit, into which a great deal of observation and instructive discussion has been compressed, has served to give colour and correction to earlier impressions, formed at a distance through extensive reading and contact with Australian friends. It is out of gratitude, admiration of Australia's past and recognition of the glowing future before her people, that these lines are written, for it is surely accepted that plain speaking from one who stands aside from the currents of affairs can sometimes express a truer friendship than honeyed words of unqualified appreciation.

Both distant observation and closer inspection of the Australian economy confirm the impression that the gravest threat to sustained progress, over the long run, springs from an unusual concentration of factors of short-term instability. In any vigorous community a certain rhythm of movement is perceptible as the natural expression of powerful, underlying, dynamic forces. But progress by fits and starts entails great waste, public and private losses, bitter disappointment and social upheaval. Yet in the nature of things this is the kind of experience to which Australia, in degree at any rate, is particularly susceptible.

Why so? First, because of the exceptional pace of development that has been generated—a momentum perhaps best symbolized by the growth of population by about one-eighth in five years, accounted for almost as much by immigration as by natural increase. Secondly, because of the composition of Australia's export trade, which subjects her external income to violent fluctuations as the result of forces almost wholly beyond her control. Thirdly, because of the vagaries and hazards of nature—flood, drought, humidity, animal and plant diseases and pests—which seem to be present in special force and variety on the Australian continent. Fourthly, because of the impact of these conditions on the character of the people—energetic, self-reliant, bold and resourceful, but correspondingly unattracted by the steadying disciplines of a well-ordered society conscious of its essential unity. And finally, because of the inadequacy of existing instruments of corrective, restraining or stimulating action upon the national economy.

It is this last factor that most concerns me here, since there is not a lot that can be done, or done quickly, about the other factors mentioned. Consider them. Australia is irrevocably committed to a high rate of development. Long-range capital plans are bound to prove excessively costly unless properly phased and carried through in conformity with a pre-arranged time schedule. Large variations in the flow of immigrants are inimical to the attraction of the best types of prospective citizen. Thus there is everything to be said for resisting frequent, unforeseen changes of programme under pressure of variations in current circumstances. As for the second factor, Australia's exports must for long continue to be dominated by primary commodities. And the world shows little sign of readiness to enter into concerted plans for imparting a greater degree of steadiness to prices of agricultural, pastoral and mineral products which are traded in internationally on a large scale. The third factor is intractable, but no visitor can fail to be impressed by the remarkable achievements recorded in overcoming adverse natural conditions. Great public works have gone alongside private effort, stimulated and directed by scientific research, the spread of information and the demonstrable results of systematic experiment.

The fourth factor is especially significant in relation to the fifth, for it is difficult to see how any effective steadying instruments can be evolved except by the pressure of intelligent opinion sustained by recognition of the common concerns that underlie sectional interests. Australians, as I see them, do not take kindly to authoritarian restraints, however democratically controlled and dispassionately exercised they may be. Can it be that Australia suffers from a surfeit of parliaments and governments—or, to personalise, too many politicians too close to their electorates? Whatever the reasons may be, the working out and pursuit of a truly national economic policy for Australia—underline "Australia"—is, I suspect, hampered by a tendency to over-emphasise sectional interests at the expense of fundamental unities. One has only to cite for illustration the different attitudes, unequivocally expressed, of graziers', manufacturers' and traders' organizations towards the recent stiffening of direct import controls.

It is these fundamental unities that are at stake when we consider the inadequacy of corrective, steadying instruments of economic policy. No sectional interest can be served indefinitely by measures that diverge from those required to provide soundly based development, steadily accomplished. What, then, are these steadying instruments, widely employed elsewhere, and how far are they available for use in Australia?

One of them is monetary policy. True, the monetary system in Australia is automatically responsive, up to a point, to changes in trade conditions, particularly the swings of export income. But deliberate monetary pressure or relaxation, brought about on the initiative of the central authority, is hampered by defects and complexities in the structure of the banking system, which should be plain enough to a disinterested observer. It must be admitted, moreover, that monetary policy, in the particular circumstances of Australia, might easily outrun in its effects the needs of the immediate occasion for its use, and might therefore turn out to be damaging to the long-run development of the country. Monetary policy is an instrument that requires delicate handling and a high degree of mutual understanding and confidence between central bank and trading banks, and between the banking system and other organs of finance. And certainly monetary policy cannot be relied upon to do by itself whatever the immediate situation may require.

One reason for making this observation is the fact that in Australia the cost structure contains strong elements of inflexibility—inflexibility arising largely from the processes of wage determination, the pressures generated in course of tariff fixing and other means of support for industry, and the repetitive resort to import restrictions on a quota basis. But one feature of monetary practice itself contributes to the ineffectiveness of monetary policy; namely, inability or unwillingness to take or accept measures designed to enlarge or diminish, as circumstances may require, the volume of private saving or spending. The Commonwealth Government for example, seems powerless of itself to put any check upon a temporary over-expansion of instalment selling. Further, there is no effective brake on the supply of finance made available for the purpose, even though banks themselves, as one source of such credit, may exercise due restraint. The regulation of capital issues is ruled out. Then again, interest rates show marked rigidity, and there is barely scope for any differentiation of interest charges according to the nature and purpose of the particular borrowing transaction. In such circumstances monetary policy, which needs to be exercised in a flexible, selective manner, is hamstrung from the very outset.

Quite apart from monetary policy as ordinarily understood, the system of public finance in Australia is ill-adapted to the purpose of exerting a steadying influence by counterbalancing any forces of disturbance that may be generated within the economy. Partly this is an incident of a federal structure and certain provisions in the Constitution itself (and judicial interpretation thereof) as to the financial relations between Commonwealth and States. Further, the annual attempts to co-ordinate the capital plans and borrowing operations of Commonwealth and State governments seem to breathe the spirit of bargaining rather than collaboration, whereas a fully effective and continuously operating Loan Council, besides bringing a degree of order into governmental appeals to the bond market, might exercise as needed a powerful equilibrating influence on the economy.

As for taxation, public reaction to the unjustly named "horror budget" of 1951 (which anyway may have come too late to exert a full counter-inflationary effect) dealt a setback to the development of a progressive fiscal policy. This disappointing experience may have accounted for the opportunity lost in 1954 of imposing restraints on private spending by withholding tax reliefs that were nevertheless fully justified on the basis of the foreseeable revenue surplus. Partly, no doubt, the reaction was the Australian expression of the general reluctance to entrust government authorities with a larger share of the community's income than is needed for the most economical performance of its fully approved spending functions—of the fear, in other words, that revenue surpluses may relax the restraints of economy and encourage a widening of the activities of government.

Yet here again, I suspect, Australian opinion was showing characteristic mistrust of super-imposed restraints conceived in the long-run general interest. In the Australian temperament there is a very evident disposition to enjoy good times uninhibited by anything more than a minimum of fore-thought as to any difficulties and dangers that may lurk ahead. There is, then, some ground for the conclusion that anything done by way of fiscal action to exert a stabilizing effect on the economy must be done by stealth rather than by openly stated fiscal policy shaped to explicit ends.

An outsider must find it difficult to judge how far the inadequacy of economic policy in Australia is due to the national temperament and how far to the particular form of federalism on which the Commonwealth was founded. It is true that, quite apart from the Loan Council, useful attempts have been made to co-ordinate Federal and State activities, as in the fields of assistance and guidance to primary industries, land settlement, housing and transport. But in important sectors of economic policy, particularly where equilibrating action is called for, there seems to be a tendency to fall back upon constitutional obstacles or electoral risks as justifications of inactivity. In particular, the central Government seems to lack any explicit, coherent economic policy, adaptable to changing current conditions, while its actions seem to be limited to improvisation.

This is the only explanation that appears of the lack of authoritative presentation and interpretation of facts, designed to inform the public and provide the basis for objective analysis and criticism. Admittedly, plenty of bare statistics are offered. But there is no annual economic survey, such as is issued by official bodies in New Zealand, the Netherlands, the United States, the United Kingdom and elsewhere. The public accounts for both Commonwealth and States are complex and obscure. They defy prompt and assured analysis aimed at tracing and projecting, over the short run at least, the impact of Government finance on the monetary situation. The returns, and perhaps the structure of the accounts themselves, stand sorely in need of review and reform. The Government appears to be shy of receiving unofficial advice or establishing channels of regular consultation, such as has proved of value elsewhere both in shaping official policy itself and in cultivating a sense of partnership with industrial, agricultural, labour and other organizations and with individual experts of special competence. And this very attitude is discouraging to organizations and individuals whose advice, freely offered, might be of practical value. There is insufficient mutual confidence to be sensed in the climate of relations between governmental agencies and private bodies and individuals.

In the light of these shortcomings it is not so surprising as at first sight to find how inadequate for a growing, progressive, democratic country like Australia are the facilities available for public discussion of issues of economic policy. In this field individual banks are performing an important public service; but there is little scope—apart from such organs as the Australian Quarterly and the Review of the Institute of Public Affairs (Victoria) —for the presentation of considered views or the conduct of dispassionate debate by academic and other experts. Larger opportunities are required of ready interchange of views from which two benefits might be expected to result : on the one hand, more positive formulation and exposition of Government policy; on the other, a broadening of public understanding of the problems underlying policy. And out of all this might develop a livelier recognition of common concern in matters which are of far more than sectional interest.

I am told that, on a business basis, little or no demand exists for the kind of publication that seems so seriously lacking. That may well be so—at present. It is, however, a part of the educative process in political economy to create and stimulate such a demand. The time is ripe, it may be suggested, for public-spirited individuals and business undertakings to act in advance of market demand and thus to contribute towards the longterm process of improving the instruments of policy, enlarging the public interest in basic economic issues, and developing a widely-spread critical faculty capable of exercising judgment untainted by partisanship.

Action along this line, however, would in no way detract from the responsibility of government for exerting leadership in the field of economic policy. The first step might well be a comprehensive survey of the national economy, its structure and its potentiality for expansion, and its capabilities by way of response to changing natural and external circumstances. An immediate object should be to ensure that within the organism shall be found the means, ready to hand in case of need, of exercising due restraint or providing needed stimulus as occasion may require. On such a foundation could proceed the development of a practice of continuous exposition of Government policy, supported by objective presentation of current fact and deriving the fullest benefit from active public discussion. No Government can expect to be trusted so long as it displays conspicuous reluctance to state its policy, to define the grounds on which its policy is based, and to take all measures within its proper competence to carry out that policy.