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THE PREMIERS' PLAN IN AUSTRALIA: AN EXPERIMENT IN ECONOMIC ADJUSTMENT [1]

By Professor Douglas Copland

Owing to the early fall in wool, wheat and metal prices and the sudden cessation of overseas borrowing, Australia experienced the first effects of economic depression at the beginning of 1930. There was a sudden fall in income from overseas, a contraction of expenditure on public works, a heavy reduction in farmers' spending power with a consequent increase in unemployment in secondary industries, a decline in the value of stock exchange securities, and a rapidly growing budget deficit. These developments became quite familiar in all countries in later stages of the world depression, and they were then accepted as a matter of course. But in Australia they were frequently looked upon as the inevitable outcome of unsound financial and economic policy, and this view was strengthened by criticism from abroad. Perhaps this was in the best interests of Australia, though at first the situation was very disturbing. Throughout 1930 the forces of deflation the world over gathered strength, and the task of adjusting the economy of Australia to a rapidly deteriorating world situation became more and more severe. There was a conflict of opinion in Australia as to the policy that should be pursued. On the one hand were the strong political forces that favoured inflation and strenuously combatted proposals for retrenchment. On the other hand, the more conservatively inclined urged upon governments and wage-fixing authorities the traditional policy of reducing what may be called adjustable expenditure, that is, salaries, wages and all costs other than fixed charges. In the circumstances, neither school of thought had a satisfactory solution of the grave difficulties that beset the nation.

There was a deep-rooted conviction in many quarters in Australia that real costs were too high, and that government

[1] Address delivered at Chatham House on December 5th, 1933, Sir Hugo Hirst in the Chair.

expenditure was on too extravagant a scale. To have attempted to reduce these costs by inflation in a world that was deflating would have quickly sapped confidence in the currency and the financial structure. Thus the inflationists would have been defeated even if their solution were theoretically sound. Though more familiar, the proposals of the deflationists were quite inadequate. The adjustment was too great for the partial action vaguely recommended by this school. Both political and economic obstacles were fatal to their views. An all-round reduction of costs on a grand scale required the correct political setting, while any action that left fixed costs a greater relative burden than ever was clearly inappropriate.

It was in this situation that economists urged the middle course that was embodied later in banking policy, in the so-called "Premiers' Plan," and in currency and exchange management. There were differences in views among the economists, largely differences of emphasis, but in discussions that took place among them during the whole of 1930 these differences were reconciled. When economists were called on to give advice, as they were finally in April 1931 in company with the under-treasurers of five of the States, they were able quickly to produce a plan that commanded general public support. At that time, however, the Commonwealth Government's inflationary proposals had been the subject of a short political campaign by the Treasurer, and the electorate was unsympathetic. The Commonwealth Bank had also given notice to the Chairman of the Loan Council that it would not continue to finance governments beyond commitments agreed to on April 2nd, 1931. Faced with the prospect of a stoppage of payments, the Commonwealth Government had shortly to make a vital decision on budget policy. The public was nervous and was ready to accept a policy that offered some hope of promoting recovery, even though it was in some respects an unorthodox policy.

The economic problem in brief was to adjust the economy of the country to a loss of national income that had fallen with special severity on some sections of the people, and was gradually causing distress to all. Primary producers were most severely affected because their incomes were exposed to the full blast of the fall in export prices. By the beginning of 1931 the fall had reached 50 per cent. on the 1928 level, and it was even more severe in the great pastoral industry. The sudden cessation of long-term borrowing abroad had caused a great contraction of public works with increasing unemployment. From both these causes of direct loss of national income, indirect losses to secondary production were mounting up with consequent increase in unemployment. At the same time the profits of industry as a whole were languishing. Thus three types of income had suffered; income from export production, income from public works employment and income from profits. To this was being added a fourth class; income from industrial production that was suffering from the reduced demand of primary producers and governments in respect of their loan expenditure. Meanwhile the Commonwealth Government in its zeal to reduce imports had greatly increased the tariff and was using up the gold and overseas exchange reserves of the banks to meet national obligations. The exchange rate, though moving more and more away from parity with sterling, was throughout 1930 pegged below the level of the " black " market. Hence the farmer was denied the relief that would have come from higher local prices in a more depreciated currency, while the goods and services that made up his costs were protected by higher tariffs, a somewhat rigid wage structure and fixed interest and rent charges.

The economists argued that the loss of income should be shared by all classes as far as this was practicable, that the fall in prices of exports was so severe that some exchange depreciation was necessary, that fixed charges had to be adjusted, and that a fall in the standard of living as a whole was inevitable. They hoped to reduce the magnitude of the monetary adjustment required. They urged that a depreciation of the currency in terms of sterling would ease the process of adjustment, because it would be a quick and effective method of distributing some of the disproportionate loss of income that had fallen on the primary producers. There was much controversy on this issue, but owing to the declining value of exports, the impossibility of getting more long or short terms loans abroad, and the flight of capital arising from the political uncertainties of the time, the exchange problem solved itself for the time being. During January 1931 the Australian pound moved rapidly from the carded rate of 9½ per cent. premium on sterling to 30 per cent. premium. Later, when sterling left gold, there was further relief from the worst evils of the world deflation of 1932. With slight oscillations in 1931 and 1932 the export price index in Australian currency remained approximately stable at about 55 per cent. of the 1928 level. At the end of 1932 the severe reverse in the United States caused a further downward move, but up to that time the depreciation of the currency had staved off some of the most serious effects of the world fall in prices of food-stuffs and raw materials. It is noteworthy in this connection that the chart of Australian export prices shows much the most pronounced fall in both gold and sterling prices during 1929 and 1930. There was no serious depreciation of Australian currency until the beginning of 1931; yet by that time the fall had been 50 per cent. in sterling. The less rapid fall that followed the depreciation of the currency was merely a continuation of this movement in the outside world, and not a reaction from the depreciation of the currency.

Though this depreciation of the currency is not formally a part of the Premiers' Plan it must be counted as an integral part of what may be called the Australian plan. Up to the present it has been a vital part of Australian banking policy, and the rate of exchange is now controlled by the Commonwealth Bank, which buys and sells London funds from the trading banks at rates fixed by the bank. This arrangement came into force early in December 1931 when the bank fixed the rate at 20 per cent. depreciation on sterling. There has been no alteration in the sterling rate since that time. Thus we have had a stable relation with sterling which itself has been fluctuating. There can be little doubt that the depreciation of the currency has had beneficial effects in transferring some of the losses of income from export producers to the community as a whole. Its effect on the general price level will be discussed later.

Shortly after the fall of the Australian pound the Commonwealth Arbitration Court in January 1931 gave its decision in the basic wage case. It had conducted an inquiry into the economic changes caused by the crisis. Evidence was called from both parties to industry and from economists. The Court was greatly influenced by the unmistakable signs of the fall in national income, and it ordered a reduction of 10 per cent. in the real wage. Under the system of wage adjustments that had been built up after the War, the basic wage fixed by the Court was subject to quarterly adjustments according to changes in the cost of living as measured by the Commonwealth statistician. During 1930 the wage had been falling steadily, but the special reduction ordered by the Court was a cut in the real wage. By the first quarter of 1931 the basic wage was down 20 per cent. on the 1928 standard, and at the end of 1932 the reduction was nearly 30 per cent. Except for the Industrial Court in South Australia, where the depression had been very severe, the courts in the other States—namely, New South Wales, Queensland and Western Australia—were slow to follow the Commonwealth example. In 1932, however, a change of government in New South Wales brought about a speedy reduction of the basic wage and at the end of 1932 it was 26 per cent. below the 1928 standard. For Victoria and Tasmania there are wages boards that tend to follow the Commonwealth Court.

From this brief statement of wage policy during the crisis it will be observed that the wage structure of Australia was elastic. Indeed, it was the Commonwealth Court of Conciliation and Arbitration that first drew official attention to the gravity of the crisis. The Commonwealth Government of the day sought to delay the decision of the Court. This is of more than passing interest. The Government had been returned to power on an express mandate to maintain the Court, and many had interpreted this mandate as affording protection to the ruling rate of wages and standard of living. But the Court knew no politics, and its example in reducing wages in February 1931 had important consequences beyond the effects upon wages generally and the costs of industry.

While these adjustments in exchange and wages were in progress the budget situation was getting steadily more serious. The governments were divided on policy. The Commonwealth Government and New South Wales were rigidly opposed to deflation and heavy retrenchment in expenditure, involving cuts in salaries and social services. The Loan Council became the centre of the picture because loans from the banks to finance deficits and loan works could not be obtained without the sanction of the Council. I should add that the Council was established under a financial agreement made among the seven governments in 1927. Frequent discussions between the Council and the Commonwealth Bank had not brought any prospects of a settlement. Though agreeing to balance budgets at the time of Sir Otto Niemeyer's visit in August 1930 the governments had made little progress in this direction up to April 1931. In partial extenuation of this unsatisfactory position, I should explain that the progressive fall in prices and income had brought unexpectedly heavy declines in revenues. Each time the Treasury officers estimated the deficits they had to increase the figures. The Commonwealth Bank had up to April 2nd, 1931, extended to governments no less than £51·5 million for meeting deficits and financing loan programmes. So serious did the position appear to the Bank that, as already mentioned, the Chairman, Sir Robert Gibson, wrote on April 2nd, 1931, to the Chairman of the Loan Council intimating that no further extensions of credit could be made available to governments. It was in this situation that the Loan Council once more decided to appoint a sub-committee of its members to report on the budget position. The committee had power to call to its assistance economists and under-treasurers. It did so, and a Committee of four economists and five under-treasurers met early in May. It was this Committee that enunciated the plan that afterwards became known as the Premiers' Plan.

The Committee found prospective deficits amounting to £39 million for the year 1931–32. It rejected inflation as a method of meeting the position, and settled down to a consideration of the methods available for reducing the deficits to a " manageable " amount. At the time of its meeting the Commonwealth basic wage had fallen 20 per cent. on the 1928 level. It took this figure as the basis of its proposed economies. Hence the decision of the Arbitration Court became the standard by which governmental expenditure was to be judged. It was an acceptable standard because it had already been applied over a large field of incomes. But there was a difficulty in its application. It could be applied only to " adjustable expenditure " which the Committee defined as being all expenditure other than interest, exchange on overseas interest, and expenditure on unemployment. Without going into fine details I may state the position roughly as follows. For 1929 interest and sinking fund on the national debt amounted to £63 million and all adjustable expenditure to approximately £120 million. Savings of £11 million had been made in the latter, leaving additional savings of £13 million towards a budget deficit of £39 million. But the standard of 20 per cent. was to be applied especially to wages, salaries and pensions. Where additional reductions such as retrenchment in departments were possible, further economies should be made. The Committee then explored the possibilities of increased taxation and found that £10 million could be obtained from what it considered reasonable increases. This left a deficit of £16 million, which was regarded as too high.

Attention was then turned to the burden of fixed interest, and a conversion of the internal debt reducing interest by 15 per cent. was suggested. At that time there was a tax of 7½ per cent. on income from property imposed by the Commonwealth Government as a means of securing a contribution from fixed incomes. In these circumstances, a further reduction of 15 per cent. was considered sufficient. The Committee was at pains to explain why it suggested this unorthodox plan. The debt was not convertible at the option of the Government and technically the proposed plan was a breach of contract. The Committee urged that this was preferable to inflation or a stoppage of payments. The recommendation was consistent with the economists' view that the loss of income should be spread, and that fixed charges were a barrier to recovery. It caused some controversy, but when the Committee's report had been studied there was general agreement that some heroic measure was necessary in the circumstances. Though outside the budget problem proper, private interest and rents were suggested by the Committee as costs that should be similarly treated.

For the remaining deficit of £13 million the Committee recommended finance from borrowing. The report was adopted as a basis of a plan by the Loan Council and remitted to a Premiers' Conference which finally agreed upon the Premiers' Plan. Briefly this Plan embraced a conversion of the internal debt of £556 million from 5¼ per cent. to less than 4 per cent., a reduction in expenditure on the lines suggested by the Committee, an increase in taxation but not to the extent urged by the Committee, and a reduction of 22½ per cent. in private interest and rent. The legislation was passed by the Commonwealth and State Governments and by the end of August the conversion loan had been successfully floated. Only 3 per cent. remained unconverted, and this was for the most part compulsorily converted later. The other measures were passed largely according to plan, though there were differences in details. The results on the budgets were on the whole satisfactory, though not up to the improved figures mentioned by the Committee. The year ended with combined deficits of £18 million instead of £13 million as originally desired. In part this result was caused by the further fall in export prices, and the general depressing effects of the world crisis. At a subsequent conference in July 1932 further steps were taken to reduce deficits, with the result that in 1932–33 they were brought down to less than £9 million for the States against sinking fund payments of more than £7 million. But the Commonwealth Government had a surplus of £3·5 million. I should add that this surplus was obtained after a reduction of taxation and a special increase in expenditure amounting in all to £3·25 million.

In face of growing difficulties in other countries this must be regarded as no mean achievement. Internally the economic situation responded favourably to the operation of the Plan. Government bonds rose steadily and within eighteen months after the Plan was put into operation the 4 per cent. stocks were at par. To-day they give a return of less than 3¾ per cent., and a loan of

£5 million placed on the local market at $3\frac{3}{4}$ per cent. in May last (1933) attracted subscriptions of £8·3 million. Later in November a second public loan of £10 million at $3\frac{1}{2}$ per cent. was issued at a price of 99. It was over-subscribed in two days. Stock exchange securities rapidly rose in value, going up from about 55 to 85 in twelve months (base 1925 = 100). Unemployment though still high commenced to fall early in 1932, Australian bonds in London recovered and in November 1932 a satisfactory conversion operation was carried out. Finally, export production was increased partly as a result of good seasons and partly as a result of the working of the Plan.

Whilst the Premiers' Plan, narrowly interpreted, is confined to the proposals for balancing the budget and to the reductions in public and private interest and rents, the wider interpretation of the Plan would take account of the setting in which the budget reforms were suggested. As already indicated, the suggestions made by the Australian economists were designed to minimise the monetary adjustment required, and to make the adjustment as quickly as possible by spreading the loss of national income. It is easy in pure theory to justify both points of view. Deflation has no merits if the necessary economic adjustments can be made with a relatively stable price level. The economists therefore argued that internal stability of the price level at the risk of external depreciation of the currency was the desired goal of monetary policy. With regard to the spread of the loss of income, this would achieve the double purpose of rectifying some of the disequilibrium in the price structure, and of restoring income and demand to the sections of the community most severely hit by the first impact of the crisis. The higher exchange rate, the reduction in wages, the cutting of interest and rents, and economies in public expenditure were all designed to achieve this objective. But apart from currency depreciation, all the measures suggested had at first a deflationary influence. This was certainly not in keeping with the arguments advanced by the economists; consequently we must consider another phase of the general plan.

Up to May 1931, the banks had furnished large credits to the governments for deficits and loan works. The Plan recognised that this method of finance should continue on a gradually declining scale. At first it was the growth of the credits for external obligations that caused most concern. At one time these external credits, including British treasury bills, amounted to £38 million. With the use of Australian gold and foreign exchange reserves, the external floating debt, now £32 million, is in the hands of the Commonwealth Bank, except for less than £4 million held by a British joint stock bank. The existence of such a large amount of Australian Government securities maturing abroad has to some extent frozen the assets of the Commonwealth Bank, but as the external position of Australia improves, these credits will become more liquid. Internally the floating debt expanded rapidly from £20 million at June 30th, 1931, to its maximum of £51 million at September 30th, 1932.[1] This rapid growth of the internal floating debt caused some misgivings among bankers, but it is really in strict keeping with the general plan of recovery. Much of this debt was made possible by the expansion of central bank credit through the Commonwealth Bank, and it had beneficial effects in counteracting deflationary influences embodied in other aspects of the Plan. The increase in the floating debt caused an expansion of private bank deposits, an increase in the funds on the money market, and a reduction in rates of interest. To have borrowed in the open market for deposits or loan works would have hardened rates of interest, as was proved by the premature loan of November 1932. Interest rates, however, fell rapidly after the middle of 1930, as already indicated, and the treasury bills offered an avenue of investment for the banks at a time when the demand for advances was low. The bills now bear interest at 2½ per cent., while the rate on bank deposits has been reduced to 2 per cent. for three-months deposits and 3 per cent. for two-year deposits. Now that these low rates of interest have been established, it is possible for the necessary funds for loan works to be raised on the open market. Budget deficits, in so far as they occur, will still be financed from treasury bills, and if the market has a surplus of funds they will be used to fund part of the floating debt. Thus half the proceeds of the recent £10 million loan is to be used for funding.

The growth of the floating debt must therefore be looked upon as one of the aids to recovery, and not as a menace to sound finance. Indeed, one might say that this was merely another of the unorthodox elements in the general plan put into operation by Australia. There were those who argued that the existence of a budget deficit financed by treasury bills would result in inflation. This was not the case, for two reasons: first, the deficits were under control; and secondly, the reductions in prices and incomes were deflationary in their effects and had to be counteracted by expansion of credit. The banking policy of

[1] It fluctuated round that level to March 1933, but has fallen since to £48 million.

Australia was sound in the crisis mainly because it was less orthodox than that which so-called sound financiers would readily pursue. Indeed, it is not unreasonable to say that the success of the Australian plan lay in its neat balance of orthodox and unorthodox measures. The deflationary elements created confidence in the capacity of the governments to make the necessary adjustments. The inflationary elements prevented these deflationary forces from causing further slackening of enterprise, and laid the foundations for financial recovery, which always precedes economic recovery. Between these two sets of forces, the Australian monetary unit, for a period of eighteen months, maintained relative stability of internal purchasing power at a time when most other currencies were rapidly appreciating. It was not until November 1932 that wholesale prices moved down from the stable level of the preceding eighteen months. This decline was a reflection of the gathering storm in the United States, which caused an all-round world-wide fall in prices. It could have been checked by a slight further depreciation of the Australian pound in terms of sterling. Actually prices declined by roughly 7 per cent. in a period of six months. Even with this decline, however, the Australian monetary unit preserved a more stable internal spending power than the monetary units of most countries. Since March wholesale prices have recovered to the level of September 1932. It is worth while noticing that the fall in wholesale prices, which took place in 1929 and 1930, was accompanied by an even greater fall in retail prices. This is further evidence of the flexibility of the economic structure. I do not propose to enter into an explanation of the reasons for this flexibility—I merely remind you that it was a most important source of strength to Australia in making an adjustment to a rapidly declining national income. Perhaps it is fair to add that few people in Australia expected the structure to be so flexible. Critics abroad, who feared inflexibility, were therefore not alone in their fears.

Efforts to restore internal balance in an economic structure must have beneficial effects upon the external position. Often it is argued that attention should be focussed upon the external situation, and that every effort should be made to adjust the balance of payments so that external debt payments can be met. One might say that this is a creditor's point of view. He looks with disfavour upon currency depreciation and upon internal measures that smack of inflation, and there were, of course, many critics abroad who regarded the depreciation of the Australian pound as an unhealthy sign. I believe this to be a profound mistake, and that creditor countries generally could assist their debtors by a more sympathetic view of such internal measures. Australia's main mistake was that she did not depreciate her currency sooner and tackle her budget problem earlier. It must be remembered, however, that she came into the crisis early, and her record of direct cost adjustment compares very favourably with that of most other countries, even creditor countries. In the light of experience it must also be considered that her internal measures had a beneficial effect upon her external position, despite the continued decline of external prices for a time after her internal adjustments were made. Export production was expanded by more than 25 per cent. in the year 1931–32 and 30 per cent. in 1932–33 compared with the three pre-crisis years. Good seasons played their part in this expansion, but so did internal effort and internal policy. Despite the expansion of volume, the sterling value of exports in 1932–33 was only £83·3 million, compared with £140 million before the depression. This is a realistic illustration of the devastating effects on Australia of the fall in export prices. Imports were reduced from over £140 million to £44 million in the year 1931–32 and £56·6 million in 1932–33. Import prices have fallen, but not to the extent of the fall in export prices. The result of these adjustments in the external position was to give to Australia in the year 1931–32 a surplus of approximately £8 million sterling, after meeting all external obligations.

Since May there has been a recovery in export prices, especially in wool prices, and the balance of payments is now even more favourable. The reactions of higher export prices on the internal economy will be favourable to budgets and to the volume of employment. But the Commonwealth budget yielded a substantial surplus in 1932–33 before any benefits had accrued from the rise in export prices. The Commonwealth Treasurer therefore appears to be on solid ground in his recent budget which remits taxation of £7·5 million, and restores expenditure to the extent of £1·7 million. Estimated State budget deficits according to the arrangements made by the Loan Council in June will be £8·5 million for 1933–34. But sinking fund payments now amount to £8 million, and the State budgets will benefit from the moderate recovery of economic activity now in progress. They will also obtain relief from the conversion operations of external sterling loans that are now "callable." Already savings of £1·3 million sterling have been made by these conversions and 5 per cent. and 5½ per cent. loans amounting to £39 million are still available for conversion. The improvement in Australian credit is a reflection of the solid advance the country has made towards recovery. It can be confidently claimed that the basis of this recovery was laid in the Premiers' Plan, and in the monetary policy pursued by Australia since early in 1931.

Summary of Discussion.

SIR HAL COLEBATCH spoke of the value of Professor Copland's work. As a member of the Senate of the Australian Parliament he knew how the political difficulties had been made lighter than they would otherwise have been by Professor Copland's high standing in all sections of the community.

He drew attention to the fact that the Premiers' Plan had benefited the Australian Commonwealth as a whole rather than the States, and the Commonwealth with its unlimited powers of taxation and relatively small obligations to the people had never, until the three years of this special depression, experienced the slightest difficulty in accumulating substantial surpluses. The States, on the other hand, were charged with all the important services on which the well-being of the people depended—police, education, public health, local government, transport, water supply, land development and unemployment relief—and they had not been able to balance their budgets. Nor were they likely to be able to do so for some time to come. The relief experienced by the Commonwealth from the reduction of interest on internal loans did not benefit the States, because their loans were mainly outside Australia, and to some extent it prejudiced them by reducing the taxable capacity of the people. The most important item of increased taxation, the sales tax, was an addition to Commonwealth, not to State, revenue. And the suspension of Commonwealth obligations to the Imperial Government in the matter of war debts was also a relief to the Commonwealth and not to the States. This accounted for the indignation throughout Australia when members of the Commonwealth Parliament saw fit to restore some portion of the cuts on their own salaries, a thing which it was entirely beyond the capacity of the States to do.

This illustrated the need for some adjustment to secure a better balance between Commonwealth and State finance. The framers of the Australian Constitution had provided for the maintenance of the sovereignty of the States and had laid down rigid provisions to cover the first ten years of federation, expecting that after that period the Parliaments would themselves evolve some satisfactory method. This had not been done, and the result was that from 1910 to the present day a very real difficulty had been developing. He hoped that some such committee as that over which Professor Copland had presided would take the matter in hand. Australia had not reached anything like the maximum of its capacity to absorb emigrants from Great Britain, but it could not receive them except by a development of the revenues of the States, the first step towards which must be the provision of a better financial balance between Commonwealth and States.

He pointed out the difference in the position of the wool and the wheat markets and suggested that if the wheat-growers had adopted the same attitude as the wool-growers and refused to hold back stocks and artificially stimulate prices, natural laws would have operated to bring back wheat to its own, as they had brought wool. As the price of wool fell it had once more become competitive against artificial silk and other substitutes which had supplanted it in the market when its price was high. One of the worst things Australia had done was to enter into agreement for the restriction of the export of wheat; wheat would not recover in price until governments ceased to try and bolster up the wheat industry.

A MEMBER spoke of the part played by the banks in helping forward recovery. Not only did they meet the deficit by treasury bills and advances, but they refrained from taking advantage of the reduction of interest by 22½ per cent. to vary their contracts with their depositors, continuing for nearly two years to carry rates as high as 5¼ per cent. He endorsed the previous speaker's remarks as to the wisdom of the wool-growers who nobly adhered to their policy of meeting the market though it meant selling at a loss for three years.

PROFESSOR COPLAND quoted from paragraph 56 of the Committee's Report to show that they recognised the unequal incidence of the Premiers' Plan on the fortunes of the Commonwealth and the States, in the following words:

> "The net result of the economies in expenditure and increase of revenue proposed is to improve the Commonwealth position more than that of the States and some adjustment will be necessary."

The fact that there were still State deficits was in part a consequence of the greater burdens imposed upon the States by the Premiers' Plan. In February 1934 a Constitutional Convention would meet at Hobart at which no doubt the States would press for adjustment of the financial relations between the States and the Commonwealth.

The wool-growers had sold their wool for three years at an average level of 8½*d*. a pound when the estimated cost of production was 14*d*. a pound. They had been able to do so because Australian economy was accustomed to periods of drought and depression, and its financial institutions—banks, stock firms, insurance companies, etc.—were prepared to carry producers at a loss for a period of years, knowing that if the producers were nursed through the difficult time, prosperity would return and financial adjustments would ultimately be made. In spite of the difficulties of the country the bank advances had not been seriously contracted. This characteristic of Australian economy was something upon which the rest of the world might draw with profit. It was far better to sell at market prices, even if it involved a loss, and so clear up the situation and be ready to profit by recovery.

It was quite true that the banks at no stage took advantage of the reduction in interest rates to reduce the rates on their deposits, taking the view that interference with bank deposits would be a blow at financial confidence. In common with the rest of the community, the banks went through their lean period in order to maintain confidence in the financial structure, and they too were reaping the reward of that policy.

THE CHAIRMAN, SIR HUGO HIRST, said he would like to state, for the benefit of those members in the audience who had not visited Australia, that Australia was not one country such as most people in England imagined it to be, but it consisted of six different States, each jealous of its privileges, each having a Governor, its Parliaments, its Law Courts and Arbitration Courts which, though based broadly on English practice, differed somewhat in each State. It must also be remembered that nearly two-thirds of Australia's big population lived in the five cities and only one-third lived on the land. That state brought about the differences between primary and secondary industries; the latter entrenched behind a highly protective tariff, the former, in consequence, having to pay unreasonable prices for the implements required in agriculture.

The Chairman also stated that Australia, before the crisis, had not been an irresponsible spendthrift as was sometimes alleged: it had lived right up to the hilt of its income, making no provision for less prosperous days. The Mission, of which he had been a member, had warned the Australians that if wool or wheat were to drop they would be in for great difficulties, but in 1928–29 they never dreamt that wool, wheat and metals would all drop at the same time. Professor Copland had shown with what courage and self-denial Australia had worked itself through the crisis.