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This publication is available for your use under a Creative Commons Attribution 3.0 Australia licence, with the exception of the Commonwealth Coat of Arms, the Treasury logo, photographs, images, signatures, all charts – Article 2- Persuasion is now 30 per cent of US GDP: Table 1: McCloskey and Klamer’s Persuasion Estimate, Table 2: Persuasion jumps to approximately 29 per cent of employment by 2003, Table 3: By 2009 persuasion workers have settled at approximately 30 per cent, Chart 1: Persuasion cohorts and their growth profile over the last 26 years.

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Persuasion is now 30 per cent of US GDP

Revisiting McCloskey and Klammer after a quarter of a century

Gerry Antioch¹

Persuasion is the common thread in almost all voluntary transactions. Sellers persuade buyers, politicians persuade voters and lobbyists persuade politicians. And non-government organisations are increasingly persuasive in policy deliberations. With persuasion's footprint in the modern economy substantial and growing, this paper briefly scans the recent literature and suggests the McCloskey-Klammer estimate of the persuasion content of GDP could now be higher.

1 General Manager, Tax System Division. I thank Rob Heferen for helpful comments and Alex O'Keeffe for capable assistance. The views in this article are those of the author and not necessarily those of the Australian Treasury.

The discovery is not true

If true, it is not new

If both new and true, it is not significant.

— Robert King Merton (1967) *On Theoretical Sociology, Five Essays, Old and New* Chapter I (p. 21), The Free Press

Over fifteen years ago Deidre McCloskey and Arjo Klamer (1995) gave us a striking guesstimate that the persuasion content of United States economic activity could be as high as one quarter. They made explicit what was known implicitly: that persuasion is important for economic transactions and relationships. Such 'sweet talk' conveys more than mere information, instructions for compliance with regulations or prescriptive orders. Considering rapid technological advances, including social media, it is reasonable to ask whether the McCloskey-Klamer guesstimate is still hard currency. An allied interest is how the persuasion literature has developed.

A brief scan of the persuasion literature

It might be a stretch to talk of a persuasion literature since it does not have a recognisable domain or a distinct methodology. A range of recent papers seeks to influence our understanding of the economic dimension of persuasion.

Skaperdas and Vaidya (2009) notice that much social and economic activity concerns attempts to persuade in an adversarial fashion particularly in political campaigning, advertising,² litigation and lobbying. Consequent escalation of resources employed (that is more consultants, lawyers, economists) does not necessarily improve adversaries' likelihood of successful persuading. For example, lobbying campaigns with differing levels of expenditure can have similar probabilities of success.

Less obvious but perhaps no less significant are policy debates and lobbying within and among countries, among think tanks and world institutions.³ The United Nations, the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD) are institutional persuaders and are themselves the object of strong persuasion. Giles (2011) writes that the IMF's failure to spot the UK's vulnerability to financial crises owed much to its constant sparring with Gordon Brown's Treasury over the UK's public finances and that fund staff 'were influenced by the authorities' own analysis and strong reputation'. Giles goes on to report that contemporary briefings from unidentified IMF and OECD officials indicate that the UK was among the most adept countries at modifying reports from international organisations.

Using a behavioural model, Mullainathan and Shleifer (2005) investigate whether persuasion is mainly about providing information or tailoring a message to an audience's pre-existing beliefs. By

2 The Nielsen organisation puts 2011 global advertising spending at \$US 498 billion (see <http://www.nielsen.com/us/en/newswire/2012/2011-closed-with-7-3-percent-increase-in-global-advertising-spend.html>).

3 Taxation reform and climate change policy entail large 'persuasion contests' involving sophisticated scientific, social and economic talk.

investigating financial advertisements in *Business Week* during the dotcom bubble they conclude that persuasion by financial firms was geared towards telling people what they wanted to hear. Specifically, 'advertisers tapped into the growth system of beliefs when stock prices were rising, and into the protection system when prices were falling'. Consequently, they question whether financial advisers stabilise asset price bubbles and whether by playing to prevailing investor pre-dispositions⁴ they end up encouraging speculation.

Milgrom (2008) reviews a class of problems where the seller of goods or services has an incentive to selectively disclose information to the buyer. In such 'persuasion games' one or more sellers provide verifiable information to persuade potential buyers. His analysis indicates sophisticated buyers are consistently sceptical. When a key piece of information is missing, those buyers interpret its absence as intent to dupe and therefore reduce their purchases accordingly.⁵ Regulation that especially punishes sellers for withholding material information can help to limit nondisclosure or at least moderate selective disclosure. Such regulation works when buyers are rank novices in comparing product characteristics and are not too heterogeneous. But regulation tends to be less effective when buyers demand diverse product information, thus making mandatory disclosure too costly and unworkable.

Murphy and Shleifer (2004) develop a model of social networks. Examples include discourse within political parties, social action groups, trade unions, religious coalitions, talk-back radio, and social media. The key idea is that people are more readily persuaded from within their network and are less likely to be persuaded by those outside their network. The resulting 'group think' crowds out contrary analysis, particularly if offered initially by those deemed as outsiders. In this context the 'outsiders' can even be senior people within an organisation.

Debates within organisations, including not-for-profit entities, surface only when intensity and rivalry become severe. In reviewing the IMF's reluctance to recognise mounting systemic risk that led to the Global Financial Crisis, in spite of public warnings from its chief economist Raghuram Rajan, the IMF's Independent Evaluation Office reports:

The evaluation team was given several alternative explanations for the lack of traction of Rajan's views. The most common explanation was that his concerns were considered as only having a low probability, mainly because most staff saw financial markets as inherently stable. Some thought that 'turf' played an important role, that is, others in the IMF objected to Rajan taking a lead on financial sector issues. In any case, the fact that concerns repeatedly raised by the IMF Economic Counsellor failed to influence the IMF work program and the flagship documents indicated a lack of clarity on whose responsibility it was to follow up on these issues (IMF (2011) p. 10).

Reliance on inherently stable financial markets suggests confirmation bias among IMF staff and the allusion to 'turf' indicates social network exclusivity. In a lucid critique of the IMF's performance in this epoch, Wolf (2011) observes this 'queen of international economic organizations' has 'only the

4 These pre-dispositions are 'confirmation biases' of different kinds where the receiver selectively registers information consistent with their own beliefs. But here the seller is exploiting these cognitive biases to present information likely to find favour with the buyer of the financial product.

5 In the Great Recession and the rolling Eurozone crises as share prices continued their downward drift, investors ignored 'buy advice' from brokers even though share price multiples to earnings were highly favourable. Whereas other advice to 'sit on cash' was eagerly received and acted upon.

powers of analysis, persuasion, and ruthless truth-telling' and encourages it to use these powers often and consistently.

Sunstein's (2009) highly engaging book probes the realm of polarisation and extremism which reduces diversity within a group and accentuates rifts among groups. His study of different social phenomena leads to the unifying theme: '(w)hen people find themselves in groups of like-minded types, they are especially likely to move to extremes' (p. 2). Furthermore, '(w)e see this happen in politics; it happens in families, businesses, churches and synagogues, and student organizations as well' (p. 8).

Evidently, policy development and implementation is vulnerable to network-based 'persuasion cascades'. Banks' (2009) reflection advances the case for more and better evidence-based policy making and transparency in policy analysis. 'Given unavoidable need for judgement in evaluation, evidence is more likely to be robust and seen to be so if it is not subjected to influence or barrow-pushing by those involved' (p. 17).

There may also be a need to safeguard institutional credibility by exposing policy development and implementation processes to ex post peer reviews preferably by credible external authorities. Developing a viable 'challenge function' within organisations could assist ex ante policy evaluation. A report prepared by Wales and Wales (2012) for a recent Oxford University conference on tax policy-making in developed countries found 'there is a lack of challenge to emerging policy ideas in some, if not most, countries that weakens policy development'.

McCloskey and Klammer (1995) called for economics to acknowledge the role of persuasion but formal modelling does not impress McCloskey (2011):

In explaining the fact of 25 per cent of national income being sweet talk a temptation of the modern economist is to try to model it in the style of Samuelson, as the outcome of still another adventure of the prudent person, Mute Max U. (I say 'Mute' because we are talking about talking here, and Samuelsonian economics does not talk about it.) The modern Samuelsonian economist does so because it is her only model. If something – love or justice or courage – does not fall within a utilitarian maximization subject to a resource constraint, she has nothing to say. But language, I am suggesting, unless reduced to bits of information put through conduits between minds, as it cannot entirely be so reduced, cannot be modelled as Mute Max U (p. 55).

To put it another way, the Mute Max U model fits smoothly with the metaphor of speech as a conduit, which would be good news if human communication were largely a matter of transmitting preformed messages between minds. But Mute Max U does not fit ... with Austrian economics, when properly extended to the persuasive role of the entrepreneur (p. 60).

Updating McCloskey and Klammer

I turn now to this paper's main aim: to update the McCloskey-Klammer estimate of the size of persuasion in market transactions. Table 1 reproduces their calculation.

Table 1: McCloskey and Klammer's Persuasion Estimate

	Weight	1993	1993	1993
		Employment (million)	Persuasion Employment (million)	(million)
Lawyers and judges	1	0.82	0.82	
Public relations specialists	1	0.16	0.16	
Actors and directors	1	0.10	0.10	
Social, recreational and religious workers	1	1.10	1.10	2.16
Counsellors, educational and vocational	0.75	0.22	0.17	
Editors and reporters	0.75	0.27	0.20	
Supervisors - Administrative support, including clerical	0.75	0.78	0.58	
Supervisors - Construction trades	0.75	0.73	0.55	
Supervisors - Protective service	0.75	0.19	0.14	
Supervisors - Mechanics and repairers	0.75	0.22	0.17	
Teachers and Professors	0.75	5.17	3.88	
Sales occupations, excluding cashiers	0.75	11.66	8.75	
Executive, administrative and managerial	0.75	15.38	11.53	25.96
Police and detectives	0.5	0.92	0.46	
Adjusters and investigators	0.5	1.37	0.69	
Teachers' aides	0.5	0.51	0.25	
Authors; Technical writers	0.5	0.20	0.10	
Social scientists and urban planners	0.5	0.40	0.20	
Health assessment and treating occupations	0.5	2.60	1.30	3.00
Natural scientists	0.25	0.53	0.13	
Legal assistants	0.25	0.25	0.06	0.20
Persuasion Workers				31.33
Total US person-years worked		43.57		119.31
Persuasion as per cent of total				26.26%

Source: US Bureau of Census 1994, Statistical Abstract of the United States, Table 637: Employed Civilians by Occupation, Sex, Race and Hispanic Origin.

McCloskey and Klammer claim that the work of lawyers and judges is wholly about persuading others, whereas persuasion by legal assistants might be as low as 25 per cent. Teachers and professors are thought to spend three-quarters of their time in persuading activities whereas teaching aides only persuade 50 per cent. As Table 1 makes explicit, employment groups that are thought to spend three-quarters of their time in persuasion activities pretty much determine the McCloskey-Klammer estimate.

Using the same weights as McCloskey and Klammer, I estimate that by 2003 the proportion of persuasion in the US employment had risen to 29 per cent as shown in Table 2.

Table 2: Persuasion jumps to approximately 29 per cent of employment by 2003

		2003	2003	2003
	Weight	Employment (million)	Persuasion Employment (million)	(million)
Lawyers	1	1.01	1.011	
Public relations specialists	1	0.13	0.128	
Artists; Musicians and singers; Producers and directors	1	2.10	2.102	
Social, recreation, and religious workers	1	1.54	1.544	4.79
Counsellors	0.75	0.64	0.480	
Editors; News analysts, reporters and correspondents	0.75	0.24	0.182	
Supervisors - Office and administrative support occupations	0.75	1.62	1.217	
Supervisors - Buildings and grounds cleaning and maintenance occupations	0.75	0.39	0.292	
Supervisors - Protective service occupations	0.75	0.13	0.095	
Supervisors - Food preparation and serving related occupations	0.75	0.67	0.500	
Supervisors - Personal care and service occupations	0.75	0.29	0.220	
Supervisors - Retail sales workers	0.75	3.39	2.542	
Supervisors - Non-retail sales workers	0.75	1.39	1.041	
Supervisors - Construction and extraction occupations	0.75	0.90	0.673	
Supervisors - Installation, maintenance, and repair occupations	0.75	0.34	0.255	
Supervisors - Production occupations	0.75	0.94	0.704	
Supervisors - Transportation & material-moving operations	0.75	0.22	0.162	
Teachers, excluding Librarians and Teacher assistants	0.75	6.64	4.982	
Sales occupations, excluding First-line supervisors/managers and Cashiers	0.75	8.28	6.210	
Management occupations	0.75	14.47	10.851	30.41
Management analysts; Personal finance advisors	0.5	0.86	0.431	
Detectives and criminal investigators; Police and sheriff's patrol officers	0.5	0.72	0.362	
Claims adjusters, appraisers, examiners and investigators	0.5	0.28	0.142	
Librarians; Teaching assistants	0.5	1.13	0.563	
Writers and authors	0.5	0.19	0.095	
Health practitioner occupations, excluding physicians, surgeons and dentists	0.5	5.64	2.821	4.41
Life, physical, and social science occupations	0.25	1.38	0.344	
Paralegals and legal assistants	0.25	0.50	0.124	
Tax preparers	0.25	0.09	0.023	0.49
Persuasion Workers				40.10
Total US person-years worked		56.12		137.74
Persuasion as per cent of total				29.11%

Source: US Bureau of Census 2004-05, Statistical Abstract of the United States, Table 597: Employed Civilians by Occupation, Sex, Race and Hispanic Origin.

In a decade, persuasion effort in the US grew faster than overall employment. The 2003 census data revamps the employment categories somewhat and expands considerably the range of jobs that have persuasion content. For example, the category, 'Management occupations' did not feature in the earlier data set and I have given it a 75 per cent persuasion content. A category close to my professional interest is the role of 'Tax preparers'; since it shows up in the 2003 census for the first time, I have judged its persuasion content at 25 per cent.⁶ These coverage shifts suggest McCloskey and Klamer's 1993 data is better compared with 1983 data; and 2003 data with 2009 data.

6 I am assuming tax preparers spend the other ¾ of the time advising on how to comply with tax law.

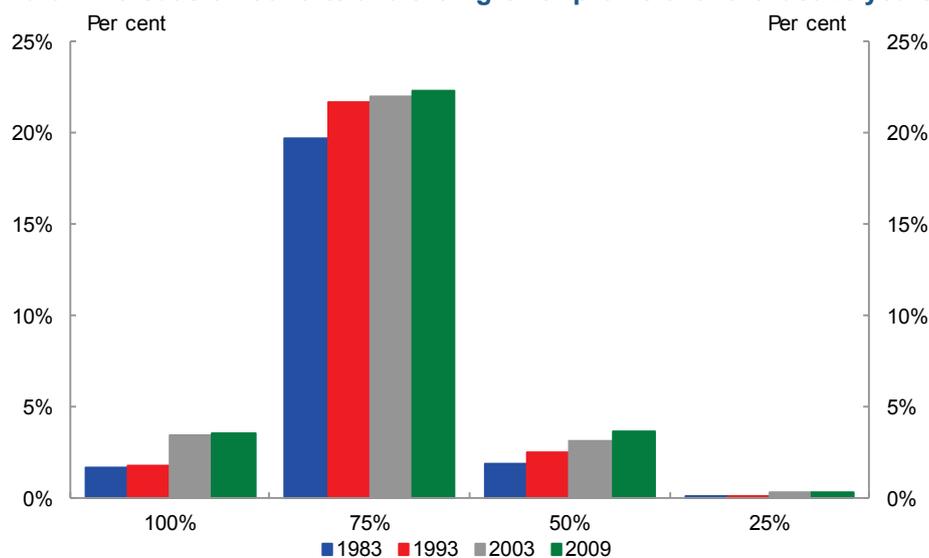
Table 3: By 2009 persuasion workers have settled at approximately 30 per cent

		2009	2009	2009
	Weight	Employment (million)	Persuasion Employment (million)	(million)
Law yers	1	1.12	1.12	
Public relations specialists	1	0.14	0.14	
Artists; Musicians and singers; Producers and directors	1	2.16	2.16	
Social, recreation, and religious w orkers	1	1.64	1.64	5.06
Counsellors	0.75	0.70	0.52	
Editors; New s analysts, reporters and correspondents	0.75	0.25	0.19	
Supervisors - Office & administrative support occupations	0.75	1.63	1.22	
Supervisors - Building and grounds cleaning and maintenance occupations	0.75	0.54	0.40	
Supervisors - Protective service occupations	0.75	0.10	0.08	
Supervisors - Food preparation and serving related occupations	0.75	0.60	0.45	
Supervisors - Personal care and service occupations	0.75	0.37	0.27	
Supervisors - Retail sales w orkers	0.75	3.31	2.48	
Supervisors - Non retail sales w orkers	0.75	1.29	0.97	
Supervisors - Construction and extraction occupations	0.75	0.74	0.55	
Supervisors - Installation, maintenance, and repair occupations	0.75	0.34	0.26	
Supervisors - Production and operating w orkers	0.75	0.74	0.55	
Supervisors - Transportation and material-moving operations	0.75	0.22	0.17	
Teaching occupations, excluding Librarians and Teacher assistants	0.75	7.42	5.56	
Sales occupations, excluding First-line supervisors/managers and Cashiers	0.75	7.98	5.99	
Management occupations	0.75	15.45	11.59	31.25
Management analysts; Financial analysts; Personal financial advisors	0.5	1.13	0.57	
Detectives and criminal investigators; Police and sheriff's patrol officers	0.5	0.86	0.43	
Claims adjusters, appraisers, examiners, and investigators	0.5	0.28	0.14	
Librarians; Teaching assistants	0.5	1.21	0.61	
Writers and authors	0.5	0.18	0.09	
Health practitioner occupations, excluding physicians, surgeons and dentists	0.5	6.66	3.33	5.16
Life, physical, and social science occupations	0.25	1.33	0.33	
Paralegals and legal assistants; Miscellaneous legal support w orkers	0.25	0.59	0.15	
Tax preparers	0.25	0.10	0.02	0.51
Persuasion Workers				41.97
Total US person-years w orked		59.07		139.88
Persuasion as per cent of total				30.01%

Source: US Bureau of Census 2011, Statistical Abstract of the United States, Table 615: Employed Civilians by Occupation, Sex, Race and Hispanic Origin.

Chart 1 displays the steady rise of persuasion content in US employment. To focus on the biggest grouping – those having a persuasion content of three-quarters – in 1983, they accounted for 19.7 per cent of total employment and grew by two percentage points to 21.8 per cent by 1993. And again, from 22.1 per cent in 2003 the proportion of these workers increased to 22.3 per cent in 2009. Overall persuasion employment appears to have settled at around the 30 per cent mark.

Chart 1: Persuasion cohorts and their growth profile over the last 26 years



Source: US Bureau of Census, Statistical Abstract of the United States (1985, 1994, 2004-05 and 2011), table: Employed Civilians by Occupation, Sex, Race and Hispanic Origin.

Persuasion GDP

How much of national output is attributable to persuasion? McCloskey and Klammer derive an estimate through the production measure of GDP: the ‘more obviously “talkie” parts of production are a large part of production for final consumption, and much of it is persuasion rather than information or command’. And since these ‘talkie’ parts, such as wholesale and retail trade, finance and general government, add up to 58 per cent of US GDP in 1991, they conjecture that ‘it would not be hard to see ... a figure of about a quarter (of GDP) devoted to persuasion’ (p. 193).

An alternative guess could be made from the income side of the national accounts – GDP(I). Since the persuasion content of employment is 30 per cent and the proportion of national income accruing to labour is around 60 per cent in the US (Jacobson and Occhino (2012)), that gives the labour income component of persuasion in the national accounts of around 18 per cent. If a fifth to one-quarter of capital income represents persuasive activity, that accounts for another 8-10 per cent (that is 20-25 per cent x (1-0.6)) of persuasion in GDP(I).⁷ The digital economy’s rapid advance has meant that brand names, commercial trademarks and other intellectual property are playing a bigger role in economic transactions and by their nature may not be well reflected in the national accounts. Therefore it is quite possible that the persuasion content of GDP may now be closer to 30 per cent.

While it is likely that persuasion GDP has risen above one quarter, it also bears entertaining the possibility that some of that effort could be dissipated by economic contests and positioning à la Skaperdas and Vaidya (2009).

Summary

Since the inspired guesstimate of McCloskey and Klammer, the economics profession launched itself into modelling many aspects of persuasion. Insights are to be had for sure, particularly in how regulators might mandate minimum product or service disclosure standards or how persuasion is

⁷ Considerable persuasion is involved in creating, marketing and analysing financial products.

deployed in economic contests. There might even be lessons as to how to communicate difficult economic reform proposals and how to navigate tricky political economy landscapes.

But as McCloskey (2011) suggests, some research effort may be falling back into the trap of treating persuasion as just another factor in formal optimisation exercises. In that sense, McCloskey and Klammer's (1995) original hope remains unrealised. They had hoped that a renewed awareness of the importance of persuasion might encourage the modern economist to augment her technical tools of trade by taking seriously the potential of language in economic discourse and by utilising the power of interpretation in distinguishing between competing 'hard results'. In this way, McCloskey's agenda goes beyond evidence-based policy evaluations, useful and necessary as they are in policy discourse.

On a positive note, might it be time to update the McCloskey-Klammer catch phrase to '30 per cent of GDP is persuasion'? Such renewed speculation would of course merely inform because the persuading was eloquently done by McCloskey and Klammer.

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Address to Australia-Hong Kong RMB trade and investment dialogue

Dr Martin Parkinson, PSM
Secretary, Australian Treasury

This speech was delivered to the Australia-Hong Kong RMB Trade and Investment dialogue on 12 April 2013.

Introduction

It has been my pleasure to attend this morning's dialogue, and I am sure you will all agree it has been a fascinating discussion.

The quality of the discussion reflects the quality of the participants we have gathered here today, but also the importance of the issues at hand.

There is no doubt that we are in the midst of a significant shift in economic weight towards the Asia-Pacific region. China is the dominant story in this shift, but it also involves the rise of India, Indonesia and other emerging economies in the region. The Government's *Australia in the Asian Century White Paper* sets out the challenges and opportunities this shift presents for Australia and our partners in the region.

When we look back at the past two decades, we can see the enormous impact of China's opening to trade with the rest of the world, not only for the Chinese economy, but also for economies in the region and elsewhere. Looking forward, the next wave of reform will centre on China's financial integration with the rest of the world, which will significantly impact on the way global financial markets operate. It will also impact on the way in which each of you do business. We need to be ready for these changes.

In this light, it is not surprising that the Prime Minister focussed on financial sector issues in her discussions with China's leadership earlier this week. Those discussions also coincided with the announcement on direct trading between the Australian dollar and RMB and the granting of market maker status by the PBoC to Westpac and ANZ. These are, undoubtedly, important steps in our financial integration with China.

For businesspeople looking for opportunities in new markets, the prospect of increasing capital flows with China and the ability to transact directly in RMB presents significant opportunities.

It also presents challenges. A number of us here would have experienced first-hand Australia's own capital account and financial reform era of the late 1970s and early 1980s, and the economic, strategic and political turning point this was for Australia.

We have an opportunity here to also be a partner in China's reform process, along with other countries and markets in the region, including our co-hosts from Hong Kong who continue to play a critical role in this process.

On this path, China has already taken major strides by increasing the liquidity and the status of its currency offshore – in tandem with progress domestically towards a more liberalised financial sector. However, there is much more to be done before China's financial markets and economy are ready for full-scale capital account liberalisation.

These developments are of critical importance for Australia but also demand prudence on our part – a clear understanding of how we can participate in the process and benefit from it, and a clear appreciation of how we can manage the risks, uncertainties and challenges which will inevitably arise along the way.

RMB internationalisation through increased trade settlement

Now, I am sure that all of us here today have been watching closely the recent developments on RMB liberalisation and the greater openness in China's capital account. In just the last few months, we have

seen the appointment of the Industrial and Commercial Bank of China as an official RMB clearing bank in Singapore, further expansion of the RMB Qualified Institutional Investor Scheme, and the debut of RMB bonds in the new RMB clearing market in Taiwan. This is in addition to the many internal and external reports, announcements, speculation and opinions on the next steps in China's opening up, sequencing and timelines for reform.

To date, central to China's approach to internationalisation of the RMB has been the accumulation of RMB in offshore markets through trade settlement and the steady broadening in options for investing these offshore funds. This approach has seen the proportion of China's cross-border trade settled in RMB increase nearly fivefold in the last three years, to 12 per cent – with around 80 per cent of cross-border RMB trade occurring in Hong Kong.

And it is this resulting build-up in offshore deposits – particularly in Hong Kong but also in Taiwan, Singapore, London and elsewhere – which has developed a momentum and constituency for further development of RMB-denominated products and investment opportunities offshore.

Another important development on this front was the January launch of RMB cross-border lending from Hong Kong banks to companies in the Qianhai Shenzhen-Hong Kong 'Modern Service Industry Cooperation Zone'. Featuring market-set interest rates for loans, the trial will be closely watched in considering reforms for further interest rate liberalisation onshore and cross-border movement of RMB.

The expected broadening of this pilot approach in other significant onshore markets will complement the crucial role Hong Kong has played as a laboratory of sorts in the first stages of RMB internationalisation.

Importance of domestic reform for internationalisation

In parallel with the development of RMB markets offshore, reform has continued within China's domestic financial sector. This has included reforms to state-owned banks, the partial liberalisation of interest rates, growing securities markets, developing regulatory frameworks and an increasingly flexible exchange rate. And today the RMB itself – following years of steady appreciation, notwithstanding some notable pauses – has reached a point where it is exhibiting greater two-way flexibility than at any point in the recent past.

The paths of these two streams of reform – domestic liberalisation and development of RMB markets offshore – depend largely on what happens when they join.

Conventional wisdom around reform paths has been that full internationalisation of the RMB cannot happen without greater flexibility and convertibility in the currency, and that fundamental reforms to exchange rate and interest rate formulation must come before loosening of capital account controls. While this approach is grounded in past experience, we need to put it in the context of the size of China's reform task and the reasons for China's more gradual and multi-track approach to reform to date.

In recent years, the RMB has already developed a strong foundation offshore through trade settlement – aided, it must be said, by expectations of RMB appreciation. This has been associated with some partial and experimental relaxation of capital controls, a natural response as offshore markets develop in depth and sophistication.

In combination, these measures have deepened the pool of RMB offshore, broadened options for moving RMB across the border, and generated a greater array of RMB investment products for funds raised in both markets.

Yet, despite these steps in developing offshore markets, segmentation between offshore and onshore markets remains very high – and deliberately so. You can see this in episodes of divergence between onshore and offshore prices for similar products, such as RMB deposits, bond yields or share prices for cross-listed companies.

In the absence of further measures to open up the domestic market, which would allow for greater cross-border RMB movement, the obvious question is whether demand for RMB will continue to hold up offshore. Or put another way, we may be testing the limits on how far partial internationalisation of the RMB can be pursued without more fundamental capital account reforms.

China's overall reform path and risks

There is one firm consensus in the discussion on these issues: major capital account liberalisation should not occur before an extensive and challenging program of domestic financial sector reform. This encompasses lowering foreign exchange intervention and increasing currency flexibility; developing a new framework for monetary policy, prudential regulation and supervision; deepening bond, equity and money markets; and, most crucially, liberalising interest rates.

These are all necessary before major capital account opening – particularly for shorter-term flows – can safely occur.

Again, it is important to recognise that the development of a market for RMB products offshore can actually assist this process. As the Bank for International Settlements and others have argued, 'offshore' RMB prices can provide something of a guide for domestic lending and deposit rates and other prices as they become more flexible, particularly as international prices become more important through further selective easing of capital controls.

But fundamentally, the successful internationalisation of the RMB, like any currency, will depend on the sound architecture and performance of the Chinese economy and financial system. It will require deep and well-functioning capital markets, sound fiscal and monetary policy, and a financial system governed by the rule of law.

Of course, these are the same capabilities and reform processes upon which China's domestic economic development will also rely.

But even setting political difficulties aside, we must recognise that financial liberalisation and capital market reform are *hard* – something we saw clearly in Australia's own experience. A recurring factor in the history of financial market crises is countries stumbling in the process of capital market reform. Reform challenges can also arise in the difficult 'middle income' years for developing economies when growth often slows.

Another factor is the 'de facto' liberalisation that is occurring through China's shadow banking system. This will see China facing issues similar to Australia in the 1980s when we had significant financial innovation outside the traditionally highly regulated banking industry, impeding the effectiveness of the traditional policy levers used to manage credit growth.

An economy opening up its capital markets will also find itself more exposed to external shocks and possibly experiencing greater volatility as capital flows respond more readily to differentials in domestic and international conditions.

Of course, none of these challenges are insurmountable. However, we should expect China to approach further liberalisation with nothing other than the caution and calculation that this issue demands.

Implications for Australia — coping with shocks and volatility

As much as any country, Australia has a clear stake in China's calculated and cautious approach. The prospect of shocks in transition, as our largest trading partner shifts towards a new growth model, naturally raises issues for Australia, as does the broader shift towards emerging economies as drivers of global growth.

Based on IMF projections, this year emerging and developing economies will overtake advanced economies as a share of total world GDP [in PPP terms], and based on Treasury long-term projections they could contribute as much as 75 per cent of global growth over the next two decades. While the largest emerging economies have been remarkably stable over recent decades, greater reliance on emerging markets for global growth inevitably means greater exposure to any shocks or difficulties faced by these economies.

The successful emerging economies will inevitably face difficult periods of transition where they are forced to shift towards higher-quality, higher-skill, higher-wage growth — growth driven by productivity rather than population growth, urbanisation and rapid capital accumulation. China's challenges in financial market and capital account liberalisation are a case in point.

None of this is to say that the long term outlook for China and the other emerging economies isn't strong. But logic and experience suggest that there will be bumps along the way — and these bumps will matter deeply for Australia.

Implications for Australia — how and why we engage

A question for Australia is how we should engage and participate in this process of transition — both commercially and in terms of policy development.

Our strong relationships with China and other emerging economies in Asia mean we have a firm foundation for doing so bilaterally and regionally. Similarly, our extensive trade and investment links and the strength, expertise and regional presence of our financial institutions mean we are well-placed to play a growing role in the RMB internationalisation process. This includes supporting our partners in Hong Kong in their efforts to develop the offshore RMB market.

And while we should be cautious about the immediate benefits of any one step towards greater use of the RMB, events like today's — and developments like this week's announcement on direct AUD-RMB trading — are laying the foundations for further expanded opportunities.

Governments must play a significant role in making sure the right settings and systems are in place, such as the direct trading capability and the currency swap between the RBA and PBoC announced last year.

Our success in negotiating these initiatives also highlights the benefits of a careful and considered approach to engaging with our Chinese counterparts. The direct trading and currency swap

agreements were the culmination of years of engagement and months of direct bilateral discussions at both the Ministerial and officials level of government and with business.

That is how you make head-way in the Asian Century. We need to get past the notion that Australia can simply wake up one morning, realise that we want something and have it appear.

Experience demonstrates that knowing your strategic interests, understanding the position of those you are engaging with and consistently pursuing your objectives is a more successful way of getting results.

While our work on this issue will continue to be crucial, ultimately the real driving force here will be market demand. Business and financial institutions must ensure that they are ready to respond to the growing desire of trading partners to transact and invoice in RMB, and that they are not at a competitive disadvantage in handling RMB business.

And we must realise that this isn't a one-way issue. Developing our RMB capabilities is also about attracting and facilitating Chinese investment, and Chinese business, here in Australia.

This is all part of the broader story on how we engage with China and its reform process, in the context of our complementarities, shared interests and capabilities.

This is an approach that echoes in our broader engagement with the region, and that was given its strongest articulation in the Government's *Australia in the Asian Century White Paper*, which the Deputy Prime Minister and Treasurer touched on in his opening remarks today.

China's financial liberalisation and reform – and the part played by Australia, Hong Kong and others within this process – can also contribute to important changes in how the region does business. Asia has very high savings rates, a growing share of the global middle class and major infrastructure needs. Yet as it stands, despite having such large pools of savings within the region, much of the intermediation of this capital occurs in financial centres outside of Asia, and large flows of Asian savings are directed to low-yielding assets outside the region. Provided that financial markets continue to develop and that barriers to capital flows and efficient capital allocation are gradually removed, it is natural to expect more of Asia's savings to be intermediated in Asia, and deployed in Asia. Over time, greater openness to RMB-denominated capital flows and development of Chinese financial markets can contribute significantly to this process.

Conclusion

All of us here today are participants, in our own way, in the next stage of China's reform process and opening up to the world. These kinds of forums establish the channels through which ideas flow, partnerships form and institutions are built.

And it is the sharing of information, perspectives and expertise which will be crucial to seizing the opportunities which the expanded use of the RMB will offer, and in managing some of the complexity and risk associated with new ways of doing business – for firms, for government and for entire economies.

Today's Dialogue is a great example of how, in a small but important way, we are taking the next steps. Thank you for your participation.

Key themes from Treasury's Business Liaison Program

Overview

As part of its quarterly Business Liaison Program, Treasury met with businesses and organisations during February. Meetings took place across five capital cities and via teleconference. Treasury greatly appreciates the commitment of time and effort by the organisations that participate in this program.

There were some promising key messages from business liaison with early signs that, whilst global economic conditions remain challenging, the uncertainty around the global outlook was starting to abate. However, with competitive pressures evident across all sectors of the economy, businesses were looking to improve the profitability of their operations by cutting costs.

Activity and Prices

There were some signs of cautious optimism following the flows of positive news around the international outlook, although businesses across all industries noted that profits margins had contracted in 2012. To support margins, business reported an increased focus on improving productivity across their operations and closely examining their cost structures. This had included a close examination of wages and salaries, supplier costs and investment plans.

Miners suggested that this summer's adverse weather events had less of an impact on activity than in previous seasons. While commodity prices (in particular for iron ore and coal) had stabilised in recent months, with strong growth in global supply coming on line, there was an expectation that, aside from cyclical volatility, there will be continued downward pressure on prices in coming years. As a result, contacts largely expected that growth in export income is likely to be driven by an increase in volumes rather than prices.

In terms of investment projects, reports suggested that good progress was being made and that, in the main, projects were on schedule. While volume of work was slowing in the coal and iron ore sectors, both miners and contacts in the construction sector noted that there remained a solid pipeline of work yet to be done on LNG projects.

There were mixed reports from trade exposed sectors. Manufacturers continued to suggest that the high Australian dollar was having a significant impact on their businesses. Consistent with previous rounds, manufacturers also reported a focus on the breadth of their activities, in some cases suggesting that operations could be scaled back and focused on the design and distribution elements of their businesses.

On the other hand, there were some positive signs coming from parts of the tourism industry with some contacts suggesting that the impact of the high Australian dollar may be starting to wane. In particular, there was a sense that domestic travellers may be refocusing on Australian destinations having now taken an advantage of favourable exchange rates and gone on an overseas holiday.

In the retail sector, there were mixed views around the Christmas period, with some contacts suggesting that sales had been strong while others considered that they had fallen below expectations. Consistent with previous rounds, margin compression continued to be a key challenge in some parts of the retail sector. While costs such as rents are increasing in excess of CPI, strong competition continues to make it difficult for retailers to increase their prices in a meaningful way.

In residential construction, there was a strong view that the fundamentals in the sector were supportive of a strong period of growth. Despite this, it was generally noted that these fundamentals

had yet to translate into a groundswell of activity. Potential purchasers continue to take a cautious approach and both developers and banks noted an increase in the time taken between enquiries for new loans or house and land packages and contracts being signed.

In non residential construction, conditions were reported as remaining weak, with activity being supported by several large projects rather any strength in underlying demand for commercial property, in particular offices and retail.

Employment and wages

Overall, contacts reported modest hiring intentions, emphasising that both uncertain demand and the need to cut costs would have an impact on hiring decisions. Some businesses also noted that, with employment prospects being a key concern for households, this could hinder consumer confidence in the near term.

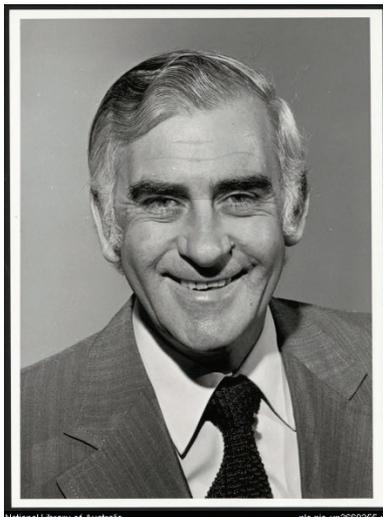
On labour costs, miners reported continued growth in wages but noted that this had eased in recent months. While discussions made some mention of negotiations with workers on non- wage conditions, there were noticeably fewer reports of this than there had been in previous rounds.

Outside of mining, there were varying reports of wage pressures. Firms in sectors such as manufacturing and retail suggested that, in a climate where they were unable to put up prices, wage pressures remained strong, while others mentioned that there had been a noticeable easing of wage pressures.

Billy Snedden: the challenge of incipient inflation

John Hawkins¹

Billy Snedden was Treasurer in very challenging circumstances, with the global financial system undergoing intense change and the government in which he served in political difficulty. This made it hard for him to address effectively the emerging inflationary pressures.



National Library of Australia
Source: National Library of Australia²

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- 1 The author formerly worked in the Domestic Economy Division of Treasury. This article has benefited from comments and suggestions provided by Selwyn Cornish, Ian Hancock and Fiona Snedden. Thanks are due to the Snedden family for allowing access to the Snedden papers in the National Library of Australia. The views in this article are those of the author and not necessarily those of the Australian Treasury.
 - 2 B.M. Snedden, Liberal Party member for Bruce, Victoria [picture]/Australian Information Service, Bib ID: 3660355

Introduction

Sir Billy Mackie Snedden was generally regarded as 'affable, charming, friendly'³ and many contemporary accounts refer to his good looks.⁴ He possessed considerable ambition⁵ and all his life was a hard worker.⁶ Friends recalled him as having 'a quick mind which absorbs and retains detail'.⁷ These traits allowed him to rise from his humble origins and become a Liberal Treasurer and leader without the benefits of the family wealth or establishment links that assisted peers such as William McMahon and Malcolm Fraser. He once described himself as 'the first of the middle class radicals'.⁸

His weakness was his need to be liked and approved, and that he was 'too trusting and insufficiently ruthless for his own good'.⁹ This sometimes left him trying to present a toughness he did not possess.¹⁰ Snedden had a lifelong aversion to 'bullying'. Politically Snedden translated this into opposition to anything he regarded as coercive and so a preference for a 'free enterprise' party.¹¹ Sometimes classified as a 'progressive'¹² or 'liberal' within the Liberal Party, Snedden once described himself as 'a man without ideological convictions'.¹³ For him politics was 'largely a matter of intelligent and cautious administration'.¹⁴

Snedden's early life

Billy Snedden was born in Perth on 31 December 1926 to parents who had emigrated from Clackmannon in Scotland in 1912,¹⁵ in the process changing the family name from Snaddon. Billy remained proud of his Scottish heritage throughout his life. His father and two elder brothers were stonemasons, but after his father deserted the family, and died a few years later, Billy decided he wanted to become a lawyer instead. His widowed mother ran a grocery store for which Billy made deliveries by bicycle and he sold newspapers on a street corner.

Billy had to leave school at the age of fifteen to make a living and became a law clerk with a solicitor, who was also an independent member of parliament, while continuing his education in the evenings.

3 Schneider (1980, p 97). Whittington (1964, pp 117-8) called him 'intelligent, good-humoured and unaffected, mixed easily, and was popular with most people who knew him'. Barry Jones (2006, p 189) says he was 'likeable and well-intentioned'. Aitchison (1971, p 100) said he was 'spruce and engaging'. Chipp and Larkin (1978, p 152) called him 'a gregarious fellow with a warm and easy personality'. Freudenberg (2009, p 274) said he had 'basic honesty, a willingness to learn and take advice, a good intelligence and a fundamental decency'.

4 Reid (1971, p 364) said he had the 'looks of a matinee idol'. Hasluck (1997, p 208) referred to 'an appearance that is striking and some may think handsome although rather raffish'. See also Buckley (1965, p 27) and Whittington (1964, p 117 and 1968, p 7).

5 Reid (1971, p 364) and Killen (1989, p 212) refer to the strength of Snedden's ambition. Hasluck's (1997, p 208) view was that 'he is very ambitious but I have never found his ambitions manifested in any unpleasant way'. Even as a schoolboy, Snedden recalled, he 'didn't have any doubt that I was going to be prime minister'; Snedden (1976).

6 Chipp and Larkin (1978, p 152).

7 Allen (1974, p 28).

8 Chipp and Larkin (1978, p 156).

9 Snedden and Schedvin (1990, pp 259). Hocking (2012, pp 117-8) says he also lacked gravitas.

10 Freudenberg (2009, pp 274-5). Barry Jones said he 'lacked the killer instinct'; *Hansard*, 14 September 1987, p 29.

11 Snedden and Schedvin (1990, pp 245-9). His support for stronger legislation against restrictive trade practices could be seen as aimed at preventing large companies bullying small businesses.

12 Allen (1974, p 28).

13 Reid (1969, p 171). Tiver (1978, pp 248-9) refers to his 'inchoate ideology'. Williams (1968) refers to his 'essential lack of interest in basic political philosophies'.

14 Cited in Buckley (1965, p 27) and Williams (1968, p 2), reiterated in Snedden (1985, p 22:15).

15 They changed their plans of going to America after the Titanic sunk in 1911.

In 1945 he joined the RAAF but the war ended before he saw combat. He studied law at the University of Western Australia. While there he played in the football and cricket teams and made the acquaintance of Bob Hawke.

He was admitted as a barrister and became a QC in 1964. In 1950 he married Joy Forsyth.¹⁶ They had four children and also fostered some babies awaiting adoption.

Into politics

'Bill' (as he was becoming more commonly known) Snedden became president of the University Liberal Club and the WA Young Liberals. While still at university he stood for the state seat of Boulder. He then contested the federal seat of Fremantle in 1949 and went close to winning Perth in 1951.¹⁷ He spent three years in Italy as a selection officer for the Immigration Department. He moved to Melbourne where he worked in the Attorney-General's Department. After he won the federal seat of Bruce in 1955, Snedden went on to become minister for both these departments. As Attorney-General he pushed for trade practices legislation, although the legislation to which cabinet agreed was much weaker than Snedden had wanted. He was well-regarded by Harold Holt, who regarded him as a possible future leader.¹⁸

Snedden stood for the leadership after Holt's death in 1968, claiming the party needed 'a man on the wavelength of his own era'¹⁹ and marketing himself as a true liberal in the Holt tradition as opposed to the more conservative rivals.²⁰ He was eliminated in the first round of voting. After the 1969 election he contested the deputy leadership but was defeated by William McMahon,²¹ and was again defeated by him in a leadership ballot in March 1971. He correctly foresaw that John Gorton would remove McMahon as Treasurer and hoped to be appointed to the post but instead followed Leslie Bury as Minister for Labour when Gorton appointed Bury as Treasurer.²²

Treasurer

After McMahon replaced Gorton as leader in March 1971, he appointed Snedden as Treasurer. Other than the ailing incumbent Bury, a Gorton supporter, 'Snedden was the only frontbencher who had really shown an interest in economic policy formulation'.²³

16 Joy is profiled in Frank (1984).

17 Campaigning in Fremantle he became friends with Harold Holt, later to become his mentor. As Treasurer, Snedden recalled Holt had been 'an embodiment of what I'd like to be'; interview on *This Week*, Channel 7, 16 April 1972, transcript in Snedden papers.

18 Whittington (1968, p 7). Holt persuaded Menzies to appoint Snedden to the ministry; Oakes and Solomon (1974, p 71). Snedden was then seen as 'easily the most promising of the rising generation of Liberals ... the exemplar of the Liberal dream of success through initiative, enterprise and hard work'; Williams (1968). Snedden believed Holt regarded him as his preferred successor; Snedden and Schedvin (1990, pp 69, 248) and Snedden (1976).

19 Hancock (2002, p 144).

20 Snedden (1983) and 't Hart (2006, p 8). Menzies tried to dissuade Snedden from standing; Menzies and Henderson (2011, pp 174-7). Snedden later said he stood to prevent the Liberals falling 'into the hands of Gorton and Fraser – two men of immense immorality'; Snedden (1976; p 2/1/26). Many believed he was more standing to raise his profile and present himself as a future leader; 't Hart (2006, p 8) and Reid (1969, p 173).

21 Snedden had said that if elected deputy he expected to be Treasurer; Reid (1971, p 377).

22 Reid (1971, p 364).

23 Walsh (1971, p 4). As Snedden tells it, he immediately badgered McMahon for the Treasurer's job after the leadership change and after initially resisting the Prime Minister said 'well alright, you can be Treasurer'; Snedden and Schedvin (1990, p 113).

The new Treasurer was described as 'a financial and economic innocent'.²⁴ Snedden had no background in economics and adopted a 'freewheeling style' as Treasurer.²⁵ Snedden himself admitted 'I never pretended to be a person who was equipped with economic capacity in order to argue on an economic basis'.²⁶ Outsiders regarded him as 'a competent follower of departmental advice' but not a driver of innovative policy or a champion of reform.²⁷ Snedden's own view was that he 'liked to be the man in charge and was not a passive recipient of departmental advice'.²⁸

1971 was a challenging time to be Treasurer with the breakdown of the Bretton Woods system of pegged exchange rates and a speculative boom in mining shares. Snedden was apparently regarded as a successful Treasurer by his party for when Gorton resigned as deputy in August 1971, Snedden beat six rivals to become deputy Liberal leader. He said that he very much 'enjoyed being Treasurer' as it was 'the role in which you felt you were making the greatest contribution'.²⁹ While he did not get on well with McMahon, and even considered resigning over the tax increase in the 1971 budget, he resisted entreaties to challenge for the leadership.³⁰

Snedden and Treasury

Snedden recalled that by the time he was Treasurer, Dick Randall 'had really lost his drive' as Secretary.³¹ Upon Randall's retirement after the 1971 Budget, Frederick Wheeler returned to Treasury after an almost 20-year absence.³² In November 1971, with Snedden's support, John Stone was appointed Deputy Secretary (Economic), setting the tone of Treasury analysis for the 1970s and early 1980s.³³

Snedden appreciated being able to get a number of Treasury officers together to debate issues.³⁴ 'Treasury was marvellous in this respect'.³⁵ But after his term as Treasurer, Snedden seemed a little disillusioned with Treasury. During a 1974 interview he said 'we'll abandon the idea that all wisdom is in a four-storey building on the banks of Lake Burley Griffin'.³⁶

Snedden's two Budgets and macroeconomic policy

With an election due in late 1972 McMahon, on political grounds, wanted to ensure any tough decisions were taken in 1971. Snedden doubted this strategy would work as it would be too late to

24 Carroll (2004, p 226). On his first day as Treasurer he asked officials what 'dr' and 'cr' meant on financial statements; Wanna, Kelly and Forster (2000, p 51).

25 Schedvin (1992, p 458).

26 Snedden (1983, p 14:3).

27 Tiver (1978, p 247); Oakes and Solomon (1974, pp 65, 74 and 75).

28 Snedden and Schedvin (1990, p 250).

29 Snedden (1983, p 19:20).

30 Aitchison (1974, p 3); Snedden and Schedvin (1990, pp 134-5). Rupert Murdoch had led the pressure, offering Snedden his newspapers' support if he became leader; Snedden (1983, p 20:14).

31 Snedden and Schedvin (1990, p 113).

32 Hawkins (2007). Wheeler had been acting as treasury secretary back in 1952 but was passed over in favour of the brilliant Roland Wilson and left for the International Labour Office in Geneva until returning to Canberra in 1960 to chair the Public Service Board. McMahon had offered the job to Bunting who declined it; Snedden and Schedvin (1990, p 117). Snedden had argued for John Stone, whom he knew from their days together at the University of Western Australia, to get the job but McMahon rejected this idea; Kelly (1978, p 9). Jack Garrett, the other deputy secretary, did not have a strong economics background.

33 Snedden (1983, p 13:10) called Stone 'the intellectual force in the department'.

34 Snedden and Schedvin (1990, p 125).

35 Snedden (1983, p 13:8).

36 Interview by David Frost, cited in Oakes and Solomon (1974, p 432).

ease up by August 1972.³⁷ But the views of McMahon and Country Party leader Doug Anthony, which accorded with the preferred approach (albeit on economic rather than political grounds) of senior Treasury officials, prevailed and so the budget contained tax rises.

In July 1971 Snedden warned in a cabinet submission of the dangers of rising inflation but only recommended a gradual slowing in government spending in response.³⁸ Around the world the late 1960s and early 1970s saw increases in industrial disputes and wage pressures, leading some economists to call for alternatives to deflationary policies to dampen inflationary pressures. Treasury (1971), however, was critical of incomes policy. In a 1971 speech, Snedden argued such policies may have a useful role for complementing demand management, but could not replace them.³⁹

Snedden opened his 1971 Budget speech warning 'Australia is in the grip of inflationary pressures', which he regarded as 'stemming largely though not wholly from large wage claims relentlessly pursued'.⁴⁰ He claimed the 'Government has been ruthless in pruning expenditure proposals'.⁴¹ In that sense the 1971 Budget was 'closely in line with Treasury advice'.⁴² It included increases in income tax and company tax, customs and excise duties. The investment allowance was removed in early 1971.

But some academic and other economists believed demand was already slowing before the budget; that there was 'a re-run of Fadden's 1951 horror Budget'.⁴³ A fall in wool prices and the collapse of a speculative mining boom compounded the impact of tighter policy. The budget was also a political disaster which tarnished McMahon's reputation in the area of economic management, seen as his strongest attribute.

The Budget had been brought down virtually the same day as President Nixon announced the US was abandoning convertibility, part of what the Reserve Bank termed 'the imbroglio in the international monetary system'.⁴⁴

The slowing in the economy in latter part of 1971 led a nervous McMahon to call for stimulatory action, despite inflation having risen to 6 per cent. While Snedden noted in February 1972 that inflation was 'the most difficult problem currently facing the Australian economy',⁴⁵ monetary policy had been relaxed in October 1971 and the investment allowance suspended in February 1971 was restored in February 1972. The unemployment benefit was raised and additional grants were announced to the states.

37 Snedden and Schedvin (1990, p 114).

38 Megalogenis (2012, p 18).

39 Snedden (1971); Snedden (1972, pp 7-8). By the time he was opposition leader in 1973, he was calling for one; *Hansard*, 28 August 1973, pp 463-4; Whitwell (1986, pp 190-2).

40 *Hansard*, 17 August 1971, pp 38-39, reiterated in an interview on *Four Corners*, ABC, 12 February 1972, transcript in the Snedden papers.

41 *Hansard*, 17 August 1971, p 39.

42 Whitwell (1986, pp 24, 193), although Snedden claimed there were 'deep disagreements' with Randall over it as Randall wanted it more restrictive; Snedden and Schedvin (1990, p 114).

43 Simms (1982, p 127). The OECD (1972, p 45) commented 'in retrospect, it is clear that the boom had already begun to level out ... towards the end of 1970'.

44 Reserve Bank of Australia (1972, p 6).

45 *Hansard*, 24 February 1972, p 269. Treasury (1972, p 17) referred to it as a 'much more long-lived and intractable problem' than short-term fluctuations in employment.

In a mini-Budget in April 1972 income taxes were cut and pensions lifted, largely reversing the thrust of the 1971 budget.⁴⁶ Snedden's stated aim was 'a modest increase in demand' following the fall in consumer spending,⁴⁷ but others saw it as 'macroeconomic policy turned sharply expansionary'.⁴⁸

Snedden became concerned that 'inflation does not respond as it once did to the traditional remedies', which he attributed to the growing power of unions and complacency of management.⁴⁹ He worried about the resultant misallocation of resources and that 'inflation imposes great social burdens on the family man, the low income earner and those on fixed incomes'.⁵⁰

Snedden regarded the 1972 Budget as '*my* Budget'.⁵¹ He opened the Budget speech with an unusually succinct summary: 'taxes down, pensions up and growth decisively strengthened'.⁵² Against Treasury advice,⁵³ the Budget was an attempt to pump up the economy prior to the 1972 election. Snedden argued that there had been 'a modest abatement of inflationary trends'.⁵⁴

The budget was generally well-received and opinion polls show it was followed by an increase in support for the Government, albeit insufficient for it to retain office at the December 1972 election.

Exchange rate

The Smithsonian Agreement of December 1971 revalued sterling against the US dollar and the yen. The Australian dollar was tied to the pound at the time but the Country Party was opposed to the Australian dollar following the pound. In this they were effectively arguing for a significant devaluation of the Australian dollar against Australia's major trading partners. A Treasury minute warning that allowing an effective devaluation would exacerbate an already serious inflationary situation formed the basis for Snedden's submission to cabinet.⁵⁵

The debate raged for three days. When the Country Party threatened to leave the coalition, Snedden said if they left then he would appreciate the currency.⁵⁶ The final decision was a devaluation in trade-weighted terms. The Australian dollar was switched from a link to sterling to a link to the US dollar. During 1972 the Treasury warned that the Australian dollar was undervalued – as indicated

46 The mini-Budget came as a surprise to the Government's own backbenchers; Peter Howson's diary entry for 11 April 1972, in Howson (1984, p 846).

47 *Hansard*, 11 April 1972, p 1429.

48 Macfarlane (2006, p 19).

49 Snedden (1972, p 1).

50 *Hansard*, 1 December 1971, p 3884.

51 Snedden and Schedvin (1990, p 124). 'As distinct from the '71 budget this one was what I wanted'; Snedden (1976).

52 *Hansard*, 15 August 1972, p 40.

53 Whitwell (1986, p 196). The Budget was constructed by Snedden, McMahon and Country Party leader Doug Anthony with little input from other cabinet members; Peter Howson's diary entry for 18 July 1972, in Howson (1984, p 887). McMahon (1974, p 2) recalled as acting Treasurer in September 1972 having a strong disagreement with Treasury about the need for economic stimulus. Indeed he blamed Treasury for the weak economy; 'most Treasury statements until late 1972 were sombre in outlook. This was in my view one of the reasons why expenditure in the private sector was so restrained'; McMahon (1974, p 11).

54 *Hansard*, 15 August 1972, p 41.

55 Minute to Treasurer, 15 September 1971, in Snedden papers, National Library of Australia, MS 6216, folder 169.

56 Snedden and Schedvin (1990, p 122).

by the market for forward cover.⁵⁷ The failure to appreciate the dollar at this time has been seen as encouraging the incipient inflationary pressures which bedevilled the economy in the 1970s.⁵⁸

Tax reforms

Snedden announced an inquiry into taxation in April 1972 to examine 'the effect of various taxes on equity [and] incentives'.⁵⁹ The Asprey Committee did not report until 1975 and it took a decade before many of its recommendations, such as capital gains tax and greater use of indirect taxation, were implemented.

Against Snedden's advice McMahon arranged that payroll tax was transferred to the states, giving them a 'growth tax'.⁶⁰

The income tax scales were revised as Snedden was concerned about the tax burden on the 'family man' and worried high taxes were encouraging avoidance and adding to pressure for excessive wage increases.⁶¹

Other measures

In May 1971 Australia joined the OECD. (McEwen had opposed this as he feared the OECD opposed tariffs.) While Snedden supported foreign investment the Country and Labor parties were opposed. In response, the Foreign Investment Review Board was established. The currencies in which the Reserve Bank held the international reserves were diversified. Snedden approved the issue of credit cards by banks in July 1972.

The Henderson Review of Poverty was initiated while Snedden was Treasurer. Snedden took some pride in 'for the first time, Australia in 1970 exceeded the initially accepted 1 per cent target for the total flow of financial resources, both official and private, to developing countries, expressed in per cent of GNP'.⁶²

Subsequent career

After Gough Whitlam led Labor into government, Snedden defeated Nigel Bowen by one vote to become opposition leader. He modernised the party platform, but his performance did not impress his former leader.⁶³ He led the Liberal Party in the 1974 double dissolution election but lost.⁶⁴ In November 1974 there was an unsuccessful challenge to his leadership from Malcolm Fraser followed

57 For example in a memo to Snedden, 8 September 1972, folder 126, Snedden papers. Snedden suggested a variable deposit ratio requirement be applied to foreign borrowings requiring a proportion of them to be placed with the Reserve Bank earning no interest (a measure subsequently adopted by the Whitlam Government); cabinet submission 10 April 1972, folder 128, Snedden papers.

58 For example, Malcolm Turnbull (2012) has referred to 'arguably among the most costly policy miscalculations in our history - the Country Party's repeated veto of a stronger dollar in 1971-72 which stoked the runaway inflation'.

59 *Hansard*, 11 April 1972, p 1431.

60 Snedden and Schedvin (1990, p 118).

61 *Hansard*, 15 August 1972, p 52.

62 *Hansard*, 17 August 1971, p 43.

63 Menzies thought Snedden 'was quite a good junior minister working under cabinet direction but as leader ... seems to me not to have a clue'; Menzies and Henderson (2011, p 248).

64 He became known for his difficulty in conceding: 'I didn't win but I haven't lost (all)' and 'we were not defeated but we did not win enough seats to form a government' were two much-quoted comments; Freudenberg (2009, p 306); Megalogenis (2012, p 51).

by a second, successful, challenge in March 1975.⁶⁵ Fraser refused Snedden's request to be shadow Treasurer.⁶⁶

After the 1975 election Snedden was not offered a ministry by Fraser and declined offers of appointments outside parliament. He became Speaker, holding the position with distinction.⁶⁷ There was speculation Snedden could have become deputy leader once more if Lynch stood down in 1977 but nothing came of it.⁶⁸

Snedden was knighted in 1978 and resigned from parliament after the 1983 election, saying that the new speaker should not have his predecessor in the wings. He served five years as chairman of the Melbourne Football Club, resumed his legal practice and took a number of directorships. Snedden passed away on 27 June 1987.

65 Snedden kept his heart trouble in early 1975 secret: Snedden and Schedvin (1990, pp 243, 256).

66 Snedden and Schedvin (1990, p 186); Schneider (1980, p 25).

67 Harding (1987, p 9) says 'probably the most distinguished the House of Representatives has ever known'. Clyde Cameron and Jim Killen (1989, p 213) shared this view.

68 Weller (1989, p 79). Snedden regretted tendencies for the Liberals to become conservative rather than being a truly liberal party but he did not consider joining his friend Don Chipp when he left the Liberals and formed the Australian Democrats: Snedden (1976, 1986, p 49:1).

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