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A.S. BROWN

29.8.1950 – 11.9.50

[Cover of notebook]

“B”

Cabinet Notes No. 2

29.8.50. }
30.8.50. } **Budget Meeting**
31.8.50. }

11.9.50

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LA. 3788

Tuesday 29th August 1950 –

1. Dame Enid Lyons

- The Prime Minister announced that he had directed Dame Enid to take 3 months leave and that he proposed to make a public announcement after consultation with her medical adviser.

2. Budget papers

- The Treasurer read the paper entitled ~~“...”~~ “Commonwealth Financial Assistance to the States”, and after a short discussion went on to read the document entitled: – “Loan Council 1950/51 Loan Programmes”.

The view was expressed that the men and materials were not available to carry out these projects.

Next session to begin Wednesday 27th September.

Special session on Wednesday 13th Sept. – (invite the Senate, some discussion by Senators) arrangements to be left in hands of P.M.

Party meeting (joint) on 26th Sept.

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Cabinet agreed that there should be no extra grant over and above the amount available under the formula.

The Treasurer read the document entitled Budget 1950/51 – A. Estimates.

B. Trends in Expenditure. C. Availability of Funds. D. Revenue and Loan Finance. F. Taxation. G. Payments to National Welfare Fund. H. Budget Summary.

The Treasurer read the document entitled Roads Grants to the States.

Casey questioned whether the increase of £2 m. was justified in view of the general inflationary trend. It was also agreed that the states must be urged to police the regulations about weight and speed. McEwen urged an agreement with the states in order that some obligation would be placed on the states to provide some regular finance to municipalities. On the other hand the danger of making the C/w responsible for local govt. finance was recognized. The P.M. suggested that it might

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be practicable to have an agreement and have a recital to the effect that it is recognized that road construction needs a program of 5 years or so both for the state departments and the local authorities to plan. It was suggested that ~~the~~ a change should be made in the allocation of the money in order that more be given to subsidiary roads and less ~~(them)~~ to the main roads. It was pointed out that local authorities had made no real attempt to raise the revenue available from rates.

Amount proposed £12 m.¹ agreed to.

Five years agreed to.

Act agreed to rather than agreement.

The development scheme in para 31b.

The development scheme is partly on foot, partly in negotiation – .

31(a) to be amended... “quite independent of anything the Commonwealth² is doing and will do in relation to National Development.” – agreed to.

“This is part of the contribution of the Commonwealth towards general development plans” – suggested by Mr Casey – Not agreed to.

¹ ‘£12 m.’ is inserted above the line.

² ‘to be amended quite independent of anything the Commowalth’ is inserted above the line.

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Loan Program of the states – last year was £82 m. Costs have risen 15% or so.

We should hold them to £100 m.

Ie. Reduce £143,879,000 to £100 m.

It was suggested that £59,183
£11,637
£70,820

should be reduced to

? What is the effect of the Loan Council³ on refusing to “approve” the sevl gov authorities borrowing?

guaranteed by State government.

If the state Premier’s accepted decision they wld limit [se.? unable to transcribe] – rests with Premier.

29.8.50

Wednesday 30.8.50

P.M. reported the result of his discussion with Mr Chifley and it was decided that there would be no special session before 27th.

Telecommunications commission – Submission 155. Re-appointments confirmed.

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Submission 103 – approved ~~to be paid from Nov.~~ – To be announced in the Budget. – If both measures to operate from October 1st the senate can hold it up. ~~To be paid immediately the bill is passed.~~ – declare bill an urgent measure in the House of Representatives. –

Date to be proclaimed. ~~as in Child Endowment bill~~

Submission 105: was considered but no decision arrived at at this stage.

³ ‘of the Loan Council’ is inserted above the line.

Submission 116A: Social Services

Recommendation No.	8 & 9	Approved
	7.	do.
	5 & 6.	Rejected
	4.	Approved
	3.	Rejected

Minister will investigate the working of the English scheme whereby some increase in the rate of pension is made in return for deferring eligibility until say 70.

2.

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Recommendation 1 – Flat rate and not a differential – ~~5/-~~ Flat rate of 5/-.

Beale proposed that a discretion should be vested in the C/w to ~~treat~~ exclude from ~~consideration~~ income⁴ rent received from a home which the age or invalid⁵ pensioner is not entitled to ~~be~~ occupy because of the operation of the landlord and tenant provisions. – Not accepted.

Exemption of war pension in applying means test for unemployment and sickness benefits – £50,000. – Item 8 not recommended.

This agreed to.

Pegging of limit of income and pension at £7.50 per wk for married couples not proceeded with.

Recommendation 2.

(a) Increase of 7/6 p.w. in “A” class pensions.

(b) (c) & (d) as recommended.

Superannuation –

Suggestion for increase in superannuation benefits.

? 31.8.50 [in pencil]

⁴ 'income' is written above 'consideration'.

⁵ 'age or invalid' is inserted above the line.

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The Prime Minister referred back to the earlier discussion on measures to check inflation and mentioned that most of the proposals were not being effective – and raised again the issue of revaluation.

The Treasurer pointed out that treasury bill indebtedness was £351 m.
today it is £108 m.

The cash deficiency today is 160 m.

Of that 160 m. – £138 m. is for the States.

[symbol for therefore] Our own deficiency is £22 m.

We have to provide –

War Gratuity, stock pile etc. etc. War Service Homes

Casey, McBride urged the tackling of the problem and the re-composition of control of prices, wages, capital issues, land sales, materials.

Spicer. The question is whether these powers can be related to defence. and the H/C would in my view support a new National Security Act.

McBride says he is not keen on revaluation – but points out that many things will have to be subsidised.

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Submission 105 –

Increase in the rate of 7/6 agreed to.

Page. We have to make a momentous decision. Right course of action is to make use of calamity by bring in Nat. Security Act – stabilisation of Prices at once – bring down prices by subsidies if necessary. This is what England has done. This action we emphasize how seriously we regard this position. The commitments which we have made today in the budget cannot be recalled. I do not think that we should consider appreciation because we can't forecast its effect. Its effect would be slow and it would create new problems. About half of our London funds is hot money and there is a large amount of frozen funds. If wool doesn't keep up we might be in some difficulty, – we might have to check imports to save our own industries. The dollar loan doesn't keep very much here. The three important food items, bread, butter and sugar are all controlled by home consumption prices, but appreciation

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would disturb the butter and sugar industries. Britain is offering less than the cost of production for butter. If you bring back the price of wheat 20% you have to ...⁶ You will be faced with the problem of how you are going to protect local industries. Appreciation would plunge us into a reshuffle of economic activity and we would have all sorts of new headaches. If you appreciate w/o subsidy you will drive people out of the dairy industry and we will finish up by importing butter. If we close down some lighter industries the people (girls) may not be able to transfer to the heavy industries. Are we going to be able to reduce wages if we reduce the cost of living. The home consumption price for foodstuffs is the real antidote to inflation. We can't afford to damage our primary industries. Take the case of wool. The ~~amount~~ price⁷ of wool in the suit does not make a great deal of difference to the cost of the suit.

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The real cause of this is the ~~lack~~ loss of production – largely the 40 hr. week. We have Concl. C/ers all giving holidays, etc. We really need an analysis of this by first class men at our disposal. If we cld do something along this line we could call a halt in this rising spiral of prices. It would be difficult for parliament to refuse to pass a Nat. Sec. Act.

Spicer. My view is that some controls would be possible. It is a question in each case whether the particular matter is sufficiently connected with defence.

I may be wrong to assume that you could have as sweeping controls as you had during the war. You may be able to divert men & materials to defence projects but you may not be able to freeze wages. If you are going to seek a solution by regulation of prices you must go to the stage of freezing wages. The justification is not Korea but the present menacing situation.

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You can't expect to do all the things in preparing for a war which you can do during a war. The Act might have to be more limited than the Nat. Sec. Act.

Holt. This is very complex and we must look at it calmly. It is both economic and political. We all need a lot more expert advice. I don't think we should take a more serious view of the economy than the facts warrant. Our price level is low, our currency is sound. Our prices for primary exports (except wool) abt 4½ pre war. Imports abt 3½. Retail prices abt 2½ pre war. Wholesale 2 pre war

For first 6 months of this year coal up 800.000 tons and brown coal up 300.000 tons on last year. We should get through the rest of the year without serious hold-up. We should very much better the production of last year – including imports we may be up 4 m. tons on last year. Industrial disputes this year have been less than last year. We are getting a growing measure

⁶ elipsis in the original.

⁷ 'price' is written above '~~amount~~'.

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of co-operation. There is more stability now than has existed for some time.

We haven't been sufficiently well informed about what is going on. ~~[...]~~ Resistances are from primary producers ~~are you~~ who are vulnerable. Suppose we say we will stabilise on twice the pre war price level – butter would be up, sugar would be up. ~~We are~~ These things are therefore too cheap. But to do this would cause us all sorts of difficulties unless we could show this was part of a plan to put us on a stabilised basis. Once you have over-full employment the arbitration system is weakened and employers have to offer inducements & you have a free-market.

Deregistration has no terrors now.

Shearers wages are fantastic now.

They are complaining that they are earning only £27.10.0 pr week. This question of ~~de~~revaluation will be put forward by the press as an answer.

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The press will whip the thing along.

The only reason why the govt. has not done it they will say is because of party differences in the Cabinet. We will eventually be forced into doing it.

We should talk again to Coombs, Copland and some others in whose judgment we have some faith.

You can't have price control without wage fixation and this will lead you into the whole paraphernalia of controls.

If we had a free exchange we would probably be at a premium to sterling. Compared with some of the financial operations since the war this is not a major operation.

If we allowed some primary products an internal adjustment we could take it in our stride.

McEwen. We examined this thoroughly a couple of months ago & decided against it. This discussion is how developments since then have affected it.

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The only new thing is the price of wool. – (Spicer – and the expanded defence ~~production~~ programme both here & in other countries.) It is said that we are now in a galloping inflation. This is only a declaration and we have not enough facts. Copland and Nette are not alarmed at the inflationary spiral. They say it is normal ~~in the air~~ and inevitable in the circumstances. I am not convinced that it has been proved that the position has deteriorated. It has been brought about by the

wool sales. The Treasurer will get not less than £25 m. of the £80 m. which might be the increase in national income. All the economists told us the trouble was in not being able to spend our income & we will be able to spend the 100 m. dollars. We will be able to sterilize the new tax money. You will get into deep waters with the other primary industries – we will have to make good the difference to the dairying industry – £6 m. or £7 m.

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Dried fruits and the small industries are in real trouble – apples, pears and tomatoes, etc. Revaluation put the Budget down £31 m. according to the previous papers – it would be more now. The budget would be in a much worse state.

This would have a most serious political effect on the govt. These little industries add up to a lot politically. Out of 33 seats 18 seats in Victoria are practically unsinkable for one party or the other – the rest change hands by how tomato growers, poultry raisers etc vote. This is evidenced also in Q'land & W.A. Add to this the violent reaction of the manufacturers.

Last time we considered a tax on wool & holding it on behalf of the wool-growers. I sd we would probably fight the next election on promises to hand this money back. I now think there would be less risk in freezing 20% of the wool-growers income than in depriving all primary producers of 25% of their income.

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Carson believes that the levy will be accepted by the industry.

If we had some more considered plan of repayment over some years with defined rights of repayment you might well get away with it.

We did lose a govt. in 1940 election by doing the responsible thing on wheat. You may do something which objectively is the right thing but we may lose the govt. We should have some advice from Coombs, Copland, Wood if you like, & examine what might be done with wool & the base metals.

White: the mfrs feel sorest abt G.A.T.T. ~~the~~ because the multilateral idea is detrimental to our interests.

P.M. – It is common consent that wool & metals are too high. Why should not we take 20% by excise off both wool & metals. We would nearly bring the budget into balance.

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Page – So long as it is an excise that gets both home & export wool, it is all right.

McBride – Unless you have some formula it may be unfair between growers.

P.M. You can't have a fund for the reasons that McEwen gave months ago.

McEwen– Your proposal is expropriation and this is novel particularly from our side of politics. Secondly, the wool market may have been affected by rumours that USA is in the market for large quantities. If this disappears the prices would recede back. If they go right back you would have a violent re-action.

You could relate every parcel of wool to an index figure. You could perhaps have a sliding excise.

Casey. Revaluation is a much better weapon than excise. We must face a very unpopular decision. Our currency is grossly undervalued.

Fadden– Should you take 20% off the whole price or on some base price of wool.

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Anthony – Is this excise proposal very different from price fixing of potatoes, etc. It is not novel from the point of view of the primary producer. But if the government spends the money it may be more inflationary than the wool-grower spending it.

P.M. We agreed before that an increase in local production was not the sole answer. We agreed that we needed a large increase in the volume of imports.

I have mentioned excise only because we won't face revaluation. It only reduces demand but it does not increase ~~re~~supply.

Spicer. What about a selective reduction in tariff duties.

Holt. It is doubtful whether in physical terms we can cope with a very great increase in imports – wharf space, transport.

Beale You can't greatly increase the amount of production in the heavy industries. Judging from what I saw myself. We won't be in office in 6 mths if this goes on.

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The experts should tell us whether the position is more serious now than in June. – What about increased taxation, compulsory loans, National Security Act as far as we can.

Casey – We have 5 obvious officers who can advise us on this: Wheeler, Swan Coombs, Wilson, Crawford.

Spooner. Why not have a paper on the excise proposal.

Casey. Tell us what you believe the govt. should do – ask this question of these officers.

Anthony – Part of the trouble is the Conciliation Commissioners.

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31-8-50

Senator Spooner raised the question of widows ~~questions~~ pensions and requested that the widows pensions be raised to 5/- in those cases where the proposed increase was less. This would mean that sections b. c. & d. of recommendation 2 would be for 5/-.

Holt suggests 5/- all round.

Senator Spooners proposal was agreed to.

Decided to pay Field Marshall Blamey £3000 per year from the date of his appointment.

Decided to invite Coombs, Copland & Wilson to discuss the economic situation with the Cabinet.

Agreed that P.M. & Treasurer can deal with the A.W.A. proposal finally with such other ministers as are available.

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11.30 am. Coombs, Copland & Wilson came into the discussion.

The Prime Minister asked first. Is there a sharp inflationary movement of a grave kind or is there an upward movement not greatly out of line.

~~Wh~~ Is it worse than in June?

What measures would you recommend if you regard the situation as serious?

Coombs. What is the nature & extent of the inflation? I believe we are experiencing an inflation of a serious character & it is getting worse rather than better. It is not a central European type of inflation.

There was a rise in basic wage last quarter this is likely to continue – primary producers (wool) incomes are rising. Hence expenditures are higher. Also capital expenditure both public and private is very high there is no sign of private capital expenditure falling off & all public authorities are looking forward to more spending.

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There is some increase in supply of goods – domestic production is rising but not as fast as demand – imports are higher than ever before.

It is in the capital goods field that the demand is greater than supply. It is here that the pressure originates.

The statistics of price changes indicate that prices are moving upwards faster than UK, US, Can & N.Z.

Recent developments suggest that it is worse than June – 1. Wool prices.

2. Expenditure plans of public authorities are greater.

There is no need for panic – it could be dealt with.

What can be done about it?

If you can increase the supply of goods either at home or from overseas. Hence increase of output especially per head is important. So are imports especially the effect of dollar loan.

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There will still be an excess of demand when all is done.

How can you reduce demand?

Anything you can do to reduce the plans of public authorities, anything to reduce the income of wool & metals.

Budgetary policy is the only thing the govt. can control & this is the most important thing. If govt. is spending more than it is taking from the public in tax & loans it is adding to the inflationary situation.

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P.M. To what extent would these results we achieved by revaluation.

Coombs. First it reduces the Aust. currency incomes of all exporters – this would be deflationary. It would affect those mfrs whose goods compete with imports & the local margins of profit would be narrowed & they would be less anxious to expand their business. It would operate in the direction of

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causing unemployment but it would have to go a long way before net unemployment was caused. You would have loss of income in some of weaker export industries. It would operate against the inflation.

Some effects would be apparent immediately. Imports would be cheaper – raw wool would be cheaper immediately.

Home consumption price goods would not be so affected. The mfr would benefit from cheaper raw materials and plant. We have no evidence of slackening in the flow of imports – you might expect a greater flow from W European. London funds would remain the same next day – altho' C/w Bank balance sheet would show a paper loss. If imports flow in more readily then our London funds would run down. They would also fall quickly as a result of withdrawal of temporary money.

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It is hard to assess how much of this in temporary money. If every exporter advanced his payments a month & every importer delayed his payments a month – there would be a change of £100 m.

We put the figure at £150 – £200 m. We would not be too greatly worried about this. We have about £600 m. short term money in London, some gold, some long term money. Appreciation would represent a book loss in our Austn. a/cs. We have made profits from depreciation and they are in a reserve. ~~They are~~ We ask the govt. to meet the loss for the difference. This would have to be Treasury bills probably but it would not have inflationary effect. It would have to come into a loan budget. The bank otherwise would have no resources to meet this. The amount would be about £150 m. Reserves are something of the order of £10 m.

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Could damping down the development program help the position. In my belief the real needs of Australia are for these ~~govt~~ devt works which are govt. or semi govt. – even more important than secondary industry other than basic industries. ~~Broadly~~ To some extent the rise of prices is catching up with the rises which have taken place earlier.

If the trend continues our industries will feel the ~~draft~~ draught in about a year's time.

Both the issue of treasury bills & rise in basic wage are inflationary. Generally by issuing treasury bills you are adding to the spending. So with a rise in wages unless a rise in the output of goods accompanies it. The situation calls for action on a variety of fronts – both increase of supply and reduction of demand. Better result from diversity of measures. Appreciation is a political question. We have some leeway before you get into a deflationary spin

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but inevitably you take them in series & you should stop where there is a mild ~~appreciation~~ inflation. I would think that a full appreciation would be unwise.

What about an excise on wool and base metals of about 20%. I think that this would be very helpful as an anti-inflationary measure. It wouldn't have any effect on the flow of imported⁸ goods.

Copland Considerable agreement with Coombs. The inflationary pressure comes continuously from investment. This will last for a long time. W/o dev in Sept. & present rise in wool this would have been the only problem.

There is a new pressure in the last fortnight & it has to be tackled & I will address myself to this. It is not a matter of a particular soln but of tackling a number of points in the economy.

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Wool & Metals – Appreciation would tackle this. But it would be no solution unless you brought the Aust. £1 to a premium with sterling. But the effect of that on the Aust. economy would be disastrous.

An export tax would be necessary but it must be substantial.

I would suggest a substantial export tax on wool and metals – part of proceeds for stabilisation of industry, part say 2/3 for the benefit of the industry, later on 1/3.⁹

The obvious advantage is that you strike at these high unearned profits. An export ~~price~~ tax on wool would limit the rise in the price of meat and you could subsidise the price of woollen clothing locally. Why not an excise on the total clip? This would cause a rise in the price of wool clothes here which you would have to subsidise.

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Limitation of Investment

The only way is to limit the number of capital & private projects. This means better working of National Works Council, Capital Issues & perhaps some control of basic materials. That does mean return to control but it can't be avoided.

If you do these two things there is no reason why you should not introduce C/w Price control if you can get an agreement with the Unions for a stay on¹⁰ wages – at any rate except for adjustment of cost of living.

⁸ 'imported' is inserted above the line.

⁹ 'of industry' is inserted between 'stabilisation' and part; 'say 2/3' is written above 'part for'; 'later on' is written above 'industry'.

¹⁰ 'for a stay' is inserted above the line.

You can persuade people to save more – special savings certificate premium on interest if you leave it there for 12 mths or some other period.

Apart from those things there is only the dollar loan & productivity.

Appreciation to parity (a) is not enough

(b) has such repercussions that it would not be worth the little gain.

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~~The nature~~ The inflation up till June was disturbing but not serious & little greater than in the previous 3 years. But you must be disturbed about the wool price. That will bring all incomes & all costs up.

Have you assumed a balanced budget.

I would like to see a budget which conceals a surplus by charging capital items to revenue.

If it became necessary to resort to Treasury bills, these remedies must be applied to a greater extent, it would be a new inflationary force. You can keep prices of X, Y & Z down by subsidies but this draws down the budget.

If revaluation is to be contemplated as a policy now is the time to do it. The important thing is the relation to the dollar. I can't see why we should make our currency dearer in relation to the dollar. – Appreciation reduces

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our capacity to earn dollars. Appreciation would only mean that goods in US would cost less in terms of Aust. currency. Would ~~the desire~~ you think that excess profits tax and increase in taxation was desirable. I would agree with excess profits, and extra taxation would have to be from the lower income.

Why do you prefer the repayable scheme to the straight out excise? It would be fairer to the wool industry & there may be difficulties five years hence in the wool industry. If you take away surplus income from a group in good times you impart stability to the economy – likewise if you pay it back in bad times.

I had in mind a tax which would be stepped up & down.

Dr Wilson: I agree with Coombs on the analysis and largely with Coplands ideas on what to do about it.

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We have had a fairly steady rise retailly [?] at about 10%. There is some bunching & some effect of floods. This is about double what we would have thought reasonable a little while ago. There have been rises in the last couple of months. Wool & metals are due to war causes & are not reflected over the whole export field.

Price rises may become worse on these goods or they may fade [but? – unable to transcribe].

Hence you should have flexible action. In the case of appreciation you want to be sure of your ground and you have to live with it. You don't know where you are going in the next 3 months.

Copland's proposal would not help the budget as he says. Insofar as dollar imports are concerned prices are a minor matter because we license up to a figure & that is fixed.

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Even if you got dollar goods cheaper the supply factor will dominate not price. On soft currency side we had expected a rise of £130 m. to £140 m. without any action. This may be falsified but I do not think that change in the relative prices of imports would alter the position greatly.

Reduction of capital projects.

This was the critical thing that we have to look at. Coombs is probably right when he says we need more power water projects, etc. But this means less on the private side. But you are not a war-time government and therefore you have no controls. All you can do is to exhort the private investor and make it more expensive for them. This govt. ought to get more backing from private enterprise on this matter. I wonder whether you could not make a bigger effort

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to induce business men to call off investment. Holt has his Immigration Council. Development is a stage further on & should you not try to mobilise the opinions of those who are maturing capital projects – and also the trade unions.

Copland is a bit bold on prices and wages. A lot of inflationary pressure is showing itself in the extra wage bill – not wage rates. It partly derives from arbitration system & partly from supply & demand. But in the system it is the conciliation commissioners. The Court is worried about having to deal with the basic wage apart from margins.

~~The other things~~ Interest rates certificates – with increasing rate is standard practice in US.

If you are going to have partial appreciation you must reject the excise proposition. 10% ~~is~~ is playing with the problem.

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The rise in interest rates is a necessary concomitant of a restrictive credit policy which would make borrowing more difficult. ~~This would start~~ The trouble is you stop it at one point and it pops up somewhere else. Insofar as you can operate a restrictive credit policy it would not touch the wool & metals problems to any degree. ————— Lunch —————

Agendum 171

Discussion proceeded on the proposal to have an excise or an export tax on wool and metals. It was pointed out that an excise would operate immediately & would enable a subsidy to be paid ~~to~~ on meat and locally used wool.

Casey – Shouldn't we put ~~the~~ duty on everything that has risen more than a certain amt.

McEwen ~~---~~ agrees with principle of skimming off a certain amount but does not agree with expropriation.

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~~But~~ Anthony – We must subsidise the cost of clothing & perhaps meat & this must come out of such a fund as this. Although there has not been an excise on primary products ~~on this~~ before we have prevented the farmer from taking high prices before.

~~Page~~ McBride – We have a 7½% levy on wool for stabilisation. The main objection to the scheme is that it is a govt. scheme. Some people will be hostile to an excise on wool – they will be those who produce only a few bales. Even if 20% or 25% is taken off they are still getting an increase on last year. You might be able to skim the whole lot off if you agree to return some of it later on when the price falls below X.

You could get away generally with a 20% or 25% excise tax. But you should do other things as well or else it will be harder to sell. – e.g. production, the industrial position, prices.

Casey. We are discussing this ~~on~~ separately only because it is in the budget. I would like to see higher sales tax on luxuries.

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I would also like to see some form of Economic Planning Staff.

Page: Could we not use some of the money to cut the costs.

McEwen. Suppose we take the average price of last year. You can relate this years sale to the similar parcel of last year, just as is being done with J.O. If on last years table my average is 72, at

auction it makes 100. Thus you get the difference. There are violent fluctuations between sales and such a system as I propose¹¹ is fairer than a flat rate excise.

Spicer – Aren't you comparing last years gamble with ~~last~~ this¹² years.

Holt – Neutralise the whole of it – treat ½ of it as a contribution to national defence, treat the other half as ~~an~~ a contribution to the industry.

McEwen – I would not oppose that. I would like to improve the scheme – McBride & I could do that in an hour, accepting the Cabinets objective.

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~~Holt~~. McBride. I agree that McEwen's scheme is more acceptable. The other proposal is simpler. We must get some revenue out of this.

P.M. ~~On any given type you determine~~ The average price of wool being 60d. You take a particular lot of wool – that wool last year would have brought 75d. This year it brings 120d.

You take the 45d. – ½ to budget, ½ to stabilisation scheme. Altho' I am in favour of some subsidy don't ~~less~~ let us hypothecate the budget half to subsidy.

McBride. I would have thought the experts were making the worst of both worlds by taking things piece-meal.

McEwen & McBride to consider the practicability of the proposal about wool and metals set out above and report after dinner.¹³ If there is any doubt about this we come back hard on the 25% flat excise.

Casey. I think we are running away from the main issue appreciation.

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Cabinet turned to "Benefits payable under the C/w Superannuation scheme and the Defence Forces Retirement Benefits Scheme".

Agreed to.

War Service Homes – Agendum No. 171

Can be kept at £20m by refusing to finance soldiers who wish to buy homes already erected. The Banks have been tightening up on co-operative housing. It will not be popular because returned men will have to pay more for their homes. It was suggested that a reduction in expenditure could be

¹¹ 'as I propose' is inserted above the line.

¹² 'this' is written above '~~last~~'.

¹³ 'and report after dinner' is inserted after 'above'.

achieved in some other way. It was decided to limit the estimate to the preliminary figure of 20,100 £20,000,000.

Both sections to be maintained.

Casey. I don't think this decision is workable. –

Cabinet returned to submission on
Revision of Post Office Tariffs –

Agreed to: Left to Treasurer & P.M.G.

Expenditure ~~on~~ side of budget agreed to.

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Revenue estimates –

Note reduction of 17.7 to provide for taxation reduction – to provide for simplification & reduction in rates. –

The Treasurer referred to the accompanying document entitled Income Tax & Social Services Contribution & read pages 2, 3, 4, 5 paras 3–22.

The P.M. raised the question whether there was not some merit psychologically in retaining the social services contribution separate from income tax.

Page – There is a counter to that – a good many people say we are paying social service tax – what are we getting out of it.

A. Agreed to merge the income tax and social services contribution into one levy.

B. Replacement of rebates by concessional deductions agreed to.

C. Present income tax rates increase by steps – agreed.

D. Overall reduction of rates –

Attention was drawn to the fact that a reduction of rates was anomalous in the present situation.

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Spooner. We are creating too much excitement at present. A little dash of common sense by way of tax reduction would be helpful.

McLeay. We will be looking for money next year so I agree with the first part of the proposal – i.e. A & B – which is worth £16.5m. but that is as far as we should go. – You can have E & F too if you like.

Page. If you cut the rates in fact you will get just as good receipts. That is what happened in 1920's.

P.M. I talk to the Premiers. They want £140 m. on loan. They want reimbursement grants, etc. I say you must pull in your horns. – and then a little later I say we are making tax concessions. You can justify the first but you can't justify deductions in rates.

Treasurer – We are rectifying the injustice to the middle class.

Spooner. We should do something to reduce taxation each year if that is at all possible.

Treasurer. If we get what we expect from the wool excise we will not need Treasury bills.

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White: You are not giving anything away. Wages are going up and the returns will be greater than assessed.

Item D. Approved.

Item E. The Treasurer read the appropriate section of the large document. Approved.

Item F. It was suggested that this be set off against an increase of tax on luxury items – Leave that to P.M. & Treasurer.

Sales tax to produce £ x million.

Glen Davis. Left for Mr Casey and Jensen to confer?

Cattle Tick Eradication – Commonwealth Grant – Anthony & Page to consult – otherwise agreed.

Milk – National Health Service –

Probably £150,000 would cover the whole field. We should say they should get voluntary help but they need refrigerators.

States to contribute £1 for £1 for equipment.

Resume at 8 o'clock

McEwen read the paper on wool prepared by himself & McBride (& Crawford).

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McEwen: If we tax 20 or 25% & of that we will hypothecate capital for a reserve price plan those who are now opposing will resist more vigorously. It would be better to tax $12\frac{1}{2} + 7\frac{1}{2}$ or $20 + 7\frac{1}{2}$ and keep the two things separate. The simple method is much more explainable. It is what you would have had with revaluation. I am troubled with $20\% + 7\frac{1}{2}\%$ – that seems a bit steep.

Holt. It is simpler to make a straight out excise and not mix it up with stabilisation. What % of excise is necessary to effect that result? In order to bring wool grower back to last year's figure you need 30% excise.

~~I suggest therefore~~

Anthony. The first bite must be the biggest. You can come down but you can't go up. I think 25% is not unreasonable & I believe there would be a complete acceptance of it by many. Of course the small growers will not like it. We may have to come back from 25%. It should not be linked with

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a stabilisation plan. Let the $7\frac{1}{2}\%$ take care of that. During the war a similar thing happened in bananas. The price commissioner knocked a lot off our prices & it was accepted because it was reasonable.

McBride. I believe that what we are setting out to do was to drain off the ~~excess~~ excess. It is more complicated to take off an excess. But by that method you are only skimming off the excess. This establishes last years figures to [him? skim? – unable to transcribe]. ~~With the~~

Page. Instead of worrying about the $7\frac{1}{2}$ why not take a fixed amount.

McEwen. If you tax 20% plus the $7\frac{1}{2}\%$. That gives £80m. plus £30m. for [him? skim? – unable to transcribe] – but you got $\frac{1}{2}$ of the £30 m. by tax.

Fadden: 25% off the clip
plus $7\frac{1}{2}\%$ for stabilisation.

P.M. Take McBrides scheme.

We might have to think of acquiring the wool clip. We would be better off acquiring it on last years price.

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Holt If we can agree that the fortuitous increase shall be neutralised.

P.M. McBride McEwen Fadden Spicer

McEwen. The wool-growers had their wool acquired at 13d. per lb & it was held at this price for 6 years. They took this during the war when everyone else was having inflation. 25 million sheep died a few years ago. Think of the people who lost sheep in the floods.

P.M. Let us skim it all off – part of it – 7½% to be for a stabilisation scheme.

Leave it to the ctee.

Metals have to be looked at and let Treasurer & P.M. & Ministers who are available here for Premiers conference.

McBride. I hope we will adopt the same principle.

Spooner. I ask for a reconsideration of the pensions matter. It was a wrong decision.

Pensions. A. 7/6

We must see whether we can't make wool decision retrospective. –

Cabinet Monday week 11 am¹⁴

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11 ~~June~~ September 1951

Mr Fadden reported to me that Cabinet had decided that Melville was the Australian govt's nominee for the Int Bank. ✓

? Whether the decision is for Cab. Ctee to consider pay of the forces & report back to Cabinet tomorrow.

A.W.A. wants to know.

Anthony, Spicer, Spooner to look into this matter.

P.M. reported on the Premier's Cfce.

He had a private session giving the international [---] position. We had decided that we would stand on the formula with a reserve part of £5. We didn't shift from that. They carried a resolution increasing the base by £25 m. They later agreed that their manageable deficit was of the order of £8 m. It was a bitter fight. I am embarrassed by the thought of tax reductions.

On borrowing they had £180 m. & we told them what our defence borrowing was.

¹⁴ 'Cabinet Monday week 11 am' inserted in pencil.

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We said we estimated the marker of £150 or £160 m. They scoffed at this. Hanlon sd Colin Clark had advised they cld borrow it all on the market. They approved the whole of the borrowing programme after adding to it – £138m became £147m and so total got to £180 m – plus defence. All approved 75% now & the rest to be raised on request.

We are going to have a very strong request for Treasury bills – on the assumption that they can expend it. Even on our assumptions we will be up for over £100 m. in bills.

They did approach a point of substance – you have carried capital works on revenue but you get it w/o interest or redemption. But we have

~~to put it~~ to pay interest & redemption. And I agreed that we would discuss that at the conference on finance. First of all Treasury officials to examine facts and give single report & later P.M. and Premiers will meet.

The central problem is ~~the~~ responsibility.

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Not one of them wants the power to tax.

There are two advantages – 1. The perfect answer to all agitation. 2. They can engage in an orgy of hatred against the C/w.

I threw out a hint that some form of tax might go back to them – personal income tax was almost exactly the amount of the grants.

In 1945/6 – £34 m. This year £75.3 m.

There will not be any general solution to this matter.

Anthony. Does this not raise the general question of public relations. Are we getting the proper coverage.

P.M. If anybody can name the right man I will appoint him – J.A. Alexander –

Anthony. We are dependent on what the paid officers of the newspapers send out.

McBride – The newspapers are provincial newspapers and you can't alter that much by the Premiers conference reports.

Spooner – Treasury should circulate a brief paper on the facts of C/w State relations

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& this would help us to answer these attacks. There is a body of opinion in our own party which supports the abolition of uniform taxation.

Casey. The main argument that the P.M. could have used was not able to be used by him – the inflationary effect of £100 m. Treasury bills.

Spooner. Why not take [Bardston ? – unable to transcribe] & Carrick

Beale: If we can't swallow Alexander can't we have M. Byrne attached to some-one of real intellectual calibre – [Bardston? – unable to transcribe] rather than Carrick

McEwen– Alexander may be regarded as a Murdoch man.

Casey. The only way is for P.M. to see editors once a month.

McBride. What we do is more important than what we say. – we need a good budget.

P.M. One of the partys real worry's is the Health Scheme. It can be a vote loser. We need a full length discussion on it.

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P.M. (contd.) I propose to introduce the red-bill early – and give it a 2 days guillotine in the Reps. & get it into the Senate immediately. They will have to decide on whether or not they throw out the budget. There is a proposal to call a production conference. I think that such a conference should follow a decision on our economic policy not precede it.

Spooner. Will I arrange for Carrick to circulate copy of Heylen's [?] letter to all ministers –
Yes.

Adjourn to 2.30.

Agreed to invite Boyd. Orr [re....? – unable to transcribe] week.

Original telegram to Holt sent to AS. Watt with direction.

Treasurer read submission entitled budget 1950/51.

[“Would appreciate news of suggestion that United Nations personality such as Lord Boyd Orr visit Australia during October as discussed with you in Melbourne. Meredith Herald Office”]¹⁵

Putting the Loan program on one side the revenue position would be:

¹⁵ an arrow points from the bracketed text to the sentence two lines above beginning 'Original' indicating its correct position'.

Deficit	–	£15.5	
		<u>+ 7.0</u>	
		22.5	
		<u>– 8.-</u>	
		14.5	subject to Wool Tax

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Mr Fadden. There is an absolute justification for the £10 m. tax reduction but a lesser justification for the £7 m.

Holt – I hope we will stick to the taxation reductions.

Casey: I think that we should not reduce taxes at all – neither the £10 m. or the £7 m.

.....

Cabinet agreed to alter the previous decision to reduce rates of taxation and rescinded its previous decision relating to para D. of the first document entitled Budget 1950/51. – Agendum No. 174 and decided not to reduce the rates.

Wool. Mr McEwen reported that Carson thought that the staff was very considerably weakened since the war and did not think that wool could be “typed” with sufficient accuracy. Alternatively he thought you could ~~tax~~ say this series of sales is up¹⁶ on a certain percentage ~~of ea~~ on the corresponding sales last year & base your tax on this.

An export tax may have the effect of establishing a ~~who~~ home consumption price.

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The Treasurer read the document entitled

Proposed Levy on Wool & Metals
& also Appreciation of £A. – effect on wool growers incomes.

P.M. If half-way appreciations – loss : £43.5 m.
20% skimming off in addition – abt. £78 m.
Net return to wool grower wld be over £300 m.
as compared with £286 m. last year.

~~If you had~~

Beale – urges halfway appreciation.

¹⁶ ‘this series of sales is up’ is inserted above the line.

Casey – inflationary pressures are mounting all the time. – 100 m. Treasury bills, defence programme, the rise in wool prices, basic wage increase are all going to aggravate the position considerably. The Americans may well say that you cannot make Australia a strategic base area in such a set of circumstances. Wld like P.M. to allocate 5 senior officers to advise us on these things. – Wilson, Wheeler, Swan, Crawford, Jackson. We shd have full appreciation, central bank control, capital issue control, control of basic materials.

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Anthony – Let the US look at their own inflation as well as our own. We have a dynamic proposal now about wool worth about £100 m. This does not involve us in the subsidy problems for other industries that appreciation does. The wool tax will help our budget. I agree that it brings the ~~wool~~ inflationary¹⁷ problem back to where it was before the wool prices increased. Sugar just gets by with the exchange rate where it is, so do canned fruits. You would have to subsidise them. But if you are going to appreciate go the whole way, don't only go half way.

The other things that we could do would be to slow down development – e.g. the Snowy scheme and so on. We must place a curb on investment.

McBride – We have to get clear on just how our economy compares with other countries. Shows graph with graph 1936/37, 37/38,¹⁸ 1938/9 as base. We are at 168, USA 164, Canada 162, N.Z. 145, UK 80. This is C/w Bank index.

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How we tackle this we must still consider. If appreciation is not the only thing that is done it might be considered. It would be more acceptable now than 3 months earlier. We discussed a skinning off proposal for wool¹⁹ last time. My own feeling is that our wool proposal will meet with united opposition from the wool industry. They say distributing firms – eg. motors – are making fantastic profits. We could get wide support for an excise on wool to subsidise a low home consumption price – say 30d round about the cost of production. This would need 5% to 7½%. This has been accepted for butter & meat. This would be in addition to our present 7½%. This makes 15% – add that to the 50% that goes in taxation & you are taking quite a lot. This is not an alternative to appreciation. We will have to introduce certain forms of control – capital issues – the Premiers must play better on price control, eg. on wool –

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There will need to be control over materials – we need great increase in manpower – our equipment is in bad shape. What we need is a good full blooded plan. My own feeling would be not to go the whole way with appreciation. The position is so bad that we must do something. We will not get

¹⁷ 'inflationary' is written above ~~wool~~.

¹⁸ '1936/37, 37/38' is inserted above the line.

¹⁹ 'for wool' is inserted above the line.

away with the wool scheme. We could sell my alternative proposal. The people are waiting for some spirited action & if we don't take it things will go against us politically.

P.M. Partial revaluation, excess profits tax, excise on wool to give low consumption price, increase sales tax, capital issues control, and materials control really make up your programme do they not. – I think it is realistic. The public will respond better to vigour than to inertia.

Holt: Price control may imply wage control. We would assume that wage pegging is necessary. We can't peg wages before the basic wage decision. The cost of living

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adjustments were added in even during the war. Marginal adjustments have been held up now for months because of the wage decision. It would take 6–9 mths for this to be worked out. Monk ~~is~~ thinks 12 months.

McEwen: We must reach a conclusion.

What is the measure of the problem & what are its causes. We are not uninfluenced by the press campaign which has been in one direction – and they have really directed this for cheaper newsprint. 1936/9 is not a fair measuring stick for Australia. Those years were the bottom of the chasm for us.

Our costs come from – a 40 hr. week, our defence program, our devel. p., our migration program, abolition of controls, conciliation c/crs, social services, high prices of imports. ~~The cost of~~ Inflation ~~is~~ is the price of not dealing with these things. The people have to be told that part of the price of these things

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is inflation. You can't dispose of these factors by appreciating the pound or by dealing with wool. We have a real Cabinet problem to be resolved & I am prepared to move. It is also a political problem of first magnitude. What would the party say if we do it? It is also an election problem. Appreciation.²⁰ Done alone, I am sure we wld lose an election on that – we wld lose country seats. Do this bold wool scheme & I think that many wool growers would vote against us. We might even²¹ lose an election on this one.

Holt: I agree that we cannot take years 1936/9 as the base for comparison but over the last 6 mths have alarmed us and the more recent developments – wool prices, defence have aggravated this. We must inform public opinion on the points he mentioned. If we have a balanced programme we would have a good chance of getting away with it with everybody.

²⁰ 'Appreciation' is inserted above the line.

²¹ 'even' is inserted above the line.

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The wool grower, the manufacturer etc. are also concerned with costs & they would all support a balanced programme.

Even if we adopt all the measures proposed they will not be too much.

½ way revaluation, some wool & metals²² levy, say 25%, sales tax, excess profits tax.

I think we should see what happens to these before we get into price & materials controls or capital issues.

Spooner: I have never regarded the wool scheme as an alternative to appreciation. I was going to suggest that we should apply the proceeds of the wool scheme to subsidies on coal, steel, etc. We may have an election on the budget. The wool scheme requires legislation. I am in favour of a mid-way approach to appreciation, plus the wool scheme, plus some controls.

White – Most of us agree with a comprehensive plan. Depreciation was a depression measure.

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Casey – The real inflation will be in the next six months. I don't think that we are proposing to do enough – basic wage increase, loan program, war gratuity, defence program. I think we must go to full appreciation.

You should have super-tax on individuals as well as companies. On wool we²³ would take the 7½% now in the act and a little bit more. Don't forget the drying up of essential imports. ~~Int.~~ Harvester has had a 25% cut in allocation of steel already and a forecast that it will go up to 40%.

Fadden – I am not convinced that appreciation will have all the merits that are claimed. It doesn't ~~effect~~ help wheat, meat, sugar, dairy products. We will have to give them a home consumption price. Clothing, footwear is main item & that is cheap. How will appreciation affect rents. The dearer imports are the more cash you will use up in buying them.

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Wages will not be brought down as a result of appreciation. I am sure that one man only in the party would support it, and I doubt whether you can get it through your party. We can't stay in the Cabinet & stay in the Country party if we agree to appreciation.

The representation in Q'land will be reversed.

²² '& metals' is inserted above the line.

²³ 'we' is inserted above the line.

O'Sullivan – I am not sure that the British mfr will give us the benefit of the appreciation. I support a very substantial levy on the wool. What impact would the appreciation have on the cost of living.

Spicer McBrides table shows it did have some effect in N. Zealand.

Adjourn to 10 am.

Persons mentioned

Surname	Given names	Position
Alexander	Joseph Aloysius	Editor, Who's Who in Australia
Anthony	Hubert Lawrence	Postmaster-General
Bardston?		
Beale	Oliver Howard	Minister for Supply
Blamey	Thomas Albert	
Boyd Orr		UN?
Brown	Allen Stanley	Secretary, Prime Minister's Department
Byrne	MW	Government Public Relations Officer
Carrick	John Leslie	General Secretary, Liberal Party of Australia
Carson	Norman John	Chairman, Wool Realization Commission
Casey	Richard Gardiner	Minister for Works and Housing <i>and</i> Minister for National Development
Chifley	John Benedict	Leader of the Opposition
Clark	Colin Grant	Financial Adviser to the Queensland Treasury
Coombs	Herbert Cole	Governor, Commonwealth Bank Board
Copland	Douglas Berry	Vice-Chancellor, Australian National University
Crawford	John Grenfell	Secretary, Department of Commerce and Agriculture
Fadden	Arthur William	Treasurer
Hanlon	Edward Michael	Premier of Queensland
Heylen?		
Holt	Harold Edward	Minister for Labour and National Service <i>and</i> Minister for Immigration
Jackson	?Harold Bruce	Deputy Federal Commissioner for Taxation
Jensen	?John Klunder	Secretary, Department of Supply and Development 1948–1949
Lyons	Enid	Vice-President, Federal Executive Council
McBride	Philip Arthur Martin	Minister for the Interior
McEwen	John	Minister for Commerce and Agriculture
McLeay	George	Minister for Shipping and Fuel <i>and</i> Minister for Transport
Melville	Leslie Galfreid	Member, Commonwealth Bank Board
Menzies	Robert Gordon	Prime Minister
Monk	Albert Ernest	President, ACTU
Murdoch	Keith Arthur	
Nette	Percy William	First Assistant Secretary, Department of the Treasury
O'Sullivan	Neil	Minister for Trade and Customs
Page	Earle Christmas Grafton	Minister for Health

Spicer	John Armstrong	Attorney-General
Spooner	William Henry	Minister for Social Services
Swan	Trevor Winchester	Professor Economics, National University Research School of Social Sciences
Watt	Alan Stewart	Secretary, Department of External Affairs
Wheeler	Frederick Henry	First Assistant Secretary, Department of the Treasury
White	Thomas Walter	Minister for Air <i>and</i> Minister for Civil Aviation
Wilson	Roland	Secretary, Department of the Treasury
Wood	?GB ?AC ?GL ?IAC	WA Member of the Agriculture Council Director of Trade Publicity Department of Commerce and Agriculture Member, Commonwealth Grants Commission Senator

Abbreviations and symbols

---	crossed out text is unintelligible
a/cs	accounts
abt	about
altho'	although
amt	amount
Aust/n	Australia/n
AWA	Amalgamated Wireless of Australasia
C/w	Commonwealth
Cab Ctee	Cabinet Committee
Can	Canada
cfce	conference
cld	could
Concil C/ers or c/crs	Conciliation Commissioners
ctee	committee
d (as in 60d)	pence (60 pence)
dev or devpt	development
do	ditto
GATT	General Agreement on Tariffs and Trade
govt or gov	government
H/C	High Court?
Int	International
Int Bank	International Bank
JO	Joint Organisation
lb	pound
m	million
mfr/mfrs	manufacturer/s
mths	months
Nat Security Act or Nat Sec Act	National Security Act
Nov	November
NZ or N Zealand	New Zealand
PM	Prime Minister
PMG	Post Master General
pr week	per week
pw	per week
Q'land	Queensland
Reps	House of Representatives
sd	said

Sept	September
sevl	several
soln	solution
UK	United Kingdom
US or USA	United States
w/o	without
WA	Western Australia
wk	week
wld	would