

## **Sir Robert Menzies on Economic Policy**

### **Principles of economic policy**

“Our broad policy, of course, was to ensure economic stability at home, not only for its domestic advantages but also because we knew that for the rapid development of our enormous resources, particularly mineral, which were being disclosed, we would need investment and expertise from overseas to supplement our own resources. I believed, and I still believe, that a national which has any great need of developmental capital from abroad can attract it only if it exhibits to the world an integrity in which the world believes, a responsible attitude towards its obligations, a stable economic base, and political steadiness.” R. G Menzies ‘Stability Capital and Development’ *Measure of the Years* (1970) 101.

### **Dealing with Inflation**

We inherited in 1949 a position to which prices were rising too rapidly and inflation was making its unhappy mark. We decided that we would get this under control as soon as possible. But the gods willed otherwise. In 1950 the Korean War was on, and the great wool boom got under way... Comparatively small men who had been accustomed to an income of three or four thousand pounds suddenly found themselves in possession of an income of twenty thousand pounds. With the bigger growers the results were in proportion. It was not surprising that many of the ‘newly rich’ should forget about their taxation problems and began to spend their money with a light heart; new and expensive motor cars, trips abroad and the like.

Now, no country like Australia can suddenly add hundreds of millions to its export income without experiencing the results in terms of high and rising domestic prices and grave inflation of the currency. So far from our controlling inflation, inflation was getting out of hand. It was clear that we must take stringent action. We therefore produced our famous (or, as some people thought, infamous) Budget of 1952. Its two main features were, first, that we budgeted for a large surplus, which involved steely increasing taxation, and second, that we took twenty-five per cent of the wool cheque and put it into a reserve to be made available to the wool-growers at a subsequent time. This was the most unpopular Budget in modern political history, though I have never doubted that it was dead right. The wool-growers showed their resentment at the next election by voting out several of the wool-growing members among our supporters, while the Gallup polls in 1953 showed the Government stocks at the lowest point in recorded history. But the Government stood firm and so did the Government members of Parliament.

I can recall making frequent exhortations in the party room to the effect that the medicine was undoubtedly harsh, but that as it began to show its effectiveness the people would come back to us. And so they did; but only just in time to enable us to win the 1954 election with a reduced majority. The best proof of the soundness of our policies was that, from that episode on, there has been in Australia, for the most part, a remarkable stability in the price level and in economic conditions generally, without which I doubt whether we would have proved such a source of attraction for business investors around the world.” R. G Menzies ‘Stability Capital and Development’ *Measure of the Years* (1970) 100-101.

### **Foreign investment**

“As it will be clear that I regard the confidence in Australia displayed by overseas investors as a very great factor in our rapid economic growth, I think I should try to offer a few reasons for this confidence.

First of all, as I have previously indicated, the overseas investor was convinced, and with good reason, that the potentialities of the Australian continent were and are very great. But this alone would not have been sufficient if the nature and actions of the Australian Government had not been such as to give confidence to the investor. There are, of course, some speculators who will put their money into a country which has marked inflationary trends, on the prospect of a quick profit; but these were by no means either in the majority or a very considerable factor. Most overseas investors wanted to see stability in the Australian economy and in its political management, because they did not want to put their treasure into a leaky vessel. It must be remembered that the investment of risk or venture capital in any country is not usually designed to produce a quick profit and a quick exit but looks to the long-range prospects of both growth and profit. It therefore desires a stable domestic base and a feeling of security for the future, a future which may in a few cases be fairly immediate but in most cases will possess an essentially long-term character.

We wanted to encourage investment from overseas. We were conscious that it might give rise some day to problems which we thought could be dealt with; but we saw very clearly that if our economic growth was to be as dramatic as we thought it could be, having regard to our resources, and must be, having regard to our future, we could not rely simply upon locally generated capital for the purpose.” R. G Menzies ‘Stability Capital and Development’ *Measure of the Years* (1970) 104-105.

“True, we would like to see increasing Australian participation in the management of such [foreign] enterprises, a participation which is steadily expanding, and some equity shareholding by Australians. But I for one was never able to see how cast-iron rules could be devised to compel these things without reducing, or running a grave risk of reducing, the flow of investment. There is a world-wide demand for capital, but the world supply is by no means inexhaustible. And investment in any particular country is not compulsory.

Our view was that a general exhortation might usefully be delivered to the overseas investor on these matters, but that strict and artificial conditions might well defeat their purpose by driving investors away from us.

Bearing in mind that one of the major consequences of this overseas investment in Australia, particularly in the mineral field, has been to add substantially to our national export income and to a material extent save imports, I think it could not be well denied that the net national benefit to Australia of such overseas investment has been enormous. I doubt very much whether we could have maintained and expanded our immigration programme, giving us a great increase in population, productivity and employment, which has been so important a factor in our advancement, had it not been for investment coming into us from other countries.” R. G Menzies ‘Stability Capital and Development’ *Measure of the Years* (1970) 107-108