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# MONETARY AND FINANCIAL CONDITIONS IN AUSTRALIA AND NEW ZEALAND

by

*Shigeru Tamura*

## *Introduction*

To the approach of the monetary and banking system of a nation two methods can be applied. One is to investigate extensively the existing monetary and banking systems of the nation. Since these systems are technically defined as a systematic framework to give an order to money and credit transactions which are being conducted in a country, one can gain an exact knowledge of how that nation is financially functioning by adopting an institutional approach, that is, by gathering detailed information concerning "that nation".

Another type of approach is to select certain economic problems of the given nation and to seek possible financial solutions to them, within the framework of the existing monetary system. Each of these two types of analysis has its own intrinsic merits. In comparing the two, however, the first analysis is characteristically descriptive, while the second, based on the first, is more analytical in nature. For the initial approach of the monetary and banking system of a country the first type might be best and afterwards the second type of analysis would complete the survey.

Thus the better method of approach to explain the financial aspects of the Australian and New Zealand economies seems to be the second type, because the first type has already been done in the research programme planned by the Ministry of Finance in Japan.<sup>1)</sup> This article is to bring out the basic economic problems that both countries are confronting today and is to consider the functions of finance required in each country to solve these problems.

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1) Yasumitsu Aoyama, (ed), *Sekaikakkoku no Kinyuseido*, Vol. 3, *Ministry of Finance*, Japan, 1967.

## 1. Australian Economic Structure

As indicated in Table 1 which shows the national income from the various kinds of industry and which serves as a guideline in viewing the overall picture of Australia's economic structure, Australia may seem to have an industrial structure similar to those of Italy and Japan. The fact is, however, Australia is not as industrialized as the Table 1 indicates. Figure 1 gives us a truer picture of what Australia is today. In this chart of export and import items, 85% of all export goods are from primary industry and 70% of all imports are manufactured goods. The main export goods of primary industry

Table 1. Origin of Domestic Product by Industry 1964

	Primary Industry	Secondary Industry	Tertiary Industry
Australia (1)	13.8% (2)	37.2% (3)	49.0%
Japan	11.6	36.8	51.6
West Germany	4.9	52.8 (3)	42.3
France	7.8	46.4	45.9
Italy	13.5	37.6	48.9
U. K.	3.6	45.0	51.5
U. S. A	3.4	36.5	60.0

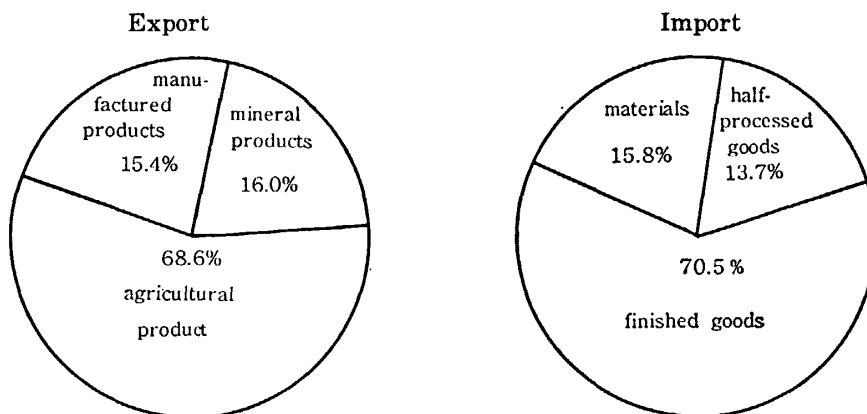
(1) figure of 1963

(2) including mining

(3) including public utilities

Source: Bank of Japan, *Kokusai-hikaku-tohkei* 1967.

Figure 1. Trade by Commodity Groups



Source: *Year Book*, Australia 1966

are; 1) wool (28.8%), 2) wheat and flour (10.7%), 3) meat (10.6%) and 4) other miscellaneous agricultural products. Since mineral deposits such as iron ores have recently been vigorously exploited and developed, minerals are expected to top the list in the near future. Import goods are mainly capital equipment (23%) and consumers' goods (16%). Imports of raw materials to be processed within her territory amount to only 29.5% of the total amount

of import. Thus the import and export structure of the country suggests that her economic structure has the one peculiar to a developing country whose normal pattern of economic existence is to import manufactured goods with the foreign money accumulated by exporting her own primary products. In spite of this fact, why is it possible that Australia, according to the national income classified by industries, can rank the same as Japan and Italy whose national incomes come mainly from secondary industry? The answer to this question is found in Australia's high level of wages. With a population of 11,500,000, Australia maintains a higher level of wages and salaries than Japan or Italy; labour there has scarcity value. The ratio of the income of wage and salary earners to the distributed national income in 1964 was 54.6% in Japan, 60.6% in Italy, and (as high as) 62.4% in Australia. Due to high labour costs, merchandise that involves more man-power is given higher prices.

The use of capital per worker is generally believed to be highest in manufacturing, but in Australia it is in agriculture that the figure is the highest.<sup>2)</sup> This is due to the Australian agriculture being centered around stock farming rather than cultivation farming. On the average, a sheep station with 100 acres of ranch can be maintained by two workers, if they are provided with fences and clippers, in addition to fertilizers, irrigation facilities and tractors which are required in cultivation farming as well. Because of this uniqueness, agriculture is one of the capital intensive industries in Australia.

But in the field of manufacturing, labour to be replaced by capital needs facility expansion. Australia with a small population and hence small home markets, faces difficulties in substituting labour for capital. According to the statistics given in 1962 as are shown in Table 2, small-scale factories of not more than 100 employees predominate in number and are offering a place to work for only half of the total working population. This points out the fact that manufacturing industry in Australia is generally of small-scale and that labour is not easily replaced by capital, with a result of low ratio of capital equipment to labour.

Table 2. Size of Factories (1961/62)

Average Employment	Number of Factories	Persons Employed
Up to 20 persons	49,546	262,000
More than 20 and less than 100 persons	7,111	297,000
Over 100 persons	1,793	570,000

Source: J. McB. Grant and A.J. Hagger (ed.), *Economics, An Australian Introduction*, Canberra, 1956, 9. 15.

2) J. McB. Grant and A. J. Hagger (ed.), *Economics, An Australian Introduction*, Canberra, 1965, p.14.

There has been a strange combination made of agriculture which has a high ratio of capital to labour and of manufacturing which has a low ratio of capital to labour. As a result, what the secondary industry produces, that is, manufacturing products containing more labour than agricultural products have become estimated higher. What the tertiary industry produces, that is service, is valued highest. The secondary and tertiary industries are making more money, though in fact the country's economy is nominally based on primary, agricultural industry. Consequently, the fact that the national income produced of Australia is largely attributed to the secondary and tertiary industries does not mean that the Australian economic structure is exactly the same as that of the highly-developed countries in the world.

On the other hand, it would be equally misleading to regard Australia as one of the underdeveloped countries, simply because the country is strongly affected by its primary industry. According to the figures showing the income per capita of all nations, Australia ranks sixth, showing all the signs of an affluent society that cannot be found in any "really" underdeveloped country. This is possibly due to the high productivity that its primary industry is putting forth. Especially due to a remarkable advance in agricultural productivity aided by the effective use of machinery, Australia has succeeded in transforming herself from a "have not" into a "have" nation. This is clear in Table 3, showing the productivity of different industries.

Table 3. Gross Product per Person (1962/63)

	Agriculture	Manufacturing	Service
Gross Product per Person	A\$ 4,448	A\$ 3,482	A\$ 2,578

Source: First National City Bank, Australia, *An Economic Study*, 1967

Australia, displaying the double role of an underdeveloped nation in its economic structure and of a super-developed nation in its national income, finds her position in the international community highly complicated. One aspect of this complexity is shown in Australia's attitude toward the dispute over lowering of tariff barriers. Mr. McEwen, Australian minister of industry and trade stated as follows at U.N. Conference on Trade and Development in March 1964.

"We face many of the problems of developing countries which need to be dealt with at this conference. It is sufficient to mention our dependence on primary commodities for the bulk of our foreign exchange, our very large payments for invisible items, our imports of capital, our small exports of manufactures and our continuing industrialization. This, we feel, places us in something of a midway position between the developed and developing countries."<sup>3)</sup>

3) H. W. Arndt, "Australia—Developed, Developing or Midway?", *The Australian Journal of Science*, December 1965, p.210.

Australia needs to restrict the inflow of manufactured products from abroad in order to develop her own manufacturing industry. Her high level of income makes it difficult to convince foreign nations of the necessity for this measure. Australia's foreign minister, Sir G. Barwick, used the term "mid-way" to explain his country's economy.<sup>4)</sup> Another problem for a country of "mid-way" economy is its reliance on the export of its little-varied products of primary industry and import of manufactured goods. In this way, the real national income of the country is inevitably influenced by the amount of manufactured goods obtainable from abroad with foreign currency earned from exports. In other words, the amount of exports and the prices of exports and imports, affect the level of the real national income. Moreover, supply of all the primary products, especially farm products is most greatly influenced by climatic conditions and is difficult to stabilize. Their prices are unstable due to the fact that elasticity of demand is usually small. On the other hand, the prices for manufactured goods are very stable, which explains why Australia's terms of trade and therefore its real national income are unstable.

The recent development of mineral resources, (though classified as the primary industry) has contributed to reducing this fluctuation in the terms of trade since there is a strong demand for minerals on the international market. Besides, as Australia's trade partners have been diversified these years, the economic condition does substantially affect that of Australia. This fact is plainly exemplified in data No. 6 and 8 in the preface. Mr. B. B. Callaghan, director of the Commonwealth Banking Corporation, gave a talk to our mission, in which he said that if the pound were to be devaluated, Australia would not necessarily follow suit, as his country was no longer solely relying on the United Kingdom or on the pound sterling (bloc).<sup>5)</sup> When the devaluation did come, this statement was immediately seconded by the late Premier Holt.

As long as the existing structure of foreign trade continues—(85% of exports of primary products against 70% of imports of finished products), the country's economic structure will remain unstable. The solution to this problem will stimulate Australia's industrialization along the lines of other truly developed nations.

## 2. *Characteristics of Australian Industrialization*

Industrialization in a developing country is significant in that nation's realization of a higher income level. In other words, the economic expansion and industrial development of a nation are realized in exact parallel. In such a country labour is generally abundant as compared with capital, and there exists so-called 'disguised unemployment' in a sector of agriculture. It im-

4) H. W. Arndt, *op. cit.*, p.210.

5) Mr. Callaghan's speech at the dinner party on July 27, 1967.

mediately lowers productivity of labour more acutely in this sector than in industrial sector. Agriculture, restricted by the fixed nature of land as a means of production, is apt to be subject to the law of decreasing return, and so it is more difficult to raise its productivity than to raise that of manufacturing industry. For the above reason, it is seen that a developing country can improve its economic condition by transferring labour from low productive to high productive sectors and thereby increasing general national productivity. To do this, it must first succeed both in accumulation of capital in its manufacturing industries and in absorption of excess labour from its agriculture.

In Australia, as is shown in Table 3, not only is the productivity of labour sufficiently high in agriculture now, but also the rate of increase in productivity was highest in agriculture in the past as is shown in Table 4. Therefore, a mere effort to transfer labour from agriculture to manufacturing industry for the purpose of industrialization will lower the national productivity and even be detrimental to the sound development of the national economy. Here lies the clue to understanding the main characteristics of the industrialization taking place in Australia whose economy is termed as "mid-way".

Table 4. Rate of Growth of Productivity by Industry (1953/54-1962/63)

	Agriculture	Manufacturing	Service	Average
Rate of Growth of Productivity	4.5%	2.5%	1.5%	2.3%

Source: First National City Bank, Australia, *An Economic Study*, 1967.

Let us consider the necessary measures Australia must take to realize industrialization without decreasing the rate of her economic growth. In industrialization, it is needless to mention the necessity of increasing capital stock in manufacturing industry, but the introduction of additional labour into this sector is also indispensable. If man-power is drawn from the sector of agriculture, the national productivity is inevitably lowered for the reasons mentioned above. One possible measure, then, will be extracting labour from tertiary industry. But in actuality this measure is impractical; for in Australia income per capita has reached such a high percentage that the demand for service cannot be neglected. In 1964 employees in service industries amounted to 45% of the total number of workers,<sup>6)</sup> which shows the acute demand for service. If labour is withdrawn from this sector, higher costs for services and wage increases will be unavoidable. This means that labour needed for the industrial expansion cannot be obtained from the existing labour force. The only means for gain is by acquiring new man-power.

From 1948 to 1965 the annual increase in the population of Australia averaged 2.3% a year; 1.4% of the increase represented the newly born, and

6) First National City Bank, Australia, *An Economic Study*, 1967, p.11.

0.95% new immigrants. Granting this natural growth in population to be an annual increase of labour, only 250,000 workers can be counted as an actual increase. Thus the number of people usable for industrial expansion is quite limited.

If capital is to be accumulated for the purpose of industrialization, the above-mentioned fact should be taken into consideration. To achieve industrial expansion, invested capital must be accompanied by the highly labour-saving technology. Industrial expansion without much effort in technical improvements would hamper the country's future industrialization. Intensive capital investment required for industrialization in Australia must be combined with technological development. Introduction of capital-intensive technology in manufacturing industry always requires a larger scale of production, and in the case of Australia, it means the enlargement of its national markets. In this connection, the inflow of immigrants will greatly affect the future of Australia's economy.

### ***3. Capital Accumulation in Australia***

The process of accumulating capital is that of mobilization of resources. The scale of capital accumulation in a country is determined by the amount of resources obtainable in the given country for the purpose of increasing capital stock during the given period of time. The amount of resources then is determined by the total amount of national savings, the inflow of capital from abroad and the withdrawal from the foreign currency reserves. The first being the amount of resources raised within the given country, the other two are the total sum of resources obtainable from abroad. What determines the size of capital accumulation is the sum of resources acquired from each of these sources.

Savings are that part of income which has not been expended for consumption and so long as the prices do not fall, the savings mean resources released from the production of consumers' goods. The more savings are made, the more resources will be available for capital accumulation. If there is an unfavourable balance of trade, the total amount of resources usable for an accumulation of capital within the country will increase by the net inflow of the foreign resources. The payment for this inflow is made either at a future date or outright. The first is for the incoming of foreign capital and the second is for the withdrawal from the foreign currency reserves. Thus the size of the capital accumulation in a particular country during a certain period of time is seen to be the total sum of the following three sources—first, domestic savings, secondly, the inflow of foreign capital and thirdly, the withdrawal of foreign currency reserves. Unless any of these three be increased, capital accumulation is not stimulated.

In present monetary economy, investment seems to be a matter of funds.



In fact, the importance of raising funds cannot be denied. However, money becomes important only when it is used as a means of absorbing useful resources in order to produce capital goods. Money, in itself, has never been an ultimate goal. Money is only instrumental as a vessel or vehicle in carrying resources to the sector producing capital goods. What is most important is the amount of resources. The source of capital truly means resources available not for consumption purposes but for capital accumulation. In actual situations the scale of investment will be influenced by how much money can be supplied as a fund. If resources are sufficient and yet the vehicle to transfer them to production sectors for capital goods is not adequate, the scale of investment will be diminished. Conversely, if too many vessels are given to the sector producing capital goods, they would be available for absorbing even the resources which would be otherwise used in producing consumers' goods, and would expand the scale of investment. Here the role of the monetary and financial system in supplying funds possibly contributing towards the accumulation of capital should be emphasized. This confirms the validity of the statement that the true resources of investment are domestic savings, the inflow of capital and the withdrawal of foreign currency reserves.

Then what has been the true picture of recent investment in Australia? As is shown in Tables 5 and 6, the total amount of investment between 1960 and 1965 was 26.5% of GNP on the average, indicating the second highest rate of investment in the free world second only to Japan. Such a big investment was made possible because the total domestic savings amounted to 24.1% of GNP and a net inflow of foreign capital equalling 10% of GNP had been recorded. At the same time withdrawal from the reserves was needless to say kept as low as possible.

The list of domestic savings between 1960 and 1964, as is shown in Table 5, is itemized as follows: on the average, personal savings 26.1%, corporate savings 47.5% (the highest rate), public savings 26.4%. In other countries, personal savings hold the highest percentage, but in Australia they do not contribute much. This indicates that in Australia the distribution of income is more even. Also, though the rate of personal savings is low, the absolute value of personal savings, along with that of corporate savings, has been increasing steadily. The public savings are extremely unstable and up-and-down in this figure seems to exert a great deal of influence on the whole size of domestic savings. Public savings are differences between current revenue and expenditure in the public sector composed of central and local governments and public corporations, and are therefore basically unsteady. The current revenue of the Commonwealth Government of Australia consists mainly of tax revenue, about 65% of it being income tax revenue. As a progressive rate system is applied to income taxes, tax revenue increases acceleratingly in prosperity, and so does the current surplus of the public sector. But when

Table 5. National Capital Account (A\$ million)

	1960/61	1961/62	1962/63	1963/64	1964/65
<b>Sources of Funds</b>					
Domestic Gross Savings					
Personal Saving	773	887	879	1,320	1,419
Corporate Saving	1,563	1,606	1,998	2,198	2,244
Public Saving	1,100	881	901	1,052	1,408
Sub-Total	3,436	3,374	3,778	4,570	5,071
Net Capital Inflow	657	180	624	518	490
Withdrawal from foreign Reserves	80	-178	-148	-459	294
Total	4,173	3,376	4,254	4,629	5,855
<b>Investment</b>					
Gross Fixed Capital Ex- penditure					
Private	2,387	2,295	2,530	2,819	3,274
Public	1,198	1,337	1,405	1,542	1,755
Sub-Total	3,586	3,632	3,935	4,361	5,029
Increase in Stocks	521	-205	319	120	608
Statistical Discrepancy	66	-51	0	148	218
Total	4,173	3,376	4,254	4,629	5,855

Source: *Year Book Australia* 1966.

hard times come, exactly the contrary situation occurs. This is attributed to the unstable nature of public savings and in this respect it is desirable for relatively stable personal savings to increase in the future.

The net inflow of foreign capital is very important in its quantity. It can meet the expense of 11% of the total investment. As Table 6 indicates, foreign investment has begun to be considered as an important source of investment funds, which will consequently affect the trend and the sum of future investment. Moreover, the Australia economy needs capital intensive technology. But due to the high standard of wages, high opportunity costs are estimated on receiving more education after they become old enough for work, and few Australians get higher education. This creates the unfortunate circumstances in which the Australians find themselves unable to acquire necessary technological knowledge within their border. Acquiring such knowledge is as indispensable as capital for investment in industrialization. In order to effect industrialization, not only resources but also all information concerning technology should be sought from abroad. The type of foreign capital that offers resources and technology has a value almost impossible to show in mere figures. To quote P.H. Karmel and M. Brunt;

“Although Australia’s investment program has for the most part been based on domestic resources, capital inflow has played an important role, not only by contributing a significant quantity of resources but also by

Table 6. Domestic Investment and its Sources (per cent of GNP)

	Total Investment as a Percentage of GNP	Capital Funds Available for Investment as Percentage of GNP:		
		Drawings on (+) or additions to (-)		Net
		Domestic Savings	International Reserves	Apparent Capital Inflow
1950-51 to 1954-55 ..	26.7	24.5	+0.7	1.5
1955-56 to 1959-60 ..	25.4	23.1	-0.4	2.7
1960-61 to 1964-65 ..	26.5	24.1	-0.5	2.9
1965-66 ..	28.0	23.8	-0.3	4.5

Source: Commonwealth of Australia, *The Australian Economy* 1967.

providing Australia with technical know-how and valuable links with major industrial organizations in the most advanced industrial countries.”<sup>7)</sup>

Also in the report on Australia’s economy published by the First National City Bank of the United States, the following was pointed out.

“Most important, perhaps, foreign investment is an essential source of technological progress.”<sup>8)</sup>

The inflow of foreign capital into Australia between 1947-1964 amounted to 4,242 million Australian dollars.<sup>9)</sup> In the same period, foreign investment by Australia was as low as 234 million Australian dollars. This left the net inflow at the figure of A\$4,008 million of which 308 million Australian dollars were invested for government securities and the remaining 3,934 million Australian dollars went into corporations. Of the corporation investment, 88% was direct investment. Securities investment was 12%. These figures indicate that foreign investment is not a mere provider of resources but a provider of advanced technology.<sup>10)</sup> Among countries investing in Australia, England ranks first (54.4%) and U.S. and Canada (34.4%) and New Zealand (2.5%) follow.<sup>11)</sup> Table 7 shows which industries have benefitted by direct investment. For example, a great part of investment went to manufacturing and also to commerce.

The fact that the amount of inflowing foreign capital, though playing an important role in the Australian economy, is unstable, cannot be denied; for the manipulation of foreign capital is decided by factors beyond Australia’s control. What Australia can do is to endeavour to make its home market attractive for foreign investment. For instance, such measures as; 1. abolishing

7) P. H. Karmel and M. Brunt, *The Structure of the Australian Economy*, Melbourne, 1963, pp.25-26.

8) First National City Bank, *op. cit.*, p.6.

9) On the IMF parity A\$1=U.S.\$1.12.

10) These figures are cited from Annual Bulletin of Overseas Investment, Australia 1965-66.

11) First National City Bank, *op. cit.*, p.46.

restrictions concerning overseas remittance of profit on foreign capital, 2. avoiding double taxation on investment profits by tax agreements with foreign countries and 3. most important of all, raising the profit rate of corporations in Australia. The profit rates after the tax between 1947 and 1964 are shown in Table 8. One can see rather easily that this decreasing trend in the profit rate is unfavourable for future introduction of overseas investment into Australia.

Total domestic savings plus the inflow of foreign capital have made it possible for approximately 26% of Australia's gross national product to be utilized for investment. But all of this does not go into industry. Only a portion of private fixed capital investment is utilized for industrialization, as shown in Table 5. Thirty-five percent of fixed capital investment in the public sector is used for the purpose of accumulating non-productive capital and not for the purpose of directly increasing fixed production equipment in the in-

Table 7. Inflow of Direct Private Investment in Companies in Australia by Industry (Average Annual Rates)

Industry	1956-57 to 1959-60	1960-61 to 1963-64
Primary Production and Mining	9%	6%
Manufacturing--		
Founding, Engineering and Metal Working	10	14
Vehicles (including Aircraft and Ships)	15	10
Electrical Goods, Equipment, Cables, etc.	6	5
Food, Drink and Tobacco	4	6
Chemicals and Oil Refining	19	16
Other Manufacturing	8	9
Total Manufacturing	62	60
Finance and Property	10	9
Commerce	17	22
Other Industries	2	3
Total-All Industries	100	100

Source: Commonwealth of Australia, *The Australian Economy*, 1965.

Table 8. Average Rate of Return on Foreign Capital Invested in Australian Companies (after tax)

	Direct Investment	Security Investment		Direct Investment	Security Investment
1955/56	10.5%	9.3%	1961/62	5.8%	5.1%
1956/57	9.5	9.1	1962/63	7.0	5.7
1957/58	9.1	8.1	1963/64	6.7	5.3
1958/59	9.9	10.2	1964/65	6.1	5.6
1959/60	9.7	8.3	1965/66	5.4	5.5
1960/61	8.1	6.8			

Source: *Annual Bulletin of Overseas Investment*, Australia 1965-66.

dustrial sector. A country with vast land and a small population has its comparatively densely populated areas scattered far apart. Consequently, public utilities such as gas, water, electricity, transportation and communication connecting habitable areas cost too much to attract private entrepreneurs to invest.<sup>12)</sup> Public investment is chiefly made by enterprises initiated by government agencies. At the same time, private fixed capital investment includes investment in agriculture, mining and housing; 38 to 40% of total fixed capital investment goes for the expansion of production equipment in the industrial sector.<sup>13)</sup> The average investment rate between 1960 and 1965 is 26.5% of GNP, and its 94% is fixed capital investment, of which 40% is industry investment. This can be further interpreted as only 10% of GNP being used for investment towards industrialization.<sup>14)</sup> In comparing this figure with that of distribution of foreign capital investment, one half of foreign capital investment, 3% of GNP is invested in the industrial sector. For this reason, the importance of foreign capital in Australia's industrialization is even more strongly confirmed than before.

#### ***4. The Roles of Public Finance and Banking System in the Process of Industrialization***

As described in the previous chapter, the resources of investment are domestic savings, the inflow of capital and the withdrawals of foreign currency reserves. Australia like any other country does not want to see any decrease in its reserves, and it would mean that the sources of investment in actuality consist of only the first two items. Even if resources for investment exist, investment does not occur until enough funds are raised to transfer resources. In promoting industrialization, two conditions must be considered: 1. to have sufficient sources for investment, (namely, to collect enough resources) and 2. to raise enough funds to transfer them smoothly to the industrial section. To supply funds is a primary task of banking system. Considering that public finance plays the same role as that of banking system, conditions for speeding up industrialization should be reviewed from the viewpoints of public finance and banking system.

First of all, the best approach to understanding the financial and banking structure of Australia is to have a bird's eye view of fund-flow. Unfortunately, however, no analysis of fund-flow has yet been completed in Australia except for a simple guess work by the Reserve Bank of Australia. According to this guess work personal and overseas sectors are thought of as surplus ones where savings are larger than investments and business and public sectors as

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12) P. H. Karmel and M. Brunt. *op. cit.*, p.105.

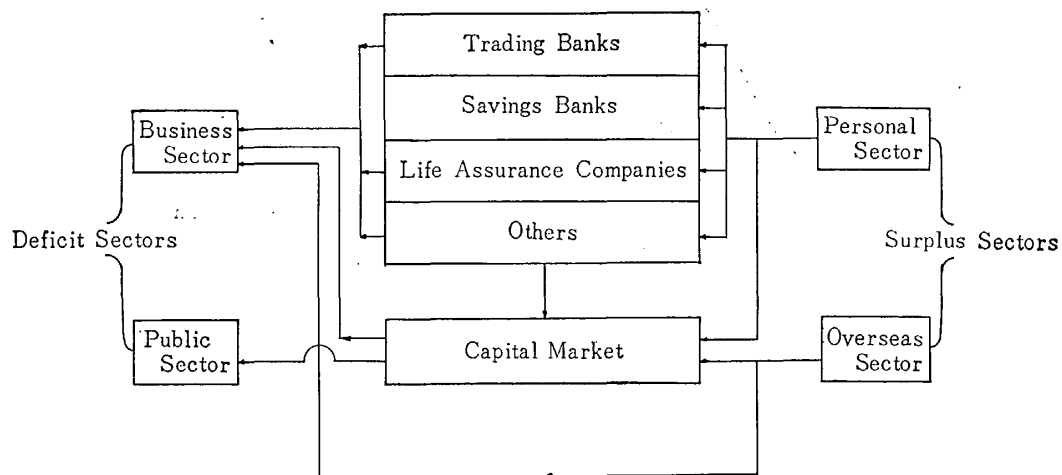
13) This estimate is given in unpublished data of Ministry of Finance, Australia.

14) Calculated from Table 5.

deficit ones where savings are smaller than investment. In other words the surplus funds from the first two are being carried over to cover deficits of the last two. Therefore the flow of the funds in Australia is in the direction from personal and overseas sectors to business and public sectors. The funds normally flow from surplus to deficit through financial intermediaries and stock and securities markets, but in the case of Australia 80% of foreign investment is direct investment. In the remainder of overseas investment, which are in the form of securities, the inflow of foreign capital has little to do with financial intermediaries. The flow of funds in Australia could be described as shown in Figure 2.

Based on this chart, we can consider two possible measures to promote investment for industrialization: 1. to increase the total of surplus funds, 2. to make an utmost effort to transfer the given surplus more efficiently to enterprise sector. However, it is a well-known fact that without increasing the amount of surplus funds, commercial banks can increase the supply of funds by credit creation. What would be the result of this? The surpluses in the private and overseas sectors are not only excess funds but also represent value in resources that could be transported from these two sectors to other sectors. This could be termed as a supply of resources, and if more money were to be given to corporate and public sectors, demand for resources would exceed supply. Then the hike in prices or the withdrawal from foreign currency reserves to receive additional foreign resources would be the inevitable result. Tables 5 and 6 explicitly indicate an effort on the part of Australian government to prevent foreign reserves from decreasing. Figure 3 shows Australia making a tremendous effort to stabilize commodity prices. Judging from these three tables, it should be pointed out that Australia would never enforce the accumulation of capital at the cost of a rise in commodity prices or a decrease in foreign currency reserves by adopting an inflationary policy. If this

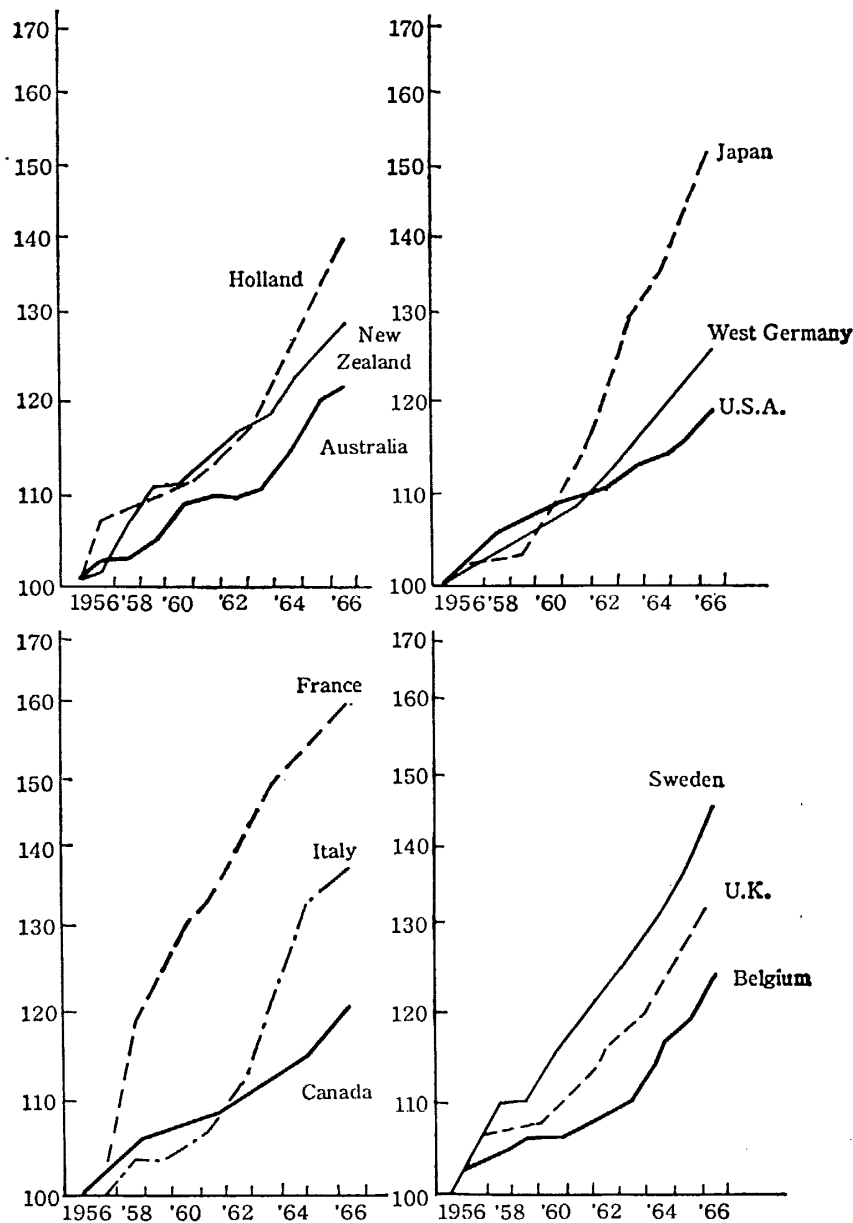
Figure 2. Fund Flow in Australia



observation is correct, the financial measure appropriate for promoting investments for industrialization would be limited to the two possibilities just mentioned at the beginning of the preceding paragraph.

The first measure concerning a possibility of increasing the total of surplus funds contains two problems. The first one is how to increase surplus in private sector. With the establishment of the formula that surplus is equal to savings minus investment, two measures of increasing savings and of decreasing investment can be seen to be necessary. For the increase of savings, consumption should be discouraged by restricting consumers' credit, but

Figure 3. Movements of Consumer Price Index in the Main Countries



Source: First National City Bank, Australia, *An Economic Study*, 1967

an institution to enforce this measure is lacking in Australia. At present, agencies extending credit to consumers are "near-banks" or "fringe banks." Because they are not banks proper, they are free from any financial control of central banks. Therefore, even central banks find themselves incapable of curbing consumers' credit effectively. Even if they could do so, imposing restrictions cannot be considered a wise measure. With or without restrictions, Australia has been handicapped by smallness in the size of its corporations due to its limited market, and it would be harmful for the promotion of industrial investment to suppress consumption.

The second method to be taken to increase surplus in private sector is to control investment in that sector. In Australia, housing investment in the private sector is quite active. As is indicated in Table 5, housing investment is supported by housing loans which are supplied by savings banks and life assurance companies. The assets held by these financial institutions are shown in Tables 9 and 10 which at the same time disclose that 25% of the total assets of savings banks are from housing loans. Savings banks are under the strict control of central bank which is in a position to impose restrictive policies on them. However, better housing development and an easier access to housing loans are part of governmental policies designed to attract as many immigrants as possible (to its shores). Therefore it is hardly possible to expect government housing projects to be easily restricted.

To summarize, an increase in surplus funds in the private sector could be induced by imposing some restrictions on lending by savings banks. This measure, however, would not be workable and thus not effective in promoting industrial investment.

It is not really a problem of private finance but of public finance to in-

Table 9. Asset Composition of Savings Banks (A\$ million)

	End of June 1966		End of June 1967	
	\$ million	Percent of Total	\$ million	Percent of Total
Coin, notes and deposits with Reserve Bank	429.9	7.8	504.8	8.3
Deposits with trading banks	129.0	2.3	136.3	2.2
Commonwealth Government securities	2,125.8	38.3	2,184.5	35.9
Local and semi-governments securities	1,198.8	21.6	1,328.5	21.9
Loans to authorised dealers in short-term money market	34.2	0.6	50.5	0.8
Loans, advances, etc.—				
Housing	1,358.5	24.5	1,548.8	25.5
Other	176.5	3.2	222.3	3.7
Other assets	93.1	1.7	101.6	1.7
<b>Total</b>	<b>5,545.9</b>	<b>100.0</b>	<b>6,077.3</b>	<b>10.0</b>

Source: Commonwealth of Australia, *Treasury Information Bulletin*, July 1967.



Table 10. Asset Composition of Life Assurance Companies (A\$ million)

	31 March 1966	31 March 1967	Percentage Increase
	\$ million	\$ million	
Fixed assets	335.3	392.9	17.2
Loans—			
On housing mortgage	353.4	364.8	3.2
Other	739.9	787.0	6.4
Investments—			
Government securities	821.1	958.3	16.7
Local and semi-government securities	275.7	283.5	2.8
Debentures and notes	346.4	377.7	9.0
Ordinary shares	374.5	418.9	11.9
Other	83.0	86.8	4.6
Cash	5.1	6.0	17.6
<b>Total</b>	<b>3,334.5</b>	<b>3,675.8</b>	<b>10.2</b>

Source: Commonwealth of Australia, *Treasury Information Bulletin*, July 1967.

crease the flow of overseas capital into the country. As Figure 2 indicates, the inflow has no relation with financial institutions. To repeat the statement given before, what Australia can do in order to stimulate the inflow of foreign capital is to make its market attractive enough for investment. The effective methods (then, again, to repeat,) are easing in taxation and foreign exchange control. An even more effective measure is tentatively to raise the protective tariff policy to shut out foreign goods, in order to keep her home market stable and profitable. The smaller the home market is, the more severe the competition that the inflowing foreign goods cause and consequently the lower the rate of profit tends to be. If this condition were left alone, the capital flowing from overseas would be much enfeebled. A protective tariff would prevent such situations from arising and help stimulate the in-flow of foreign capital. The profit rate within the country would also rise and more funds would be accumulated in various corporations. Australian corporations would not normally invest unless one-third of the funds is covered by their own accumulated fund.<sup>15)</sup> Consequently it would be a logical sequence to think that the possible increase in profits would give good influence on industrial investment. At any rate providing tariff barriers for the purpose of creating a stable home market should serve as a stimulant to the inflow of foreign capital and as a help in increasing corporation savings.

Let us consider what the existing public finance and banking systems can do to help much of the nation's funds smoothly reach the enterprise sector. If we use the formula that the flow of funds into the enterprise sector equals the total surplus in the economy minus the deficit in public sector, and also

15) P. H. Karmel and M. Brunt, *op. cit.*, p.26.

if the amount of surplus funds given is definitely fixed, an increase in the capital inflow into corporate sectors could be realized only by reducing the deficit in the public sector. Two methods are considered for this: either discouraging public investment or increasing public savings. In Australia such enterprises as produce external economies for home industries have been conducted by public enterprises, and public investment does mean investment towards these public organizations. In this connection any reduction in this investment cannot be practical. Then there arises a necessity to increase public savings, and for this goal the most direct method would be to expect an increase in public revenue, namely tax revenues. An increase in tax rate might, however, be unfavourable for private and corporation savings. The rate of tax burden to national income  $\left( \frac{\text{Commonwealth tax} + \text{local tax}}{\text{national income}} \right)$  has already reached 30%<sup>16)</sup> and cannot be permitted to go higher.

Thus reviewing policies concerning an increase of surplus funds and possible distributions more favourable for corporation sectors, the only desirable policy to promote industrial investment on the financial aspect is the tariff measure.

Lastly, the above analysis concerning the corporate sector has been made with the understanding the "corporate sector" is the industrial sector and therefore a few supplementary notes might be necessary to clarify some points. When the surplus funds in the private sector are transferred to corporate and public sectors in Australia, 40-50% is reported to go through such financial institutions as trading banks and savings banks.<sup>17)</sup> But as Table 9 shows, the funds that go through savings banks are nearly all towards government securities and housing loans. On the other hand their commercial banks following faithfully the English tradition of sound banking, have never undertaken long-term loans until 1962, though they had been dealing with time deposits extending for more than two years. Their main lending activities were to offer advances to individuals or to corporations. Even if a loan turns out to be extending over a period of one year, it is initially offered as very short-term operating funds. In Australia much of bank loans is given to companies of the tertiary industry rather than manufacturing firms. The banking system handling 40 to 50% of private surplus funds is not providing the industrial sector with sufficient long-term funds, and for that reason is delaying the country's industrialization. Finally, in April in 1962 Australia's Reserve Bank took a new step and adopted a system called "special term loans".

Australia, following suit of the English banking system, adopts Statutory Reserve Deposit System and in addition Australia's banks must maintain a specified ratio of such liquid assets as cash, deposits at the central bank, government securities etc. to their deposit liabilities. The former system is

16) An estimate of Ministry of Finance, Australia.

17) An estimate of the Reserve Bank of Australia.

abbreviated as S.R.D. and the latter as L.G.S., both tightening bank management. As a result it is observed that commercial banks are making every effort to secure flexible use of their funds. In order to successfully make commercial banks supply long-term funds for industrialization, it is necessary to make allowance of these facts. The Reserve Bank has ordered all trading banks to set up special term loan funds and as an initial step made each bank pay in funds corresponding to 3% of the net balance of their current deposits. In actuality, however, each bank had to raise only 1% while the remainder was given by the central bank in the form of S.R.D. With the funds thus raised, the central bank has made the commercial banks supply industries with long-term equipment funds. It is expected that commercial banks will regard this operation as advantageous and readily lend a helping hand to industries, because they can obtain all the profits on the special term loan funds by raising only one third of the funds. Expectedly such loans have increased as rapidly as the next figures showing: the scale of loan was A\$114,000,000 at the beginning but had expanded to A\$250,000,000 in June, 1966.<sup>18)</sup>

It must be pointed out that, provided with funds Australian enterprises have not yet adopted an expansion policy as vigorously as their Japanese ones have done. This can be attributed not only to the size of their market but also in a great degree to the problem of technology. Even if funds are accumulated as depreciation allowances or as retained earnings, they are lent out only as short-term loans to other companies. Thus inter-company lending is vigorously practised. In this type of lending, the borrowing companies use an unused part of line of credit endorsed by commercial banks. The reason why the company utilizes inter-company lending rather than borrowing from commercial banks, is that the lower interest is being given by the former. This works to a disadvantage for the commercial banks: companies do not utilize bank funds even though they are allowed to use line of credit by banks. For this reason some banks impose a certain rate of interest even on the unused part of line of credit.

Thus judging from vigorous ending activities among corporations, it is evidenced that Australian corporations lack positive attitude towards investment. Therefore Australia tends to rely on overseas investment. For this reason the tariff policy is the best promotor for industrialization and in this sense Australia's tariff policy will hold permanent importance.

##### ***5. Monetary and Financial Conditions in New Zealand***

Industrialization is taking place more slowly in New Zealand than in Australia. As a result, as much as 90 per cent of her export is composed of

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18) The Reserve Bank of Australia, 1966, p.26.

products of the livestock industry. The main products are butter, cheese, meat, wool and hides, of which 50 per cent is being exported to the United Kingdom.<sup>19)</sup> Most of her import items are naturally industrial products. Consequently, such a near-perfect monocultural economy tends to be vulnerable against the fluctuations in export prices. Australia also has a similar problem. In the case of New Zealand two more elements are added to this, and thus her balance of payments becomes critical.

The rising tendency of the export prices brought an increase in personal income and stimulated economic activities in New Zealand from the latter half of 1962, but from 1964 to 65 a marked decline in the export earnings has become evident. The total gross national expenditure that was once expanded, now maintains its high level and therefore the adverse balance of payments has put New Zealand economically in a severely critical condition. At present New Zealand must seek the means to solve the pressing problems in the balance of payments before she tries to industrialize herself or tries to improve her economic structure, which is so sensitive to fluctuating international prices. Therefore as far as New Zealand is concerned, the financial aspects should be discussed in the light of improving her balance of payments.

The reason for the decrease of export earnings is that the international wool prices have fallen as is evidenced in Figure 4. The international wool prices that have fallen since March 1964 hit their lowest level in June 1965. After a temporary upturn, they again began to fall in 1966 and continued to do so in the following year. Such a downward trend of wool prices is of a different nature from that of cyclic changes of prices of the primary products. It should be correctly interpreted as a result from the decline in the international demand for wool. New Zealand sheep are raised mainly for meat unlike Australian Merino. They are better known for its thick brittle wool than the Merino. A New Zealand breed of sheep is used for productions of carpets and woolen yarn, but are known as unsuitable for fabric manufacturing. Recently, however, for manufacturing carpets and yarn, synthetic fabrics have been replacing wool because they are better in color results and cheaper in cost. This reduced the demand for New Zealand wool, which markedly reduced her overseas prices for wool.

The Government measure against this is to keep wool prices as stable as possible on national markets. The New Zealand government maintains price support policy not only for wool but also for meat and dairy products which have been the major portions of her export. This policy may be proper as a protective measure to guard farm producers against falling victims to fluctuating prices and also as a stimulant for their production expansion, because the international prices of the primary products have never and will never be stable. This statement holds true only on occasions when price changes are

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19) New Zealand Pocket Digest of Statistics, 1966.

Figure 4. Export Price Index  
Base: 1960 (=1000)

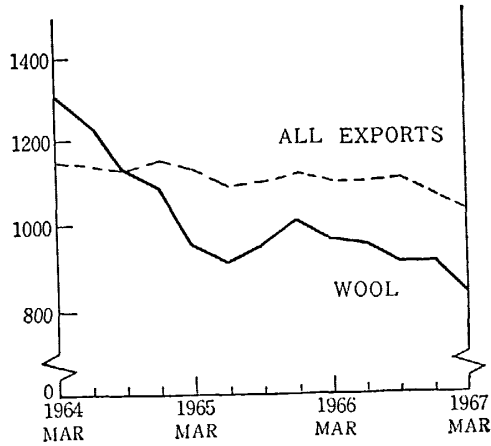
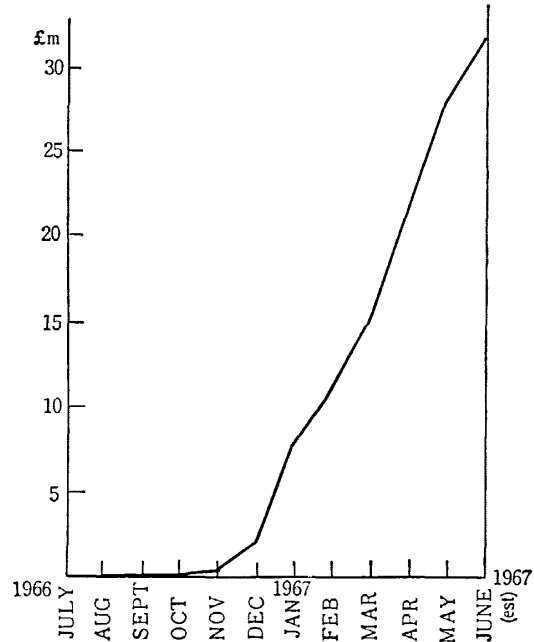


Figure 5. The Value of Wool Purchased  
by the N. Z. Wool Commission



Source: New Zealand *Economic Review*, 1967.

cyclic or temporary. When the price falls for structural reasons as in the case of wool, the policy may inflate national income and may result in the worsening the country's balance of payments.

Wool business is performed in the form of auction. If the price is going to go below the floor price which the government establishes each year, the New Zealand Wool Board steps in to support the price. Therefore the wool producer is guaranteed against unstable income. When a fall in the price of wool is temporary, the amount of wool the Board purchases would be insignificant. But when the fall is due to a structural change, the Wool Board has to give continuous support which results in an ever increasing amount for the Board to purchase. Figure 5 explains this situation.

In spite of a marked decrease in the amount of export, this support policy will help the level of national income stay high and the demand for imports will remain strong. But, on the other hand, it should worsen the country's balance of payments, especially its trade balance. Thus New Zealand is confronting with a disturbing difficulty caused by an unstable balance and an inevitable, unmendable fall in the wool price.

Another problem that the country is facing is the decline of the economic power of Britain which is a main trade-partner of New Zealand. Not only has New Zealand wool depreciated as merchandise but also its most prospective buyer has lost much of her purchasing power. The last factor has served to aggravate the unfavourable balance of payments. New Zealand has taken up a new trade policy by developing new export items to replace wool and

by exploring new foreign markets besides England.<sup>20)</sup> This amelioration policy may take much time. Accordingly New Zealand must take a more drastic policy in order to improve her balance of payments immediately. She may devalue her currency so as to reduce her imports and encourage her exports through price mechanism. She may also adopt a deflationary policy to curtail domestic expenditures and to improve the balance of payments.

The policy New Zealand has adopted is designed to minimize credit facilities from private financial institutions such as, commercial banks, savings banks, hire-purchase companies, life insurance companies and government agencies such as, Development Finance Corporations and State Loan corporations. Commercial banks, above all, come under strict control by the central bank which is the New Zealand Reserve Bank. The central bank sets the limit for credit facilities given by the commercial banks and if any commercial bank should lend money over and above this limit, the central bank would force it to borrow from itself at the cost of the penalty rate of interest, by manipulating the reserve requirements. In a country whose economic structure is like that of New Zealand, the fund flow which directly effects the gross national spendings stems from government agencies rather than private financial institutions. The funds necessary to purchase wool are given by the government which inflates national expenditures. Therefore, even if the funds from private financial institutions are cut off, there is not much hope for remedy.

New Zealand ranks fifth in national income per capita which is higher than Australia. This high rate is due to high productivity in agriculture, which gives support to New Zealand's economy by exporting dairy and meat products. Facing the overseas price dip in wool, New Zealand agriculture ought to be suffering from lower value-productivity and consequently its national income should be lower. However, the country is calmly maintaining herself by a price support policy, in other words, by inflating monetarily at the cost of a balance-of-payments crisis. It is obvious what expenditures should be controlled if the above-mentioned statement is admitted. It is not a matter of monetary concern but rather whether or not governmental fiscal measures should be evaluated.

How would a depreciation of currency ameliorate balance-of-payments? The elasticity of foreign demand for the chief export items of New Zealand, that is, meat and dairy products, is very small. For import goods, elasticity of demand is also little because there is no substitute industry in the country. The two demands were likely to be inelastic and New Zealand did not seem to be moving in this direction. But on November 19, 1967, when Britain devaluated the pound, New Zealand followed suit. Using that opportunity, she

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20) Japan is one of the most important countries as new markets which New Zealand aims to exploit. At present she ranks fourth as buyer of New Zealand exports, but she would come to the top of the list in near future.

depreciated her currency by 19.45%, well over the expected rate of 14.3%. Thus New Zealand's currency underwent two major changes in one year. Since July 10 the New Zealand pound which was equal in value to the pound sterling has been converted to the New Zealand dollar. By adopting the decimal system, one old pound has become the equivalent of two dollars. With these two major innovations, New Zealand's balance-of-payments is a major focus of attention for the near future.

### *Conclusion*

Monetary and financial conditions in Australia and New Zealand have been discussed in connection with their economic problems. Due to various limitations New Zealand's financial system could not be treated in detail, but in the main it is very close to that of Australia. To deal with problems of industrialization and of amelioration for balance-of-payments with which both countries are struggling fiscal policy seems to be more effective than monetary policy.