

Conference of Commonwealth and State Ministers, 1931

The Conference opened in the House of Representatives, Parliament House, Canberra, on Friday, 6th February, 1931, at 11.30am, when the following speeches were delivered:

Mr Scullin – Gentlemen, I welcome you to the National Capital. A committee of Treasury officials which has been engaged in preparing certain data is putting the final touches to its report, and while we are awaiting the particular data upon which we may be asked to come to a conclusion, I think it would be advisable to have a general expression of views upon the situation.

Never has a conference of Commonwealth and State Ministers been called in a time of graver economic trouble; never has a conference been asked to assume graver responsibilities. The causes underlying the position confronting Australia are so well-known as to need only the briefest reference. In part, they are world-wide in their operation; in part they are of Australia's own making. The general fall in prices, a movement entirely beyond the nation's control, has brought about a world depression of unexampled severity. The world depression in itself ranks as a major disaster in most countries. Australia, as a trading country, is bearing a full share of its paralysing effects. Simultaneously, other misfortunes of equal severity have come upon us. The fall in prices has been much heavier in the case of raw materials and foodstuffs than in regard to other goods. Thus, the position of countries like Australia which depend for their prosperity upon the export of raw materials and foodstuffs is much worse than that of manufacturing countries. Our plight is probably the worst of all since Australia has almost the highest net value of exports, per head of the population, of any country in the world. Her exports are mostly wool and wheat, with butter and base metals occupying a secondary position. Of these commodities, wool, wheat, and base metals have declined in value nearly 50 per cent below the prices of 1928-29, and the prices in that year were not very different from the average of the previous seven years.

For a trading country like Australia, the sudden decline is in itself a catastrophe of the first magnitude. The sudden fall in prices of the principal primary products upon which Australia relies largely for her national income has reduced the value of our exports by approximately £40,000,000. This loss, from exports and the loss resulting from the complete cessation of loan moneys from overseas, average £30,000,000 annually, together represent a reduction of £70,000,000 a year, or more than 10 per cent of the national income in the last years of prosperity. This, however, is only the primary loss. The reduced spending power of producers, who rely upon the overseas market for the sale of their commodities, and of those who were dependent upon works of public development from the expenditure of loan moneys obtained overseas, has decreased the income of producers and wage-earners generally. The total fall in the national income may easily be £100,000,000. Some experts estimate a figure even higher.

The consequences of this world-wide economic disturbance are to-day being brought home forcibly and distressingly to every member of the community. Primary production is being

carried on largely at a loss. The national credit is at a low ebb, and at the moment, no further borrowings can be made overseas. The purchasing power of the community has diminished. Unemployment is increasing. All governments have experienced deficits, and are facing larger deficits. And, probably most serious of all, there is a general lack of confidence throughout the country. The main burden is being borne by the growing numbers of unemployed and by the primary producers who depend upon the export market.

The fact most poignantly brought home to every one of us to-day is the tragedy of unemployment. In ancient Egypt, people suffered when there was famine; in Australia to-day people suffer when there is a glut. Australia is rich in natural resources. The season just closed has been good. Thousands of workers, as well as machinery, stand idle. Yet, hundreds of thousands of people are in need of the goods which those workers and machinery could produce. This is an anomaly of world economic conditions which severely tries the patience of mankind. The rapidly declining purchasing power accentuates from week to week this serious problem.

To thousands of Australians out of work, through no fault of their own, it is small consolation to say that this is the lot of many millions of people in the world to-day. It is only natural for the unemployed to regard the situation that confronts them as a challenge to our whole social system. This state of affairs cannot be allowed to continue without danger to the community. The most formidable task before the conference is to shorten, as far as possible, the period of unemployment.

Experience has shown that employment on public works, merely as a measure of relief, is wasteful. It does nothing to cure unemployment and nothing to set the wheels of industry turning again. Even if financial conditions permitted the putting into effect of such a policy in Australia, the result would eventually be to aggravate our troubles.

On the other hand, we should as soon as possible endeavour to embark on a measure of public works that are economically sound and that will yield full value to the taxpayer for his investment. Partly completed public works are "frozen assets". The expenditure of additional money would turn them into revenue producing assets.

These measures however, may relieve, but will not solve, the unemployment problem. To provide a solution it is necessary to stimulate, as far as possible, the conditions that will lead to a revival of industry, and thus to the employment of workers on production. This is the fundamental task before Australia.

The Governments of the Commonwealth and of the States, are faced with the task of meeting the very serious budgetary position. For the financial year 1930-31 the Commonwealth deficit is estimated at £10,000,000, and that of the States at £5,000,000, a total of £15,000,000. A forecast for the year 1931-32 shows that, on the basis of present conditions, the deficits would be larger still.

The increased Commonwealth deficit in 1930-31 is largely due to the fall in revenue from

customs and excise, which in turn has been caused by the drastic measures it was necessary to take to reduce imports and so rectify the adverse trade balance and provide for payment of governmental obligation overseas. The heavy increases in State deficits have been brought about chiefly by losses on the railways. Both these factors will adversely affect Commonwealth and State budgets for 1931-32. In addition, a considerable fall must be anticipated next year in the yield of direct taxes, and especially income taxes.

At the conference of Commonwealth and State Ministers held in Melbourne on the eve of my departure for England, an agreement was reached that we should balance our budgets. There has been much criticism, since my return from abroad, based on the allegation that the Commonwealth Government, in particular, has failed to honour the agreement. People who indulge in such criticism do so either for political reasons or because they are not informed of all the facts. The immense decline in revenue from customs and excise and from other sources has revealed that the task we set ourselves was too great to be accomplished at once. Despite very substantial economies, the gap was too large to be bridged by reductions in expenditure. If the salary of every Commonwealth public servant was cut out, we could barely meet the estimated deficit for the current year.

There are clearly very great difficulties to be overcome in order to restore budget equilibrium. The expenditure of the Commonwealth Government amounting to approximately £80,000,000, may be summarized as follows:-

Interest and sinking fund	£ 23,000,000
Exchange	3,000,000
War, invalid and old-age pensions	20,000,000
Defence	3,700,000
Payments to States	12,500,000
Public utilities	11,000,000
Ordinary departments and miscellaneous	
Services	6,500,000
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	<u>£79,700,000</u>

The Commonwealth Government's expenditure on salaries and wages is approximately £11,000,000 a year. The figures of expenditure quoted show clearly that the bulk of the payments for salaries and wages come under the heading of "Public Utilities," which includes Post Office and Commonwealth Railways. The total expenditure for interest, exchange, pensions, defence and payments to the States shows how grossly unjust is the propaganda of those who try to make the people believe that the bulk of the Commonwealth expenditure is due to departmental extravagance.

To turn now to another matter which is of most serious concern to the Commonwealth and the States, and which must be discussed at the Conference, the short-term indebtedness of the Commonwealth and States by way of overdrafts and treasury-bills, as at the end of this month, is estimated at £55,512,000 of which £38,075,000 is owed in London and £17,437,000 in Australia. Of the total of £38,075,000 owed overseas, £10,220,000 is owed by the Commonwealth and £27,855,000 by the States. The Commonwealth Bank is carrying £20,000,000 of the total of £38,075,000 of floating debt abroad.

The short-term debt overseas has remained practically stationary since last September, when the exchange pool came into operation. Some definite plan is essential to deal with this debt.

The problem of funding the floating debt is distinct from the annual liability of £34,000,000 payable overseas, mainly for interest and sinking fund. Of this total the Commonwealth share is £12,500,000 and that of the States £21,500,000. At present rates of exchange, the meeting of these liabilities involves the payment of about £10,000,000 more in Australian money. Formerly this bill for interest, sinking fund and other services was met without exchange difficulties, as we were borrowing £30,000,000 annually overseas for loan works. With the cessation of this loan money and the decline in the value of our exports, an acute overseas exchange position developed, which compelled the Commonwealth Government to adopt the most drastic measures to restrict imports. These measures, as is well known, have been highly successful, and, despite the existing low prices for wool and wheat, the value of our exports for this year will exceed considerably that of our imports.

Before the present depression became acute, there was a growing feeling in Australia that overseas borrowing should be reduced. The result of extensive borrowing overseas has been to flood Australia with imported goods, to the detriment of our own industries. The reduction, however, should have taken place over a period of years. If, for example, overseas loans had been reduced gradually over a period of five years, we should now be able to face with less grave misgiving the task that confronts us. The granting of such assistance depends, however, entirely upon confidence in our determination to meet all our obligations and in the sincerity of the measures we are ourselves adopting to solve our problems.

The Conference should turn its attention to the question of a reduction in the rate of interest for all future loans. To bring this about will require united action by Governments, the Commonwealth Bank, trading banks and savings banks.

The steep and continuing fall in price levels, accompanied, as it has been, by constant and alarming increases in unemployment, has created stagnation in trade and industry, and disastrously affected Government revenues. The only sound remedy is to apply our energies and resources to the stimulation of industry and the absorbing of men in employment. Increased production will follow, increased spending power and the national income will be increased.

The essential need of the moment is to revive industry as a whole, so that our people may be provided with work. When this is done the problem of restoring budget equilibrium will be lightened. The restoration of budget equilibrium would lead immediately to an improvement of our national credit.

Finally, there is the special problem of the primary producer. His plight to-day is serious in the extreme. Wheat is now selling at about half the price paid for the previous crop. Urgent measures must be adopted to enable farmers to continue production this year. If the farmer is unable to carry on, the future of the Commonwealth will, indeed, be dark.

The chief factor operating against financial recovery is the serious lack of confidence in our securities by investors both in Australia and overseas. Prices for these securities are unduly low, and interest yields unduly high. Long-dated 5 per cent. Australian securities were quoted in London on the 27th January as follows:-

	£	s.	d.
Commonwealth	74	12	6
New South Wales	62	3	9
Victoria	63	12	6
Queensland	63	7	6
South Australia	67	12	6
Western Australia	68	1	3
Tasmania	74	1	3

On the same date New Zealand 5 per cent securities stood at £99 2s. 6d., and South African 5 per cent at £101 7s. 6d. The lack of confidence revealed in these Australian prices is entirely unwarranted. It is part of a psychology of fear.

It is the duty of all Australians, no matter how divergent their views, not only to refrain from statements calculated to foster this fear, but also to do everything in their power to encourage production in industry and thus restore confidence in Australia.

I have thus outlined the problems facing us. The data gathered by the committee of officials will be useful to us in our deliberations. Quite a number of important questions await decision, the most important being what fundamental step the country has to take if the problems confronting it are to be solved. I propose to make available to the press a copy of my opening remarks. Has Mr. Lang any comment to make?

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