INTRODUCTION

1. In accordance with the Decision taken at the plenary meeting of the CONTRACTING PARTIES on 17 November 1956, the Working Party has conducted the consultation with Australia under paragraph 4(b) of Article XII. The consultation under Article XIV:1(g) was held at the same time.

2. The Working Party had before it:

(a) the basic document prepared on behalf of the secretariat by the authorities of Australia, describing the system and methods of the balance-of-payments import restrictions in operation in Australia, and including a statement under Part II "Effects on Trade" submitted by the Australian authorities (MGT/81/57);

(b) a statement by the Australian Minister for Trade, the Rt. Hon. J. McEwen, on 31 July 1957 on changes in import licensing (L/678);

(c) documents provided by the International Monetary Fund.

All these documents should be deemed to be supplementary material annexed to this report.

3. In conducting the consultations the Working Party followed the Plans recommended by the CONTRACTING PARTIES for consultations under the two provisions. The present report summarizes the main points of the discussion during the consultations.

CONSULTATION WITH THE INTERNATIONAL MONETARY FUND

4. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with these consultations with Australia. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted background documents, dated 3 April 1957 and 3 May 1957, related to its last consultations with Australia, as well as a supplementary paper dated 30 September 1957.

Note: Throughout this report, £ means pounds Australian.
5. In accordance with the procedure agreed upon by the Working Party, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Australia. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from the last consultation with Australia under Article XIV of the Fund Agreement, which consultation was concluded on May 8, 1957.

"As some time has elapsed since the conclusion of this consultation with Australia, the Fund has also provided a supplementary paper on Australia, dated September 30, 1957, to supply background information on subsequent developments in the internal situation, the balance of payments, and the restrictive system. This paper, together with the background material from the last consultation under Article XIV of the Fund Agreement, and the results of that consultation, have been distributed to the members of this Committee.

"With respect to Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, Australia should be able to continue making progress in reducing the general level of restrictions which are under reference, if its monetary reserves continue to increase.

"With respect to Section II of the Plan, relating to alternative measures to restore equilibrium, the attention of the Committee is drawn to the results of the last Fund consultation with Australia. The Fund has no additional alternative measures to suggest at this time."

Opening Statement by the Representative of Australia

6. The full text of the opening statement of the Australian representative is attached to this report as Annex I, and is summarized in the following paragraphs.

7. Since the time of Australia's last consultations, at the Eleventh Session, there had been a substantial improvement in the balance-of-payments position and a significant recovery in gold and foreign exchange holdings. During 1957 the Australian Government had been able to relax progressively import restrictions, and had several times announced its readiness to review current levels of licensing if the improvement in the balance of payments was maintained.

8. The Australian representative gave a broad review of the changes which had taken place in the Australian economy, and of the prospects for the balance of payments in the current financial year. One basic aim of Government policy was to maintain a high level of economic expansion; in 1956 gross private investment plus public works expenditure had accounted for almost one quarter of gross domestic expenditure — a very high rate of investment. He mentioned some of the effects of this expansion on the industrial structure and gave, as examples, figures showing the very substantial increases in productive capacity for steel, automobiles, aluminium and oil refining.
9. Another basic aim of Government policy was to keep up the rate of immigration to about 1 per cent of population per annum. The high rate of economic expansion had at times placed a strain on the two other fundamental objectives of Government policy - internal stability and external solvency. However, in these latter respects the Australian economy had reached a reasonable state of balance in 1956-57. In regard to Government finances a small cash surplus had been achieved in 1956-57, after financing all of the Government's capital works expenditure from revenue and about half of the large capital works expenditure of the six State Governments. Monetary policy had also played an important part in the achievement of internal stability in 1956-57.

10. One of the main objectives of the 1957-58 Budget was to preserve the internal balance at a high level of economic activity. On the basis of the estimates the Treasurer would have had a prospective surplus of £145 million; but despite almost unprecedented pressure for tax concessions the Government had decided that a large part of this prospective surplus must be set aside to meet extra-budgetary commitments - the most important being support of the State Government public works programmes - mainly developmental - and provision for redemption of such part of the exceptionally large amount of public debt maturing in the current financial year as it might prove impracticable to re-finance by conversion loans. As a result of taxation changes the prospective surplus was reduced from £145 million to £119 million (a reduction of only 2 per cent of revenue estimates). All of this amount would be appropriated to the Loan Consolidation and Investment Reserve where it would be available to meet the extra-budgetary commitments already referred to. Most of the taxation concessions had been directed towards removing anomalies and most of the taxation increases introduced in 1955-56 to curb inflation had been maintained. In the monetary field the policy of restraint would be maintained.

11. In regard to external solvency, the Australian representative referred to the substantial improvement in the balance of payments in 1956-57 - a net current account surplus of £80 million, compared with a deficit of £235 million in 1955-56. Net capital inflow amounted to £132 million, so that over the year £212 million was added to international reserves, thus restoring the heavy losses in the two previous years. Reserves at 30 June 1957 were £566.5 million. The main factor in the improvement in export income was a substantial increase in the value of wool exports.

12. As soon as it became apparent that the prospects for export earnings in 1956-57 were much better than had previously been thought, the Government decided that there should be an immediate relaxation of import restrictions.

13. Concerning balance-of-payments prospects, it was particularly difficult to make predictions in the early stage of the financial year, but it could be said that Australia's balance of payments was subject to unusually abnormal fluctuations, and he gave a number of the causes of this tendency.
14. The Australian representative gave information about certain tendencies and predictions concerning the volume and value of Australia's main exports, and concerning the probable amount of imports. The net result was that the large trade surplus of £263 million in 1956-57 was likely to be reduced to very small proportions in 1957-58. The normal heavy deficit on other current account items — notably freight on shipping — had also to be considered, and even with the trade results he had mentioned, this would lead to a substantial deficit on current account as compared with a substantial surplus in 1956-57. The extent to which that deficit would be likely to be offset by capital inflow was difficult to assess, and it was unwise for any government to count on substantial inflows on private account. Australia could be faced with the possibility of some fall in reserves in 1957-58.

15. In regard to the prospects for further substantial relaxation of import restrictions in the near future, the Australian Minister for Trade had said, in connexion with the recent instalment of liberalizations, that any comprehensive review must await the development of the new export season and that it was the Government's intention to make such a review at the end of November.

16. In stating some of the considerations which would be relevant to the outcome of such a review, especially the possibility of increasing Australia's exports, the Australian representative stated they believed that their inability to import more was in large part a direct consequence of their inability to obtain entry in foreign markets for the commodities Australia was best able to produce. In some cases markets were pre-empted by other suppliers who were not competitive with Australian producers but who were involved in bilateral deals with the buying country; in other cases Australia was excluded from markets by quota restrictions or other regulations of commerce. In many cases there was heavily subsidized production in countries which before the war were net importers. In addition, surpluses had been developing in some countries which normally should be importers, and they were looking for export markets. The disposal of surpluses on commercial markets on concessional terms was being carried on to such a degree that it was bound to prejudice markets for economic producers. The net result of all this was that the quantity of primary products which Australia could sell, and the prices, were often unfavourable.

17. Australia was developing her exports of industrial products — iron and steel, vehicles and parts, petroleum products, for example — but they could do better still if they were able to export more of those commodities such as wheat, where Australia had marked comparative advantages.

18. In concluding, the Australian representative assured the Working Party that his Government's policy was to proceed with trade liberalization as soon as the balance of payments permitted, but hard experience had taught them the unwisdom of making premature relaxations of restrictions.
Balance of Payments Position and Prospects, and Alternative Measures to Restore Equilibrium

19. Initiating the discussion, a member of the Working Party complimented the Australian delegation on the comprehensiveness of their statement; Australia was a typical case of a country whose balance-of-payments situation and level of quantitative restrictions, had to be viewed in terms of the world market price of primary commodities – in this case, the price of wool. It was important to consider, separately, the demand for, and the supply of, wool, on the world market. So far as the demand was concerned, it had been stated that this was beyond the control of Australia and was, in fact, influenced mainly by two factors – the balance-of-payments situation of the importing countries, and the state of demand for the particular product. It seemed, however, that there was a third factor of special importance, namely, the general level of economic activity. How far was it possible to determine the influence of each of those factors on the variations in the demand for wool? Concerning the supply side, it appeared that variations in wool supply from Australia could only be negative, in the sense that in some years there might be a shortage resulting from climatic or other reasons. Was it not possible, however, to adopt domestic measures, such as the establishment of buffer stocks, which might minimise the effect of the variations in supply?

20. In reply, the representative of Australia said it was quite true that the prices of commodities from Australia were influenced by the factors mentioned. The balance-of-payments situation of other countries was certainly an important factor. Prices could move drastically within a short time when, as in the case of wool, a major user happened to be in balance-of-payments difficulties. So far as a decline in individual demand was concerned, it was a curious fact about wool that, even in the depths of the depression years, there had been no large stocks left unsold. On the question of the effect of the general level of economic activity, there was a tendency for commodity prices to move up or down together. However, it would be impossible to say which of these various factors on the demand side was most important. Nevertheless, this was one aspect of the whole problem of commodity prices which Australia hoped would receive further attention, if not at the present Session of the CONTRACTING PARTIES, then at the next.

21. On the supply side, the point had been made that variations were likely to be mainly negative. However, in Australia there had been a steady increase in production during the last four years, due to pasture improvement, development of better breeds, and control of pests. The upward trend in the volume of production amounted to about 10 per cent annually in recent years. Thus of the improvement of about £150 million in wool receipts last year, £100 million could be said to have been due to higher prices, and £50 million to increased volume.

22. So far as buffer stocks were concerned, it might be possible to make out a case for a certain measure of stock-holding of wool to ensure availability. For technical reasons, however, neither the producing nor the consuming
countries had been able to see their way to adopt such a course. In Australia's view, it was not variations in quantity, so much as other factors, which appeared to be responsible for price variations. Attempts to exercise control by means of stock-holding had not been considered practicable; instead, Australia had been forced to look upon her accumulated overseas funds as a generalized buffer-stock, and that was one reason why the Government was determined to act cautiously in relaxing import restrictions.

23. While they recognized the degree to which Australia's position was influenced by external factors somewhat beyond her control, members stressed the relevance and importance of internal stability, and expressed appreciation of the Australian Government's realization of the importance of achieving and maintaining domestic equilibrium. There was general satisfaction with the assurance given by the Australian representative that his Government regarded good "house-keeping" - sound fiscal and monetary policies - as a very important factor which would help to eliminate or minimise reliance on import restrictions. Some members urged that Australia continue to apply vigorous fiscal and monetary action so that, in its own interest, as well as that of others, restrictions and discrimination could be further reduced and ultimately eliminated.

24. Questions were raised as to the adequacy of the present and anticipated inflow of foreign capital into Australia, and reference was made to the apparent disparity between the inflow of capital into Australia and into other countries of comparable economic potential. Canada was mentioned as an example.

25. The representative of Australia replied that, with due consideration to the level of Australian imports and reserves, the level of foreign investment in Australia of the past year must be considered fairly substantial. These inflows had been very beneficial and he judged that their level had been favourably affected by Australia's internal policy of good "house-keeping". On the other hand the Australian view was that it would be unwise to rely on the inflow of capital being maintained at the high level of recent years. During the period since 1953, private capital movements had been irregular. In 1952-53 there had been an outflow of £48.5 million (excluding undistributed income); in 1953-54 an inflow of £3.9 million; in 1954-55 an inflow of £74.3 million, in 1955-56 £87.9 million, and in 1956-57 £90.1 million. In view of such fluctuations, it was essential that a cautious approach be adopted in estimating the possible rate of capital inflow. It would be unwise to judge the adequacy of Australia's international reserves on the assumption that capital inflow would always continue at a high level. Furthermore, comparison with other countries could never be entirely satisfactory. Historically, Australia's private investment had always come from the United Kingdom, but since the end of the war, the United Kingdom had been declining in relative importance as a source of capital. At the same time, the dollar area was increasing in importance as a source of capital and the rate of capital inflow in recent years had made a very large contribution to the Australian balance of payments.
26. The representative of Australia was asked whether, if a reasonable degree of internal stability could be maintained, it would still be necessary to have a substantial degree of restrictions on imports; and whether, with the achievement of this stability, the level of the reserves which the Australian authorities would regard as necessary would have to be quite as high as had been considered essential in less stable periods. Further, if the international financial markets of the world were so organized that savings for investment could be better tapped, could Australia, having achieved a reasonable degree of stability, expect that the inflow of both public and private capital would facilitate the financing of necessary imports and contribute to the avoidance of import restrictions?

27. In reply, the representative of Australia said that it was the declared policy of his Government to eliminate restrictions as rapidly as circumstances permitted. Good progress had been achieved in this direction. As regards the level of reserves, what was regarded as necessary at any time depended upon various factors. It was clear that the level which would need to be maintained if there was good "house-keeping" internally, or if the development of diversified exports proceeded satisfactorily, would be lower than if those factors were not present. The object of the Government was to try to operate with an adequate reserve level in relation to needs and trade; an examination of fluctuations in trade figures and in Australia's gold and foreign exchange holdings indicated that a rather higher level of reserves would have to be achieved than existed at the present time. He observed that, between 1950-51 and 1951-52 the current account balance of payments had changed from a surplus of £104 million to a deficit of £575 million. Over the twelve months June-1951 to June-1952, reserves had fallen by no less than £431 million.

System and Methods of the Restrictions, and Effects on Trade

28. Referring to the establishment by Australia of an "all countries" licensing list, a member expressed the hope that, in the light of the recent improvement in the level of reserves and the recent relaxation of restrictions on imports from non-dollar sources, it would soon be possible to add to the list more products available from the dollar area; less discrimination would allow Australian importers to purchase from the cheapest sources. In this connexion he recalled that in October 1955, the Australian Government had announced a reduction of 12½ per cent in dollar imports. He hoped that in the forthcoming review of licensing policy the possibility of widening the market for dollar goods would receive full consideration. He stated that, now Australia had achieved a better balance internally, it was in an improved position to capitalize on its achievements by maintaining momentum consistently in the direction of reduced discrimination. He pointed to the experience of New Zealand, where elimination of discriminatory restrictions against the dollar area had not always led to increased dollar imports, and urged an early expansion of the Australian "all countries" licensing list. He referred also to the system in operation in Australia under which importers of goods from the non-dollar area are assigned quotas, or in various ways are informed of the likely level of their imports for stated periods. He said it was his understanding that this advantage is not available to importers from the
dollar area, and asked if the disadvantage could be eliminated by assigning quotas of controlled goods to importers from the dollar area.

29. Another member called attention to the very substantial degree of discrimination which existed in the Australian system. There were, he believed, only about thirty-five items which could be imported from any source and among them only petroleum was not subject to quantitative limitation. It appeared that the regimes of the United Kingdom and other European and sterling area countries were less discriminatory, and he wondered whether existing payments circumstances could be said to justify maintenance of the marked degree of discrimination in the Australian system. More and more countries throughout the world had been coming to the conclusion that it was in their own interests to permit their importers to obtain their requirements from the most advantageous sources; the Australian system did not seem to have responded to the existence of de facto convertibility for major currencies and the narrowing of the difference between the "hardness" of means of payment now prevailing throughout the world. In the final analysis a country should consider its overall balance-of-payments position and it was not necessary to seek to achieve a balance with each of its trading partners or each currency area. He shared the view of those members who felt that within the general area of restrictions justified by Australia's overall payments position, much greater progress should be made, as a matter of sound economic practice, towards the reduction of all discrimination.

30. In reply, the representative of Australia said that there was a persistent structural deficit in Australia's dollar balance of payments. In 1952-53 the deficit was £126 million; in subsequent years it was £163 million, £247 million, £237 million and a little over £200 million. Australia had therefore to acquire dollars elsewhere. It was true that as a member of the sterling area, Australia was able to convert her sterling holdings into dollars on demand. But the sterling area's total dollar availabilities were limited and the United Kingdom had recently been forced to borrow from the Export/Import Bank and to obtain drawings from the International Monetary Fund to bolster the reserves of the sterling area. In the circumstances, Australia, in harmony with the general understanding within the sterling area, felt that it was under some obligation to restrain dollar expenditure and restrict its drawings out of the sterling area dollar pool to a reasonable amount. The Australian representative explained, however, that the import policy of his Government was determined by the status of, and prospects for, Australia's own balance of payments. From Australia's point of view, the root of the trouble appeared to lie in the general scarcity of dollars in the non-dollar world. It was his understanding that in recent times the balance-of-payments of the dollar area with the non-dollar world had been showing some disturbing trends: United States exports had risen more than United States imports, and payments to the United States of America had increased. The problem of increasing the dollar earnings of the non-dollar world may not be entirely the responsibility of the non-dollar world. Australia had not, in spite
dollar area, temporary movements of short-term capital, and inflationary conditions in a number of major trading countries. The inflow of gold and dollars into the United States during the last quarter of 1956 and the first quarter of 1957 had not, however, been of anything like the magnitude of the outflow during the previous years. In the second quarter of 1957, the rate of inflow had slowed down considerably, if not stopped, and the outlook for the third quarter was for further movement in that direction. It was true that the export surplus from the dollar area had been growing within recent times but this did not necessarily mean that it was being paid for in dollars; part of the exports had been sold against foreign currencies. An even more important factor had been the very substantial increase in private investment from the dollar area. This generally took the form of the establishment of plants abroad supplied by and paid for by private investors in the dollar area. In such cases, an increase in United States exports was directly financed by, and was the direct result of, an increase in United States investment abroad.

38. The question was raised by another member as to whether the pursuit of a policy of non-discrimination might not in certain circumstances aggravate the overall balance-of-payments difficulties which a country was experiencing; he expressed the view that if non-discrimination were to lead to a worsening of the position and a rise in the deficit, it would be contrary to the spirit of the GATT.

39. This view was supported by another member who was of the opinion that if equilibrium in the balance of payments was to be restored, and adequate convertible resources were not available, some temporary discrimination was inevitable, however regrettable that might be from the trade point of view. In response, a member of the Committee, while agreeing that discrimination in import licensing might be necessary in prevailing payments circumstances, recalled that such discrimination should be appropriate to the currency difficulties being experienced. He did not accept that in general in the present payments situation a policy of non-discrimination would necessarily involve a substantial additional call on the exchange reserves of the country applying restrictions; there might be additional demand for certain products but this might be offset by reductions in demands for imports from other sources or on domestic availabilities.

40. Replying to the several comments that had been made, the representative of Australia made it clear that such discrimination as existed in Australia was based entirely on currency availability considerations and not on the total overall balance of payments or on domestic protection. Australia had no sources of dollars other than what she could earn by her own efforts, what she had the right to take from the sterling pool, and what she could borrow. Australia did not enjoy having to impose restrictions, and was as anxious as other countries to reach a stage where they would no longer be necessary, since restrictions were hurtful to herself as well as to other countries. He read the following extract from a statement made this year by the Prime Minister of Australia:
of her efforts, been able to increase her sales to the dollar area partly because of policies adopted by the dollar countries. Nevertheless, Australia fully realized that from her own point of view, as well as from the point of view of her trading partners, there were dangers in being cut off from certain sources of supply for extended periods of time.

31. In regard to licensing criteria, these had been so devised as to ensure that Australian industry, within the limits of the total dollar funds obtained from earnings, and by conversion of sterling, was not prejudiced or hampered in its activities. Reference had been made to the 12½ per cent reduction in dollar imports announced in 1955, but without some further explanation this statement was apt to be misleading. In fact, compared with 1950-51, dollar imports had increased by about 57 per cent while exports to Australia from the sterling area and from non-sterling non-dollar countries had tended to decline. To this extent there had been a considerable decrease in discrimination over the last seven years. While it was true that in October 1955 dollar goods had been cut by 12½ per cent, imports of sterling area goods had also been reduced. In July 1956, however, when the import licensing rate was cut by about £130 million there had been no reduction in the total funds allocated for imports from the dollar area. Accordingly imports from the dollar area had fallen much less in 1956-57 than imports from the sterling area and the non-dollar non-sterling area.

32. The Australian representative observed that, on the question of the discriminatory elements in the licensing system as between dollar and non-dollar sources, the Australian method was different from the OEEC liberalization procedure which judged the degree of freedom of trade by the percentage of liberalization in relation to a base period. Australia used what was known as the "administrative budget" method which applied principally to goods, such as raw materials, capital goods, and industrial components, which were subject to continual fluctuations in the year to year requirements. The administrative budget provided a sum of money for the importation of those classes of goods, and its allocation depended upon the relative essentiality and the priority of the individual needs for them. The budget applied to dollar goods as well as to non-dollar goods. It was misleading to measure Australian discrimination by the number of commodities in the "all-countries" list.

33. In judging what items should be licensed from the dollar area, careful consideration was given to the needs of importers. If representations were made by an importer that it would be cheaper to obtain a particular item from a dollar source of supply, approval would be given to the extent justified by the payments position. It was sometimes the case that when it became known that licences would be granted for certain dollar imports, the prices of comparable non-dollar goods which, until then, had been higher than those of the dollar goods, showed a quite remarkable tendency to fall. In practice therefore, there was far more flexibility than might appear to be the case.
34. As to the degree of discrimination in the Australian licensing system compared with that of other countries, the fact that the proportion of imports from the dollar area had greatly increased, was an indication that Australia was following a progressive policy. To a much greater degree than might be apparent, importers were being permitted to buy in the cheapest markets without restriction. The fact that the pressure for licences for imports from the dollar area appeared to be diminishing was some evidence that Australia was getting closer to the time when the necessity for maintaining even a framework for discrimination might be expected to disappear. An indication of this trend was the recent increase in the number of items which could be licensed on a world basis.

35. Replying to another question concerning the period of validity of licences, the representative of Australia said that licences were valid for one year even though they were issued every four months. They had previously been issued quarterly, and the Government were considering whether they might not be issued every six months instead. Since a licence, once issued, was valid for a period of one year from the time of issue, there would be no difficulty in supplies arriving from any part of the world within the period of validity of the licence.

36. A member from the dollar area commented that, in regard to discrimination against the dollar area, the essence of the Australian argument seemed to be that the position was not so bad as it appeared and that full account was taken by the authorities of price considerations in determining whether or not licences should be issued for essential imports. It seemed to him, however, that the "feel" of traders as to the best sources from which to buy had to be communicated to and through the licensing authorities. If Australia were to pursue the logic of its declared policy, it should be led to the position where importers were allowed to decide, in regard to permitted imports, where it was best for them to buy. Australia's attitude concerning the question of discrimination appeared to him to be still influenced by the thinking of the past, and too much attention was being paid to a presumed and not entirely real difference of the costs of settling with different currency areas.

37. Another member, referring to the statement by the Australian representative that the United States balance of payments within recent months had shown a disturbing trend, explained that, from 1950 to the last quarter of 1956, countries other than the United States had, as a result of their transactions with the United States, increased their gold and liquid dollar assets by $12 billion. He added that, during the period 1953-third quarter 1956, the rest of the world had accumulated gold and dollars arising from their transactions with the United States at a rate varying from $1 billion to over $2 billion per year. During the first half of 1956, the rate was running at a higher than average level. During the last quarter of 1956, however, there had been a shift. This was associated with a number of temporary factors, including the need to import large quantities of petroleum from the
"The Government still aims to get rid of import restrictions altogether. This result will, however, depend on the achievement of a number of conditions including a still further increase in the volume of exports, favourable terms of trade, strong overseas reserves and sound internal policies with the restraints on total demand for goods and services which such policies require. These conditions are by no means impossible. In fact we have made good progress towards achieving them."

41. The Australian representative concluded by saying that import policy in his country was designed to reduce to a minimum the possible protective effects of quantitative restrictions on domestic production, and that the Australian authorities would do all in their power to avoid unnecessary damage to the trade of any country.

42. The Chairman, on behalf of the Working Party, expressed appreciation of the thorough way in which the Australian delegation had responded to the various questions. The Australian representative in turn thanked the Committee for their co-operation and understanding during the consultations, which, he felt, were of value to all parties participating in them.
Opening Statement by Australian Representative

Australia consulted with the CONTRACTING PARTIES under Articles XII:4(b) and XIV:1(g) at the Eleventh Session. At that time we had a series of intensifications to report and our balance-of-payments position was extremely unfavourable. Our reserves were at a very low level.

Now, however, we can come before the CONTRACTING PARTIES and report a substantial improvement in the balance-of-payments position and a significant recovery in our holdings of gold and foreign exchange. During 1957 the Government has been able to progressively relax import restrictions and we are currently licensing imports at a rate far above that obtaining at the time of our last consultation. Moreover the Government has several times announced its readiness to review present levels of licensing if the improvement in the balance of payments is maintained. A great deal therefore depends on our balance-of-payments fortunes over the next few months.

Mr. Chairman, the Committee has before it the excellent background paper prepared by the International Monetary Fund which gives very full information on recent trends in Australia. I therefore propose in this opening statement, to confine myself to reviewing in fairly broad terms the nature of the changes that have taken place in the Australian economy and the prospects, as we see them, for our balance of payments in the current financial year.

Economic Development

It is a basic aim of Government policy that a high level of economic expansion should be maintained. Last year, for instance, gross private investment plus expenditure on public works accounted for almost one quarter of gross domestic expenditure. This is a very high rate of investment but it has been maintained in Australia for quite a number of years. Expansion at this rate naturally has some striking effects on the industrial structure. I may perhaps mention one or two examples:

**Steel**

Pre-war capacity was 1.3 million tons. Today it is in the region of 3 million tons and by 1961 it will have reached 3.6 million tons. The expansion in productive capacity which has taken place so far is the result of expenditure on new plant and equipment of approximately £50 million.1

**Automobiles**

Before the war all Australia’s requirements could be said to have been imported. Today Australian factories produce about 60 per cent of the value of motor vehicles purchased in Australia. Furthermore we have entered the export field in motor vehicles.

---

1 Throughout this statement all such figures mean pounds Australian.
Aluminium

Production of aluminium commenced in 1955. We are now able to meet roughly 50 per cent of Australia's demands.

Oil refining

Investment of over £100 million has resulted in four large refineries and one small unit processing about 8 million tons of crude oil a year.

The list could be expanded but the examples are enough to illustrate the nature of the industrial expansion taking place.

There is another equally basic aim of Government policy which should be mentioned in any discussion of the Australian economic scene. Between 1947 and 1957, Australia's population increased by 27 per cent. This is a remarkable rate of population increase by any standards and it has only been made possible by a high rate of immigration. It is present Government policy to keep migration to Australia flowing at a rate of about 1 per cent of population per annum.

Naturally this high rate of economic expansion has raised many problems and at times it has placed a strain on the other two fundamental objectives of Government economic policy; namely, internal stability and external solvency. Over the past year, however, the situation in both these latter respects has shown considerable improvement.

Internal Stability

Retail prices increased by about 4½ per cent in 1956-57 as compared with 1955-56. But the greater part of this increase occurred in the early part of 1956-57 and latest advices suggest retail prices have moved little more than 2 per cent over the last twelve months. Wholesale prices were no higher at the end of 1956-57 than at the beginning.

A similar improvement has taken place in the labour market and earlier conditions of over-full employment have given way to a much healthier relationship between demand and supply. There has been a slight increase in unemployment but recipients of unemployment benefits are still less than 1 per cent of civilian employment. Furthermore total employment increased over the year as a whole. Such increases in unemployment as have occurred have been mainly associated with changes in particular industries. Labour turnover has been reduced and there appears to have been a general increase in industrial efficiency.

Output fell in some industries during 1956-57 but it expanded in others and the changes which took place could not be attributed to any general insufficiency of demand. What has taken place has been more in the nature of a "shaking out" process and industrial productivity generally has benefited.

In general I believe it can be said that in 1956-57, the Australian economy has reached a state of remarkable balance. For this result, the Government can claim its fair share of credit.
So far as its own finances are concerned, the Government achieved a small overall cash surplus in its financial operations in 1956-57. It achieved this after financing all of its own capital works expenditure from revenue and about half of the large capital works expenditure of the Six State Governments.

Monetary policy also played an important part in the achievement of internal stability in 1956-57. Bank liquidity was quite buoyant at the beginning of the year. Then about September 1956 the Banks began to gain funds partly as a result of higher export incomes. To restrain the growth in liquidity the trading banks were required to meet calls to Special Accounts by the Commonwealth Bank in October 1956 and January, February and March 1957. At the end of the year the ratio of Special Accounts to deposits was about 22 per cent compared with 18 per cent at the beginning. There was also a reduction in Bank Advances during 1956-57 of £27 million, and interest rates were maintained at high levels.

Having attained some sort of internal balance at a high level of economic activity the problem is, of course, to preserve it. This was one of the main objectives of the 1957-58 Budget introduced last September. The following extract from the Budget Speech sets the general tone of the Budget:

"We are in a position to give some tax relief and we propose to give it. But we do not feel called upon to start undoing, step by step, the measures we undertook eighteen months ago for the very purpose of correcting an unbalanced situation and bringing about the kind of well adjusted situation we now enjoy. Neither do we judge it necessary or desirable to give a wholesale boost to activity and expenditure."

Expenditure in 1957-58, after providing for the financing from revenue of the whole of the Commonwealth Government's capital works programme and for increases in the rate of pensions, unemployment and sickness benefits, was estimated at £1,202 million, some £80 million higher than in 1956-57.

On this figuring the Treasurer would have had a prospective surplus in hand of £145 million.

Despite almost unprecedented pressure for tax concessions from all quarters, the Government decided that if its overriding aim of preserving stability was to be achieved, a large part of this prospective surplus must be set aside to meet extra-budgetary commitments. The most important of these are support of the works programmes of the State Governments - mainly of a basic developmental character - and provision for redemption of such part of the exceptionally large amount of public debt maturing this financial year as it may prove impracticable to re-finance by conversion loans.

Accordingly the decision taken by the Government was to introduce taxation proposals the net effect of which was to reduce the revenue estimates for 1957-58 by about £26 million or 2 per cent. As a result of these taxation changes, the prospective surplus was reduced from £145 million to £119 million. The Treasurer announced that the whole of this amount would be appropriated to the Loan Consolidation and Investment Reserve where it will be available to meet the extra-budgetary commitments already referred to. Furthermore most of the taxation concessions were directed towards removing anomalies and most of the taxation increases introduced in 1955-56 to curb inflation were maintained.
Overall the Government has aimed at achieving at least a balance between its total cash receipts and its total cash outlay. Provision has been made to use taxation revenue on an even greater scale than last year to finance Governmental public works expenditure.

In the monetary field the policy of restraint will be maintained. It may perhaps be helpful as some indication of the present views of the Central Bank if I read the Committee the following extract from the annual report of the Commonwealth Bank:

"The Central Bank announced in May that it had informed the banks that the economy appeared to have moved towards a condition of reasonable balance, although there were factors developing, arising particularly from the balance of payments, which could lead to a renewal of inflationary pressures. The Bank stated that while it would not be appropriate at that time to make any general relaxation of credit, it was no longer necessary for total advances of the banking system to fall further apart from normal seasonal variations. However it was emphasized that there would be no general increase in bank loans and that advances should not be relied upon to finance large capital expenditure."

External Solvency

While there were notable improvements in the internal economic position in 1956-57, the most dramatic change was the swing-round in the balance of payments. Export income reached the record level of £980 million while imports were held to £717 million. The net deficit on invisibles was slightly lower and with the improvement in the trade balance, there was in the upshot a net current account surplus of £80 million compared with a deficit of £235 million in 1955-56. Net capital inflow amounted to £132 million (mostly on private account) so that over the year £212 million was added to international reserves, thus restoring the heavy losses sustained over the two previous years. Reserves at 30 June 1957 stood at £566.5 million.

The main factor in the improvement in export income was a substantial increase in the value of wool exports. The clip was some 11 per cent greater in volume than in 1955-56 and the average export price was about 30 per cent higher. In consequence the value of wool exports rose to more than £500 million.

As soon as it became apparent that the prospects for export earnings in 1956-57 were much better than had previously been thought, the Government decided that there should be an immediate relaxation of import licensing restrictions. Liberalization measures announced in January, February and April of this year could not, however, greatly affect the recorded import total for 1956-57. In the outcome imports at £717 million were £102 million lower than in the previous year.
Balance-of-Payments Prospects

Because of the variability of the Australian balance of payments, it is particularly difficult to make predictions at this early stage of the financial year. No doubt most countries believe their balance of payments are subject to abnormal fluctuations and I can only say that in Australia's case this tendency to abnormality goes to extreme lengths.

In the case of exports we have the fact that we are still to a large extent, a one commodity economy. In 1956-57, for example, wool accounted for about half our export income, and wool prices are extremely variable. A penny per pound change in the price of wool means about £6 million to our balance of payments.

Then there are changes in overseas markets which are not associated with free movements in demand and supply but which are the result of policy decisions in other countries. We do what we can by negotiation to ease these problems but unfortunately we do not always have complete success.

There is also the problem of unfavourable seasonal conditions. We are in the throes of a drought at the present time and it will have a substantial effect on our incomes not only in 1957-58 but next year as well. In particular, anything which affects sheep numbers now affects future wool clips.

Not only is our export income variable but, to complicate matters, so is the demand for imports, and it seems to lag behind export changes in such a way as to cause a maximum of confusion. The year 1951-52 was a very good example of this. By the time the import boom occurs the export boom has long since passed and reserves are declining.

Another source of instability in the Australian balance of payments is the capital account. Over the last three years we seem to have been able to inspire some confidence in private sources of foreign capital but we have to bear in mind that any loss of confidence could turn a substantial inflow into a substantial outflow.

Let us now look over the balance-of-payments prospects bearing in mind the uncertainties attaching to any prognostications at this stage.

1. EXPORTS

Last year exports reached a record figure of £980 million. This year exports should be well below that figure.

Wool

On present price trends, receipts from wool exports should show a sharp drop. This is partly due to wool prices which are running at 67d. per lb., compared with 80d. last year. It is also partly due to the effect of continued drought conditions on wool production.
**Wheat and Flour**

Because of extremely dry conditions the wheat crop this year is likely to be only a fraction of last year's crop which was itself small. It is clear that receipts from sales of wheat and flour will fall sharply in 1957-58.

**Other Agricultural Commodities**

Production of feeding grains, dairy produce and other foodstuffs will be affected by the dry conditions and this will mean some small reduction on last year's export receipts.

**Minerals and Fuels**

Because of falling world prices, export receipts from lead, zinc and copper are expected to be below last year's levels. Iron and steel exports are also expected to be down because of the demands of a new tin-plate mill now in operation.

**Other Items**

Altogether there seem to be very few items which will yield larger returns than last year and a significant fall in total exports seems inevitable.

**2. IMPORTS**

At the time of Australia's last consultation with the CONTRACTING PARTIES, imports were running at the rate of about £700 million per annum and licences were being issued at a rate aimed at reducing the rate of imports below that figure. There has been a very substantial change-round in import licensing policy since that time.

In January 1957 licensing relaxations were introduced which had the effect of raising import ceilings by somewhere about £30 million f.o.b. per annum.

Further relaxations announced as from 1 April resulted in a raising of the import ceiling for 1957-58 by £40 million f.o.b. to £775 million f.o.b.

Another set of relaxations were announced last August. The net effect of these relaxations on the import rate is not yet known, but there should be a significant increase on the £775 million figure. Over the last three months imports have been entering Australia at the rate of about £785 million per annum and the latest licensing changes will not have their full effects until 1958.

The net result on trade account is that with exports likely to be lower and imports likely to be higher, the large surplus of £263 million in 1956-57 is likely to be reduced to very small proportions in 1957-58.
Then there is the normal heavy deficit on other current account items – notably freight on shipping – to take into account, and if we did have the trade results mentioned above this would leave us with a substantial deficit on current account as compared with a substantial surplus in 1956-57.

How much of that deficit would be likely to be offset by capital inflow? This is anybody's guess since it largely depends on whether or not private capital inflow continues at the high rate of recent years. One factor is likely to be the increase in Bank Rate in the United Kingdom. The longer term investment programmes may not be unduly affected but there might be some adverse short-term capital movements. There have been reports of the switching of short-term wool financing from London to Australia. However London is not by any means the only source of private capital inflow and much will depend on conditions in the capital market in the United States and Canada.

In view of the nature of private capital movements it is unwise for any Government to count on substantial inflows on private account and, if the trade results suggested above came to pass, we would face the possibility of some fall in reserves in 1957-58.

What then are the prospects for further substantial import licensing relaxations in the near future?

In announcing the instalment of liberalizations which operated from 1 August last the Minister for Trade said that any comprehensive review of the possibility of further relaxations must await the development of the new export season, and added that it was the Government's intention to make such a review at the end of November.

It would be improper for us to attempt in any way to anticipate the outcome of that review. However, there is perhaps some advantage to be derived from setting down some of the considerations which would have to be borne in mind. One can look at the situation this way. If imports in 1957-58 were, for argument's sake, in the region of £800 million, one could add to that a deficit on invisibles of almost £200 million. It is risky to count too much on private capital inflow but if one assumed a surplus on total capital account of say £50 million one would still need exports of over £950 million to allow for any increase in imports without a fall in reserves. Such a high level of exports has occurred only twice in Australia's history. The above figures are more or less arbitrary but nevertheless it is clear that the key to the situation lies in developing exports.

Can we do anything about increasing Australia's exports? Here, Mr. Chairman, we may be accused of drawing red herrings across the trail, but we do believe that our inability to import more is in large part a direct consequence of our inability to obtain entry in foreign markets for the commodities we are best able to produce. In some cases we find markets pre-empted by other suppliers who are not competitive with our own producers but who are involved in bilateral deals with the buying country. In other cases we are kept out of markets by quota restrictions or other
regulations of commerce. In many cases we find heavily subsidized production taking place in countries which before the war were net importers. Furthermore production has often been increased to the stage where surpluses are developing and countries which should be importers are looking for export markets. Then again the disposal of surpluses on commercial markets on concessional terms is being carried on to such a degree that it is bound to prejudice markets for economic producers. The net result of all this is that the quantity of primary products which Australia can sell and the prices at which we can sell are often unfavourable due to circumstances which are no fault of ours.

We are developing exports of industrial products. In 1956-57 exports of iron and steel products increased from £7 million to £27 million. Exports of vehicles and parts increased from £3 million to £10 million. Exports of petroleum products increased from £8 to £11 million. However, Mr. Chairman, welcome as these developments are, we are old fashioned enough to believe that we could do much better still if we were able to export more of these commodities such as wheat, in the production of which we have marked comparative advantages. If that were possible our ability to increase imports from other countries would increase in proportion.

In the meantime I can assure the Committee that the policy of the Australian Government is to proceed with the liberalization of the present import regime as soon as the balance-of-payments situation and prospects suggest that such action can be safely taken.

However, hard experience has taught us the unwisdom of premature relaxations of restrictions. There is nothing more disruptive than sudden variations in the level of import licensing and it would be no more in the interests of our overseas suppliers than of our own economy if we were to introduce liberalization measures which we found it impossible to maintain.

In the course of the present consultations we shall be glad to do our best to supply any further information members of the Committee may wish to have about our balance-of-payments position and about the details of the import licensing relaxations we have introduced in successive stages over the past year.