CONSULTATIONS WITH AUSTRALIA UNDER ARTICLES XII:4(b) and XIV:1(g)

Statement by the Australian Representative

Australia has consulted twice with the Contracting Parties under Article XII in the last eighteen months and the general nature of the persistent balance of payments difficulties which have confronted us - and still do confront us - will in consequence already be familiar to all members of the Working Party.

The striking feature of the Australian economic scene in recent years has been the rate at which the economy as a whole has been expanding. The population which before the war stood at some 7½ million has now reached almost 9½ million and roughly half of this increase is attributable to the high rate of immigration which has been maintained in the post war years. Alongside this population growth - and in part induced by it - there has been an extremely high rate of capital investment in both the public and the private sectors of the economy and a rapid increase in the output of both primary and secondary industries. Investment expenditure has, despite the restraints by the Government, tended to continue at a rate which it has not been possible to cover from internal savings and imports of capital from overseas. This in turn has tended to generate an excessive internal demand for goods and services of all kinds and to place a strain on the balance of payments.

For political, strategic and social reasons as well as on economic grounds it has been the aim of Australian Government policy to encourage the maximum rate of immigration and economic development compatible with the maintenance of internal stability and international solvency. The task of the Government in achieving this aim has however been rendered particularly difficult over the past two years by a sharp deterioration in the terms of trade arising principally from a decline in the prices obtainable on world markets for our major export commodities. A further complicating factor is the Australian federal system which imposes constitutional limitations on the powers of the Commonwealth Government.

At the consultations at the Tenth Session a full explanation was given not only of the import licensing measures introduced as from 1 October 1955 - which as members of the Working Party will recall were designed to reduce imports by the June Quarter of 1956 to an annual rate of £A650 million - but also of the fiscal and monetary measures taken to reduce inflationary pressures and assist
in achieving internal as well as external stability. These measures included
budgeting for a surplus of nearly £50 million in the 1955/56 Budget, the
curbing of bank advances, a cut in the Commonwealth public works programme,
and the acceptance of voluntary restraint by the major hire purchase companies.
Action was also initiated to give further assistance to the promotion of exports.

At the time of the consultations there seemed every reason to suppose that
the combination of measures introduced would suffice to produce reasonable
stability internally and to bring the balance of payments into equilibrium
by the middle of 1956 so that over the financial year 1956/57 as a whole there
would be no further drain on our already uncomfortably depleted international
reserves.

These expectations were however falsified by events.

By March of this year it had become apparent that, despite the measures
taken, internal inflationary pressures were mounting. Moreover, although
the 1955/56 Budget estimates of revenue and expenditure seemed likely to turn
cut much as expected loan raisings on the domestic market and overseas had
proved disappointing and it had become clear that unless something was done
the extra-budgetary commitments of the Commonwealth Government would probably
result in a cash deficit over the Government's transactions as a whole of some
£30 million for the financial year. The weakening of the loan market had also
made it necessary for the Central Bank to intervene heavily on the bond market
thus adding to the money supply end to the pressure of demand.

To meet this situation the Prime Minister introduced on 14 March last
what amounted to a supplementary budget. Sales tax on motor vehicles and
many other classes of goods was sharply increased; the petrol tax was raised;
and customs and excise duties were increased on beer, spirits, tobacco and
cigarettes. There was no increase in personal income tax but company taxation
was raised by a shilling in the pound.

The revenue from these increased taxes was estimated at £11.5 million in
a full year equivalent to an increase of 10 per cent. in total Budget revenue.

At the same time the Central Bank reduced its support for the long-term
bond market allowing the yield to rise from about 4½ per cent to something
over 5 per cent and, by arrangement, interest rates on bank overdrafts were
permitted to be raised from the former pegged figure of 5 per cent to a
maximum of 6 per cent (with the understanding that the average rate charged
would not exceed 5½ per cent).

It should perhaps be emphasised that these drastic new fiscal and
monetary measures were taken primarily for internal reasons and did not arise
from any major reassessment of the balance-of-payments situation. During
the first quarter of the year the monthly trade figures were distorted by
industrial disputes on the waterfront which in turn led to some postponement
of wool sales. However, although this meant some deferment of receipts,
export prospects for 1955/56 as a whole looked rather better last March than they had at the time the October restrictions were decided upon; and, although there may have been some doubts about the import estimates, it was still generally thought that by the middle of the year the import figure would have come down to an annual rate not far in excess of the target of £650 million.

However, as the monthly figures became available, it became evident that the October import licensing measures were going to be much slower in affecting the flow of imports than had been expected and that in any case there was no prospect of their cutting the import rate to a figure of anything like £650 million. The annual import rate in the June quarter was in fact £811 million.

We have, of course, been looking closely at the reasons for this. We are by no means sure that we have an explanation which we ourselves would regard as completely satisfactory. We do, however, know a number of the contributing factors.

(a) Australian import licences have an initial period of validity of one year and until recently extensions were normally granted whenever a reasonable prima facie case for extension is presented. Many of the imports coming in during the June quarter—and indeed subsequently—have been imported against licences that were outstanding before the October 1955 restrictions were introduced.

(b) In the initial period following the introduction of the October measures some flexibility in administration was necessary to avoid undue disruption of trade and to meet hardship cases affecting both Australian importers and their overseas suppliers.

(c) Imports of various categories of goods which even after the October measures are being licensed without quantitative restrictions (and in value the most important of these are petroleum products) continued to be imported at a rate well above the estimates compiled officially after consultation with the trade.

(d) There are various deficiencies in the statistics relating to import quotas and licences arising principally from the fact that the Australian Government has always regarded balance-of-payments import restrictions as temporary measures to be dismantled as quickly as possible and has therefore been reluctant to incur the expenditure in money and manpower required to set up an elaborate system of statistical records.

The continuation of such a high rate of imports nine months after the October restrictions were introduced was clearly something the Government could not afford to ignore. In June a thorough review of the current
balance-of-payments situations and prospects was made as a result of which
the new measures which operated from 1 July and which are the subject of the
present consultations were decided upon.

It is perhaps a salutary lesson in the difficulty of making balance-of-
payments forecasts to look back at the estimates we were using at the time
of the Tenth Session and to compare them with the actual outturn for 1955/56.

Then we thought export receipts for 1955/56 would not exceed £1,730 million.
In fact they totalled £1,773 million.

Then we thought that imports would be about £1,750 million. In fact they
totalled £1,819 million.

Then we thought the net deficit on invisibles would be about the same as
in the previous year - £1,73 million. In fact this proved almost exactly
right. The net deficit on invisibles in 1955/56 totalled £1,75 million.

This means that we had a net balance of payments deficit on current
account of £1,221 million.

We thought at the time of the Tenth Session that we might have a net
surplus of some £1,50 million on capital account as a partial offset to the
expected current account deficit. In fact we did much better than that.
The net surplus on capital account turned out to be £1,48 million.

Nevertheless, despite that offset, we suffered during 1955/56 a further
decline in our international reserves of £1,73 million bringing the total down
to what the Treasurer has called the "uncomfortably low" figure of £3,55 million.

In determining what further action was needed the Government had of course
not only to take cognisance of the outturn for 1955/56 but also to look forward
to the prospects for 1956/57.

It is still too early to put forecasts for 1956/57 into terms of precise
figures. If needed, we have last year's experience to remind us how wide
the margin of error can be.

In looking at the prospects for 1956/57 now we have rather more inform-
action to go on than the Government had last June. But the picture as we now
see it does not differ materially from that which led the Government to the
conclusion that some further import licensing cuts were inescapable.

Prospects for exports in 1956/57 are encouraging. The wool clip is
expected to be nearly 6 per cent higher in quantity and prices at the opening
wool auctions were 5 to 7½ per cent higher than the closing prices at the end
of the 1955/56 season. The wheat crop will be smaller but there is a large
carry-over available for disposal. Prospects for other primary products vary
but there are welcome indications of an increase in exports of manufactured
goods.
The annual rate of imports in the September quarter just ended was still running at £760 million but we believe the full effect of the October 1955 measures has not yet been felt. The new measures imposed from 1 July, although designed to effect a saving of some £40 million in a full year, could not we think save more than £20 million (and probably less) in 1956/57.

Nevertheless, although no precise estimate can be given we expect imports in 1956/57 to be well below last year's total of £819 million and with an increase in export receipts, we would expect to have a favourable balance of visible trade in 1956/57.

Apart from covering the f.o.b. cost of imports, however, Australia has to meet heavy payments for "invisibles". The largest items are freight and insurance on imports, dividends and royalties, interest payments on overseas debt and tourist expenditure. As I have already said the net deficit on current invisibles in 1955/56 was £175 million and we must expect to have to face a similar bill in 1956/57.

The inescapable conclusion is that even after the July measures we shall be able to avoid a further decline in our already depleted international reserves in 1955/56 only if net capital inflow continues on a substantial scale. While the possibility of further government borrowing abroad is being explored the funds available overseas for such investment are limited and competition for them is keen. Thus we shall be heavily dependent on sustained private capital inflow - an item which in our experience in the post-war period has been subject to wide fluctuations from year to year.

The Australian Government recognises that, if continued for long, import restrictions at the present degree of severity must be damaging to the economy. It is continuing in full rigour the budgetary and monetary measures introduced to curb excess demand and is doing what it can to promote a higher level of exports.

In view of the scale of the drastic taxation increases introduced last March the Budget introduced by the Treasurer on 30 August last contained only minor revisions and adjustments of the tax level. The full effects of the March measures will however be felt in 1956/57 and in addition to financing the whole of the Commonwealth Government's £110 million capital works programme from revenue, the Treasurer was able to budget for a surplus of £108 million for transfer to the Loan Consolidation and Investment Reserve where the funds will be available as required to assist the financing of State Government works programmes or to redeem maturing debt which cannot be refinanced on the loan market.

The Working Party will of course be interested to know what the prospects are for some relaxation of the present severe import licensing restrictions. As to the Government's present thinking on this subject I can do no better than quote the following passages from the Treasurer's Budget Speech:
"Even when imports have fallen to the planned level and even if export earnings this year prove to be appreciably greater than last year, we will still be dependent upon a considerable amount of capital inflow if we are to avoid a further fall in our international reserves. The rate of such inflow has tended to be highly variable and to be dependent upon it is not at all a secure position.

More unsatisfactory still is the thought that a balance in our external trade and payments seems possible at this stage only on the basis of severely restricted imports. In the light of our trade position and the state of our reserves the Government had no choice but to curtail imports; but it would be the last to claim that the present state of things is satisfactory or even tolerable. If continued for long, import restrictions at the present degree of severity must be damaging to our economy and yet, unless there is a major improvement in our export earnings or unless capital inflow is much larger than in recent times, it is difficult to see the position being much alleviated in the immediate future.

The fact is that we cannot afford a reasonably satisfactory flow of imports unless and until our export earnings rise much higher. We need an export income more like £1,000,000,000 a year than £800,000,000. We also need a steady flow of capital on both public and private account.

However, although our immediate balance-of-payments problem is difficult, I do not think that, on a rather longer view, we need despair of a solution; and I certainly do not join with those who say that, unless we reduce our rate of economic growth, we must resign ourselves to chronic shortages of foreign exchange and perpetual import restrictions.

Obviously, of course, a solution depends upon the satisfaction of certain basic conditions and of these some, admittedly, are more or less beyond our control. For example, our export earnings must depend largely upon world prices for our products and also upon the accessibility of markets - as to which much in turn depends upon the trading policies of other nations. On the other hand, quantity of export production also counts, and no one can doubt the physical capacity of this country to yield more and more commodities to meet the world's most basic needs. Even now it can be said that recent achievements in raising the volume of export production, especially rural production, have been highly encouraging. Equally encouraging has been the recent proof that some of our manufacturing industries are capable of entering more largely into the export field and are extremely keen to do so.
"More than this, one need be no great optimist to believe that, locked away in this vast land of ours, are resources capable of enlarging our export potential and diminishing our need for imports. Indeed, scarcely a recent year has passed without something of the kind coming to light. Perhaps as notable an example as any is the growing confirmation of large and rich mineral deposits in Queensland and the Northern Territory. I have been assured that, given adequate development of known fields, new mineral production is capable of adding very substantially to our export earnings within a few years. I may mention here that the Commonwealth Government is now actively exploring with the Government of Queensland the need for improved railway facilities to permit early full-scale development of some of these projects.

"Instances of this kind seem to make folly of the idea that active pursuit of development is necessarily incompatible with a sound balance-of-payments position. It can probably be agreed that some developmental activity could have taken more fruitful directions in the past. Granted this, however, can it be supposed that our balance-of-payments problem will be solved by cutting down development?

"There are other conditions to be fulfilled. One has been the theme of much the Government has said, and the object of much the Government has done, in recent times - that is, to prevent the occurrence of inflationary demand conditions which lead to excessive importing and a running down of our international reserves.

"A further condition is the preservation in this country of such sound and stable economic conditions as will encourage the investment of more overseas capital, on both public and private account - encourage it not only to come here but to stay here and leave its earnings for investment here ....

"The kind of measures we have taken are designed to restore a state of general balance in the economy and I think they have had a degree of success in that direction. But inflation is a pervasive thing. It draws upon many sources and is helped along by a multitude of actions on the part of individuals and of groups. This has to be more widely recognised and there must be a common will to resist inflation and do the things necessary to avert it - to produce more, to save more, to look for ways of reducing costs and of economising in resources whatever the line of activity may be. Given such an effort by the whole community, I have no doubt that inflation can be mastered and our economic and social life freed from the dislocations and injustices it entails."