

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/370

7 July 1955

Limited Distribution

## REPORT OF THE WORKING PARTY ESTABLISHED BY THE INTERSESSIONAL COMMITTEE TO CONDUCT THE CONSULTATION WITH AUSTRALIA UNDER ARTICLE XII:4(b)

1. In accordance with the requirements of paragraph 4(b) of Article XII and with paragraph 6 of the Intersessional Procedures approved at the Ninth Session<sup>1</sup>, the Australian Government transmitted on 22 March 1955 a notification of its decision to intensify its import restrictions, effective 1 April 1955. The information supplied by the Australian Government was circulated to contracting parties in documents L/350 and Add.1.
2. Following the initiative taken by the Chairman and the Executive Secretary in accordance with the intersessional procedures, the Intersessional Committee decided, through a postal ballot held in April, to waive the time limit for the initiation of a consultation under Article XII:4(b) and to consider the matter when next it met for other business. The Committee was subsequently convened to meet on 23 June 1955, and the matter was placed on the agenda for that meeting.
3. The Australian Government indicated from the outset that it would be willing to consult in whichever way might be decided by the Intersessional Committee, and showed its readiness to consult fully by sending to the meeting of the Intersessional Committee a number of well-qualified representatives.
4. At its meeting on 24 June 1955, the Intersessional Committee appointed this working party under the chairmanship of Dr. W.C. Naudé (Union of South Africa), instructing it to conduct the consultation initiated with Australia pursuant to Article XII:4(b) and to submit a report thereon to the next session of the CONTRACTING PARTIES.
5. The Working Party had before it a plan for the consultation proposed by the Chairman of the CONTRACTING PARTIES and referred by the Intersessional Committee to the Working Party for its guidance. The Working Party accordingly addressed itself during its discussion to all of the subjects suggested in that plan. It did not, however, find it practical to follow the plan in precisely the letter or order in which the subjects were proposed. It found that some of the subjects could best be treated in other than the order proposed and that certain amendments and additions to the subjects would be desirable if the plan were to be used for future consultations. However, its experience showed that future consultations would be greatly facilitated by advance preparation and by the use of a plan of this kind, suitably amended and adopted on each occasion.

---

<sup>1</sup>Basic Instruments and Selected Documents, Third Supplement, p.11

6. The Working Party wishes to report to the CONTRACTING PARTIES that the consultation was satisfactorily concluded. It also wishes to record its appreciation of the complete co-operation it received throughout the consultation from the Australian delegation, the very valuable information supplied by it, and the frankness and thoroughness with which that delegation answered the questions posed by members of the Working Party. The consultation is recorded in a summary note which, together with two statements by the Australian delegation, is annexed to this report. These annexes contain certain information considered to be of a confidential nature, and the Working Party therefore recommends that they should not be derestricted.

7. Pursuant to the provisions of Article XV, the Intersessional Committee had invited the International Monetary Fund to consult with the CONTRACTING PARTIES in connexion with this consultation with Australia, and the Fund had accepted the invitation. Consequently, the representative of the Fund participated in the consultation conducted by the Working Party. In accordance with established procedures, the Fund supplied certain background material, which was found very useful to the Working Party. As the Fund had held no consultation under its Articles of Agreement with the Government of Australia since the Ninth Session of the CONTRACTING PARTIES, this material was prepared especially for the present consultation. This material and a statement by the representative of the Fund also constitute confidential annexes to this report.

CONFIDENTIAL ANNEXES

ANNEX A: SUMMARY NOTES ON THE CONSULTATION WITH AUSTRALIA  
UNDER ARTICLE XII:4(b)

1. The following notes represent a brief summary of the principal points that were discussed in the consultation with Australia conducted by the Working Party which was established by the Intersessional Committee. In addition to a comprehensive discussion with the Australian delegation, extending over several meetings, the Working Party had the advantage of two statements submitted in writing by the Australian Government as well as a background paper by the International Monetary Fund and an oral statement by the representative of the Fund. That representative explained that the Fund had not had an opportunity before the consultation with the CONTRACTING PARTIES to conduct its own annual consultation with Australia and that it had therefore not yet considered any alternative measures which might be available to Australia. The initial statements by the Australian Government (L/350 and Add.1) were supplemented by a paper submitted to the Intersessional Committee (IC/W/33) and a further statement made to the Committee (IC/W/35). These are reproduced as annexes B and C to the Working Party Report. The background paper supplied by the Fund and the oral statement referred to above are included as annexes D and E respectively.

Circumstances leading to the intensification

2. The Working Party initially discussed with the Australian delegation the circumstances which led to the intensification of restrictions on 1 April 1955. The Australian representative, summarizing the information in the general statements submitted by Australia and in the background paper submitted by the International Monetary Fund, pointed out that the substantial liberalization of import restrictions in Australia in the financial year 1953-1954 (i.e. the 12 months ended 30 June 1954) was followed in late 1954 by a substantial increase in imports. This coincided with a sharp drop in Australia's export earnings, brought about largely by a decline in wool prices. For the nine months ending 1 March 1955 the value of total exports was £A 68 million lower than in the same period of the previous financial year, and it then seemed probable that exports for the full year would be around £A 750 million compared with £A 830 million for the previous year. At the same time, it appeared that imports might be as high as £A 845 million for the year against £A 681 million for the previous year.

3. The deterioration in the reserve position of Australia has resulted in the main from these changes, the external balance on capital account and for invisible

remaining substantially unchanged. The Australian representative explained that the reserve level expected by the end of June might be as low as £A 420 to £A 430 million, representing a decline of some £A 140 million over the twelve months. While Australia did not consider that this in itself was necessarily a dangerously low level, a continuation of the present trend would be disturbing. In this connexion he pointed out that the average time lag of about six months between the date of issue of import licences and the date of importation made it necessary for Australia to act well before a decline in reserves reached the danger point if it was to avoid the necessity for applying much more drastic restrictions at a later date.

4. The Working Party discussed the problem of wool prices and production at some length with the Australian delegation. In answer to a question from the Working Party it was pointed out that the drop in the value of wool exports in the second half of 1953-1954 could not be attributed to seasonal factors as this was the half of the year in which wool normally enjoyed its most active markets.

5. The Australian representative was asked whether any part of the Australian balance-of-payments problem had been caused by the action of other countries and whether there was any revision in the policies of other countries which could help alleviate the problem for the future. He replied that he could not identify any new action taken by other countries which could be directly related to the recent balance-of-payments difficulties leading to the intensification though it was obvious that agricultural protectionism around the world must have some adverse effect on Australia's export business.

6. The Working Party asked for and received further information from the Australian representative concerning the categories of imports which had increased most rapidly and contributed to the drain on Australia's reserves. Most consumer goods are included in category B of the Australian licensing system, and although imports in this category remained less than 20 per cent of total in recent months, they showed the largest percentage increase because quotas had been trebled since 1952. More recently, however, there had been sharp increases in imports in the No-Quota-Restriction category and in category "A". The Australian representative agreed with some members of the Working Party that some part of these recent increases could probably be attributed to anticipation by importers of increased restrictions.

#### Nature and extent of the intensification

7. The Working Party obtained from the Australian representative a description of the application of the intensified restrictions to different classes of imports. Some goods remain free of quota restrictions: tinned plate, books and printed matter, seeds for sowing, etc. In practice, some other commodities, such as petroleum products, tea and raw materials for industry are licensed in quantities sufficient to meet the full domestic demand.

8. In the category of commodities which were licensed without quota restrictions before 1 April 1955 the intensified restrictions still provided in most cases for licensing at 100 per cent of the value of imports of the commodities concerned in the calendar year 1954. Items in this group include: replacement parts for machinery, vehicles, etc., unmanufactured tobacco, raw coffee, iron and steel, aluminium, ball and roller bearings, portable electric hand tools, fencing posts, plate-glass, pharmaceutical preparations, unexposed film, crude rubber, paper pulp, tyre valves, crude asbestos, soda nitrate, rock phosphate, manganese ore, chromite, fibres, ferrous alloys, abrasives, etc.
9. A wide variety of articles, classified as Category "A", including certain items of food and clothing, tools and instruments, chemicals, materials for further manufacture, timber, paper and board, hides and skins, etc., are licensed to a value equal to 85 per cent of similar imports in 1950-51. Some other items, classified in a special category, for example, unassembled motor vehicles (i.e. completely knocked down) are licensed on the same basis. Most of these items were licensed without quota restriction between April and September 1954 and on the basis of 100 per cent of 1950-51 imports between October 1954 and March 1955.
10. Items in the Administrative category, mostly capital equipment or goods for further manufacture, are of a kind that do not lend themselves readily to quota treatment; for example, there are various specialised machines, machine tools and equipment for which demand fluctuates considerably as between particular items. Imports in this category are controlled through allocations under a budget for each quarterly licensing period. The Australian Government's intention is to reduce imports in this category by 20 per cent, but the first quarter budget, that for the period April-June 1955, has reduced allocations by only about  $7\frac{1}{2}$  per cent.
11. Imports considered to be less essential to the Australian economy, for example, spirituous and non-spirituous beverages, cigars, manufactured tobacco, confectionery and certain foods, certain piece goods and other textiles, made-up clothing and furnishings, artificial flowers and fruits, various household appliances, paints and varnishes, plywood, fancy goods, jewellery, etc. are included in category B and are licensed up to a value equal to 40 per cent of imports in the base year 1950-51. Between 1 April 1954 and 31 March 1955, quotas for imports in this category were equal to 60 per cent of 1950-51 imports. The fixing of quotas for individual importers as a percentage of base year imports does not mean that total imports in the category concerned will be limited to the specified percentage of the value of base year imports. Since the base year additional or new quotas have been granted to individual importers. Moreover even though commodities such as piece goods are classified as category "B", special quotas are granted to Australian manufacturers to ensure that they will obtain the quantity of imports required to keep their factories fully productive.

12. A number of members of the Working Party enquired as to the distinction made between different countries or currency areas in the application of the intensified restrictions. The Australian representative explained that the intensification of restrictions applied entirely to non-dollar imports. Within the non-dollar area Australia has no discrimination with a single exception: when Australia assimilated its licensing system covering Japanese imports into its non-dollar licensing system, it reserved a certain number of commodities, primarily textiles, to which a special licensing régime is still applied.

13. No intensification of restrictions on imports from the dollar area has taken place or is at present contemplated. It was pointed out that this situation leaves imports from the dollar area in a relatively better position than before and that the intensification of restrictions on non-dollar imports therefore represents a decrease in the level of discrimination against dollar imports. In this connexion the Australian representative was asked whether the Australian Government would maintain this decrease in discrimination even if they should find it possible to remove the intensified restrictions against non-dollar goods. He replied that he hoped it would not be necessary for Australia at that time to increase its discrimination. In fact, it was hoped that Australia along with other members of the Commonwealth would continue to move towards full convertibility, at which time such discrimination would entirely disappear.

14. Reference was made to the fact that before intensification category "B" goods were licensed at 60 per cent of such imports in the base year 1950-51, and it was asked whether that level of imports fell far short of filling Australian demands, or whether demands had been fully satisfied at that rate. The Australian representative replied that the 60 per cent level, supplemented by the additional quotas granted in some cases, had in general met consumer requirements for those goods.

15. Following enquiries of members of the Working Party as to whether the degree of intensification was in fact necessitated by the balance-of-payments situation, the Australian representative pointed out that the intensification of restrictions is estimated to reduce imports by something less than £4.100 million per year. In view of the rate at which reserves have been declining this reduction of imports was unlikely to be sufficient to prevent some further drain on the reserves during the coming financial year. He concluded therefore, that the intensification of restrictions could hardly be considered to be excessive in relation to the balance-of-payments situation.

16. In connexion with the question of discrimination a member of the Working Party asked whether the recent intensification, in bringing more products under quota control, had increased discrimination against imports from third countries because of existing bilateral commitments. In reply, the Australian representative stated that with the exception of one commitment to Belgium, which dated back some twenty years, on the import of sheet glass, the Australian Government had entered into no bilateral agreements with any government which provided for quotas.

Effects of the restrictions on trade

17. In discussing the overall effects of the intensification on imports, the Working Party was informed by the Australian representative that the intensification had been designed to reduce non-dollar imports, from which the whole of the expected saving of approximately £100 million was to be derived. The restrictions did not discriminate (except for a limited list of items from Japan) between any non-dollar countries. The effect of the intensification as between non-dollar countries would therefore depend on the forces of the market, that is, the relative competitiveness of imports from various sources. Consequently it was not possible to provide breakdown figures showing the effects of the intensification on imports from individual non-dollar countries.

18. The Working Party discussed the question of what steps had been taken by the Australian Government in implementing the new restrictions to avoid unnecessary damage in accordance with Article XII:3(c)(iii). The Australian representative explained that the intensification taking place in April 1955 did not involve the cancellation of any previously-issued licences. The Australian importers were aware that they had no right to anticipate licences over and above the current quota or allocation for the current quota. As no firm orders ought to have been placed by importers in excess of their entitlements, and since all licences issued by the Australian authorities were being honoured, no hardship cases of the kind which occurred in 1952 were likely. Nor did the import licensing system involve the prohibition of any imports (apart from such prohibitions as required for sanitary, health and security reasons). The interchangeability of the "B" category quotas as between commodities gave scope for the widest variety of imports from non-dollar sources. Taking the control system as a whole the Australian representative did not believe, therefore, that the provisions of paragraph 3(c)(iii) of Article XII were in any way contravened.

19. In view of the intensification the Working Party felt that the question again became a pertinent one as to what steps had been taken or would be taken to minimize the protective effects of the restrictions. In this regard the Australian representative stated that on this occasion, as on previous occasions, his Government had emphatically warned that the restrictions were intended to safeguard the balance of payments and not to be a substitute for or an adjunct to protective tariffs; the government remained firm in its intention to reduce and finally to eliminate all import restrictions as soon as that could safely be done. Manufacturers were therefore fully aware that they could not rely on the continuance of restrictions once the balance of payments permitted their relaxation. They had had ample evidence of the force of this warning; for the Australian Government had in fact in the past relaxed restrictions progressively whenever the state of the external reserves permitted such action. Furthermore, the interchangeability of quotas as between goods in the "B" category enabled importers to concentrate on commodities capable of competing strongly with Australian products and this had made high-cost Australian producers vulnerable to concentrated competition from imports.

20. It was pointed out by one member of the Working Party that behind the severe restrictions on dollar imports the production of certain goods had expanded in spite of the repeated warnings by the Government regarding the impermanency of

the restrictions. It might be difficult for foreign competitors to recapture the Australian market when the restrictions were eliminated. The Australian representative maintained, however, that there was little evidence that uneconomic production had been fostered by import restrictions. Any industries which had grown up under the protection of dollar restrictions had to withstand competition from non-dollar imports. When restrictions were relaxed in past years there had been few producers approaching the Tariff Board for continued protection through tariff increases. The Tariff Board itself had repeatedly stressed that it would recommend protection only for industries that in their opinion were efficient, and it had consistently shown itself aware of the dangers to Australian exports that might arise from a high internal cost structure sustained by tariff and quota protection afforded to a wide range of secondary industries.

21. In reply to an enquiry as to why the system of allowing interchangeability between goods in the "B" category could not be equally applied to category "A" imports, the Australian representative explained that the provision of quotas for individual products in the "A" category was intended to ensure that the country received adequate supplies of essential goods. If interchangeability were allowed market forces might result in a frustration of that objective.

22. In a discussion of the effects of the restrictions on particular commodities, concern was expressed over the particularly severe restrictions falling on imports in the "B" category. It was feared that exports of certain countries whose products consisted primarily of "B" category goods might be affected to the full extent of the one-third cut. The Australian representative pointed out that the one-third cut in category "B" imports would not necessarily mean a reduction of imports from all countries to the same extent: this was true not only because the pattern of trade would naturally adjust itself in accordance with the relative competitiveness of exporting countries, but also because quotas within the category "B" were interchangeable as between different goods. Furthermore, the Working Party recognized that the effects on future exports of other countries to Australia were difficult to forecast accurately since imports would continue to come in for some time under licences issued before the restrictions were intensified.

#### Alternative and supplementary measures to restore equilibrium

23. A discussion took place on the question of applying internal fiscal and monetary measures to preserve or to restore equilibrium, and information was supplied by the Australian delegation on this subject. In the middle of 1954 the Government emphasized the need to keep public expenditures under firm control in the interests of economic stability. Although originally the Australian Treasurer had proposed a balanced budget for 1954-1955, it was now expected that there would be a substantial budget surplus, of perhaps £A 50 million, for the financial year. After deducting from this surplus some £A 15 million to meet that part of the need of State governments for their work programme which could not be financed by public loans, there would remain a cash surplus which would be applied to the redemption of Treasury Bills discounted by the central bank. This action would mean some contraction of central bank credit and hence of the liquidity of the banking system. At the same time, State Budgets in the aggregate were expected to come close to balancing. It was not possible of course to say what the budget policy for 1955-56 would be until it was actually announced later in the year, but it was likely that further redemptions of Treasury Bills held by the central bank and a further contraction of central bank credit would take place in the early months of the financial year 1955-56.

24. The continuing decline expected over the next few months in Australia's external reserves would be another factor making for reduced banking liquidity which could also be influenced by central bank action under the Special Accounts procedure. Central bank policy at the moment was to allow trading banks to feel the liquidity pressure without forcing them into excessive restrictions, and in view of the tight cash position of some banks, some releases from Special Accounts might have to be made during the coming months. However, even with such releases, the liquid assets in the hands of the banks could be expected to decline substantially. Although there was likely to be a strong pressure on the banks for advances, this pressure would come at the same time as the ability of the banks to lend was being reduced. On the whole, therefore, monetary factors would be restrictive in their influence for some months ahead.
25. A member of the Working Party, referring to the rapidly expanding national income, the high rate of investment and rather excessive demand prevailing in Australia in recent years, enquired whether the reduction of capital goods imports would entail a check on the rate of investment. On this point the Australian representative replied that as the Australian Government wished to maintain an inflow of raw materials and other producer goods to the extent necessary to maintain production it was probable that imports of capital equipment would have to bear a large part of the reduction applying to the more essential classes of imports.
26. In discussing interest rates, the Australian representative said that so far the Australian authorities had not found that there was much scope for the use of the Bank Rate. Consequently, reliance had to be put principally on the direct control of bank liquidity and the monetary base through such measures as the Special Accounts. On the other hand, however, interest rates had been raised during the 1951-52 crisis, and had not been reduced since then. The level of interest rates on long-term Government securities was at a high level compared with that of other countries. Consideration had been and was being given by the Government to the level of interest rates, but the Australian delegation was not in a position to give any indication on future policy in this field.
27. Mention was made of the heavy reliance placed in some countries on the purchase tax when dealing with excessive demand, and the Australian representative was asked about the relative position held by such indirect taxes in the Australian tax structure. The Working Party learned that taxes on commodities represented in 1953-54, for example, about 35 per cent of the total tax revenue (£A 315 million out of £A 900 million), which, although lower than the yield from income tax (58.5 per cent of total tax revenue), could be regarded as a comparatively high proportion.
28. Another question in the field of credit control discussed by the Working Party was government policy regarding the regulation of hire purchase. The Working Party was informed by the Australian representative that under the Australian Constitution the Federal Parliament had no power in this field which fell within the sphere of the residual powers left to States. Some States had acted to prohibit the practice of selling goods without a deposit. The Commonwealth and the State governments were currently discussing the matter but the results were not yet available.

29. It had been suggested by some observers that the expansion of secondary industries in Australia had been achieved at the expense of extractive industries and steel production, the output of which could have been greatly increased in the interests of the balance of payments. Invited to comment on this view, the Australian representative felt that the proportion devoted to the various industries had been well-balanced. The proportion of resources devoted to secondary industries was not considered too high in the light of the overall requirements of the country, nor was the expansion of industries which would contribute to improving the balance of payments neglected. In support of this view the Australian delegation presented data on the development of certain industries which were considered to have a significant impact on the balance of payments. These are noted in the following paragraphs.

30. At present Australia's installed capacity for iron and steel production is about 500,000 ingot tons per year below demand. Imports cost about £A 30 million a year. The programme of expansion of the iron and steel industry proposed for the next six years would materially change this situation. On present estimates of demand in 1961 the completion of the programme of expansion should enable Australia to become a net exporter of steel of the order of 250,000 tons a year. On this basis the current annual debit of about £A 30 million on steel account should be transformed into an annual credit of about £A 15 million as from 1961. Australia was currently producing about 40,000 tons of blister copper and 30,000 tons of refined copper per annum. Actual demand was of the order of 60,000 tons of refined copper. The resulting debit in the balance of payments can be broadly assessed at £A 8 million. As a result of explorations which had been proceeding intensively for the last five years, it might be possible to double blister and refining capacity over a period of five years or so. A new aluminium plant was almost ready to come into production. By 1957, if not earlier, Australia would be largely self-sufficient in aluminium ingot capacity, and this should result in an annual saving in imports of around £A 20 million. Australia currently had an exportable surplus of lead in excess of 200,000 tons a year. Annual earnings of overseas funds from lead exports are of the order of £A 25 million. A considerable increase in production seemed likely in the next five to ten years, in the light of the results of explorations which had taken place in the last five years or so. In terms of zinc metal, Australia had an exportable surplus of the order of 150,000 tons a year, but the bulk of this was exported in concentrate form. Proposals for increased refining capacity were under discussion.

<sup>31</sup>  
31. Petroleum and petroleum products occasion an annual debit in the balance of payments of the order of £A 100 million. Intensive oil exploration was being undertaken in many parts of Australia as well as in the Territory of Papua. In addition to commercial drilling, a considerable amount of geophysical and geological investigation was being carried out on Government account, the results of which were made available for the guidance of the commercial prospectors. Australia was now virtually self-sufficient in refining capacity.

32. Australia exported manufactured goods in small volume at the present time, annual value varying between £A 5 million and £A 10 million. The main limitation on Australia's ability to export at the present time was that imposed by installed capacity. Apart from the iron and steel industry mentioned above,

no early marked improvement in the situation seemed likely. A possible exception, however, was the motor vehicle industry, installed capacity of which had considerably increased in the last ten years, and that increase was continuing. Exports of about 1,000 vehicles a year, worth some £A 500,000. were now being made, but in the next three to five years, the annual rate of exports might rise to 10,000 vehicles.

33. Considerable fundamental and applied research was taking place in Australia both on Government and on private account (the annual expenditure by the Government was £A 4 million, excluding research expenditure for defence purposes). Research was related to both primary and secondary industries, and interesting results were being obtained. Perhaps the most striking recent results had been those associated with the control of the rabbit pest and the scientific development of soils and pastures including the introduction of trace elements. The control of the rabbit was estimated to have resulted in the annual wool clip increasing by between 10 and 15 per cent. At present the Australian sheep population was around 130 million, with 20 million acres under pasture. Considerable annual increase was taking place in wool production, and it was expected that, given suitable marketing conditions, the next twenty-five years might see the Australian sheep population rise to 220 million, with sown pastures increasing to over 60 million acres. Capital improvements on farming and pastoral lands were encouraged by the Australian taxation system and a speedy rate of increase of primary production - particularly wool - was therefore expected to continue. As to the longer term marketing prospect for wool the Australian representative, while recognizing that synthetic fibres had invaded certain of the normal markets for wool, pointed out that most such fibres are used in mixtures including wool and that no fibre so far had been developed that had the desirable qualities of work for all uses.

#### Prospects for the Future

34. On the question of future prospects, the Australian representative stated that because of the time that usually elapsed between the issue of an import licence and the arrival of goods in Australia, the imports arriving in the next three months would be predominantly those licensed before the restrictions were imposed in April last. Many of those goods would have been licensed without quota restrictions and the imports might be expected to continue at a relatively high rate for some time. It was estimated that imports for 1955-56 could be as high as £A 750 million f.o.b. Exports were not likely to exceed that amount. Despite the restrictions, therefore, the current account deficit in 1955-56 could exceed £A 100 million, and even if a substantial net capital inflow was assumed, reserves could continue to run down by an amount between £A 50 and £A 100 million. An important factor of uncertainty was the unpredictable magnitude of capital inflow. In the circumstances it would be impossible for the Australian Government to give an indication of the duration of the restrictions.

General Policy Objectives

35. The Australian representative stated that the maintenance of full and productive employment and the development of industrial and other economic resources are major objectives of the Australian Government's domestic economic policy. A rapid expansion of population through immigration is an important part of the programme for economic development. The population is at present increasing at the rate of about 2.5 per cent per annum and the working population by a little less than 2 per cent per annum. The pursuit of those policies tends to raise the demand for imports and, especially because of the wide and rapid fluctuations which characterise Australia's export earnings and capital inflow, the Australian Government has been obliged to act through import restrictions to safeguard the balance of payments. It is, at the same time, a major policy aim of the Australian Government to preserve the stability of the economy. In announcing the recent intensification of import restrictions, the Acting Prime Minister of Australia said that the Government remained firm in its intention to reduce and finally to eliminate all import restrictions as soon as that could safely be done, and its internal policies would be designed to assist toward that end.

ANNEX B: STATEMENT SUBMITTED BY THE AUSTRALIAN  
DELEGATION ON 24 JUNE 1955

In 1953-54 the Australian balance of payments was approximately in equilibrium and the Government was able to pursue without interruption the policy of progressive relaxation of import restrictions. By the end of the year import licensing was not seriously restricting the import of essential goods and quotas for less essential goods had been raised to 60 per cent of imports of those goods in the basis year 1950-51. Actually, the degree of restriction of less essential goods was not as great as the 60 per cent figure would suggest because supplementary quotas had been granted in many instances where strict adherence to quotas based on 1950-51 imports would have proved inequitable.

By September 1954, however, it had become evident that Australia would find it difficult to maintain the policy of progressive relaxation. At the opening of the 1954-55 wool sales prices averaged about 6d. a lb. greasy lower than the previous season's average of 82d. and every penny a lb. fall in the price of wool means a decline of about £5 m. in Australia's export income. In addition, the outlook for wheat and flour exports, which had suffered in the previous year from a sharp decline in overseas demand, continued to be poor. Precautionary measures were accordingly introduced in October 1954, to bring imports under closer control until the trends could be ascertained more definitely. These measures were notified to the CONTRACTING PARTIES at the time. They consisted chiefly of putting back under quota control a number of commodities which had previously been licensed on a no-quota restriction basis, though still providing for rather more imports of those goods than in the previous licensing year.

During the following six months the position deteriorated further. Wool prices declined to 68d. at one stage and by March 1955, when a large proportion of the season's wool had been sold, it was estimated that the average price for the year would be about 71d. a lb. Although the wheat export position had improved a little and other exports were on the whole almost maintaining their 1953-54 levels, total exports in the nine months to March 1955, were £68 m. lower than in the same period of 1953-54, and it seemed probable that exports for the year would be of the order of £750 m. Imports in the meantime continued at high levels, the annual rate being over £800 m. f.o.b. a year. Thus in

March 1955 balance of payments forecasts for 1954-55 indicated a deficit of over £50 m. in the trade account to which had to be added net invisible payments exceeding £140 m., producing a deficit on current account for the year of the order of £200 m. This would be partly offset by net capital movements which could amount to £80-90 m. On these estimates reserves were expected to decline from £571 at the end of June 1954, to about £450-450 m. at the end of June 1955.

Since March the outlook has deteriorated a little further. Imports in April and May continued at high levels and it is now possible that they will reach about £845 m. for the year. Exports may turn out to be a little more than £750 m. but less than £760 m. Reserves at the end of June could be as low as £420-430 m., a decline of £140 m. or more over the twelve months.

Even at these levels the Government would probably not regard reserves as unhealthy, but reserves would not remain healthy if they were to continue to fall at anything like the present rate. A further decline of over £100 m. would bring reserves to dangerously low levels. In considering the level of Australia's reserves, the Government has had to keep in mind the unpredictability of seasonal factors which can adversely affect the output of the principal export industries. The experience of the past is that a run of good years, such as those enjoyed for some years now, is almost invariably followed by a succession of dry years, when there is widespread loss of production in the drought-stricken areas.

In order to check a decline in reserves in 1955-56 it was necessary to act well in advance. In Australia it takes something like six months for import licensing measures to alter the flow of imports. Even in March 1955, it was too late for import licensing action to affect imports in the first quarter of 1955-56. If the Government delayed taking action in March it ran the risk of having to impose much more drastic restrictions later in the year. It could only accept this risk if there were reasonably good prospects of an early improvement in the balance of payments.

There were no solid reasons in March 1955, nor are there any today, for expecting a significant increase in export earnings next year. A rise in the price of wool would, of course, alter the whole picture. But the average price for the week ended 10 June 1955 was 68d. a lb., and it has been less than 70d. a lb. since early April. It would be optimistic to assume now that next year the price will rise substantially. Among other export commodities 1954-55 has not been a bad year. Exports of wheat and flour have turned out rather better than had been expected, meat and butter exports have risen well above 1953-54 levels, base metal

exports have been slightly higher, sugar a little lower, and coarse grains, "other" dairy produce, and iron and steel exports have fallen more noticeably. Seasonal conditions have been good. Although the 1955-56 season is beginning well with useful rains and production should be well maintained, it would require unexpectedly good export prices to permit exports of these commodities to fare much better than they have this year.

The possible trend of net capital movements in 1955-56 is most obscure. As far as governmental operations are concerned there could possibly be some increase in net borrowing overseas owing to smaller debt redemptions. Net private capital movements, however, are quite unpredictable. They include the balancing item in the balance of payments, so that genuine private investment in Australia is frequently obscured by technical factors such as timing in the payment of imports and exports. In 1952-53 the net capital inflow amounted to £190 m. but in 1953-54 a net outflow of £48 m. was recorded. In 1954-55 it seems possible that there may be a net inflow of some £80 to £90 m. but it would be optimistic to count on as favourable a figure in 1955-56.

Thus on the information available in March it seemed to the Australian Government that, if imports continued at the levels then current, and unless export proceeds and other exchange earnings rose more than could reasonably be expected, a further decline of reserves in 1955-56 of over £100 m. was inevitable. It is now clear that reserves at the beginning of 1955-56 will be rather lower than was expected in March.

#### Import Licensing Measures

The Government accordingly introduced on 1 April 1955, measures designed to reduce imports by about £100 m. in a full year. The reduction in 1955-56 would be rather less as the measures would not affect significantly imports for the first quarter of that year. Moreover, there was still a substantial value of non-dollar import licences outstanding from the period before 1 October last (i.e. the first six months of the licensing year) when licences for a wide range of imports were granted freely on application. Where the licences held by individual importers exceeded the annual quotas available to them under the October decisions it was originally intended that the excess should be debited against their quotas for the new licensing period beginning on 1 April 1955. The Government, however, decided to cancel these debits and importers have therefore been able to make full use of any outstanding licences in their hands without prejudice to the new quotas becoming available to them from 1 April. Details of the measures announced have been notified to the CONTRACTING PARTIES (ref L/350 and L/351 Add.1).

It will be noticed that in announcing these measures the Acting Prime Minister regretted their necessity and re-affirmed the Government's intention to reduce, and eventually to eliminate, all import restrictions as soon as that could be safely done. There is ample evidence of the Government's desire to

do away with import controls, for in 1950-51 virtually all non-dollar import licensing restrictions had been removed and again in 1953-54 the Government had progressed a long way towards their removal.

The Acting Prime Minister also reiterated that the restrictions were intended to protect the balance of payments and not to be a substitute for, or an adjunct to, protective tariffs. While it is recognized that import restrictions inevitably confer incidental protection on local industries the Australian Government has always made it clear to the public that Australian industry cannot rely on balance-of-payments import restrictions for protection.

The new import licensing measures continue to embody the non-discriminatory principles which Australia has been following since the present system of restrictions was introduced in March 1952. Importers are allowed to bring goods up to the value licensed from any country outside the dollar area. (Until recently imports from Japan were licensed separately from other non-dollar imports, but since November 1954, imports from Japan have been licensed on the same basis as other non-dollar imports, except for a short list of reserve items.) Under this system, therefore, importers are free to choose their own sources of supply.

The system of licensing less essential goods also remains unchanged. These goods are contained in Category B, and an importer entitled to a Category B quota is free to use it to import any of the less essential goods. He may aggregate quotas and use the aggregate for importing any, or all, of the goods falling within Category B so that the import of none of these goods is prohibited.

The reduction of the licensing period from six months to three months was merely a precautionary measure to give the Government better control of the situation, for it is not possible to alter the rate of licensing during a licensing period.

The new import licensing measures are far less severe than the action taken in March 1952, when it was necessary to reduce the annual rate of imports by about 50 per cent. In 1952 reserves had already reached a dangerous level when action was taken, and the restrictions inevitably caused a good deal of disturbance to trade and to the commercial interests of other countries. On this occasion the measures have been introduced in advance of a potentially dangerous situation, and should cause the minimum of damage to other contracting parties. They are designed to check, but not necessarily to halt completely the decline in reserves.

Indeed it now seems possible that imports in 1955-56 could be as high as £750 m. If export earnings do not exceed £750 m. (and there are no good grounds at present for believing they will be higher than this), reserves will be drawn down by the amount of total net invisibles less any net capital inflow.

Internal Economic Conditions:

The basic objectives of the Australian Government's economic policy are to promote the rapid development of Australia's resources, to maintain full employment and to preserve economic stability.

Immigration has an important place in the rapid development of Australia's resources. Recent figures of net permanent immigration (which take account of persons leaving the country) are as follows:-

|                   | <u>Net Permanent Migration</u><br><u>Annual Rate</u> |
|-------------------|--|
|                   | '000   |
| <u>1952-53</u>    | 63.3   |
| <u>1953-54</u>    |  |
| September quarter | 25.6   |
| December "        | 56.5   |
| March "           | 58.3   |
| June "            | 65.0   |
| <u>1954-55</u>    |  |
| September quarter | 58.5   |
| December "        | 92.4   |
| March "           | 104.0  |

From the combined effects of natural increase and net permanent immigration, the Australian population is at present growing at the rate of about 2.5 per cent per annum while the available work force is increasing by slightly less than 2 per cent per annum.

To assist development the Australian Government has, over the past five years, arranged with the International Bank for Reconstruction and Development loans totalling \$258.5 m. It has also borrowed in Switzerland 120,000,000 Swiss francs. Investment by oversea firms in Australia has been encouraged and many British, American and European companies have set up plants or other establishments in Australia in recent years. Investment of this kind is continuing.

A year ago it was possible to say that all of the Australian Government's main economic objectives were being fully met in that employment was high, population and production were expanding and development programmes proceeding at a very satisfactory pace while costs and prices were remaining remarkably steady.

It was then recognized, however, that there must always be some potential danger spots in any rapidly **expanding** economy. This fact was dwelt on at some length in the Australian Treasurer's Budget Speech in August 1954, when he indicated that there were unmistakable signs that stresses were again threatening to develop in the economy and that pressure upon resources seemed likely to grow rather than diminish. In stating the Government's financial and economic policy for the year the Treasurer therefore emphasized the need for restraint. On the Budget itself the main points of policy included:-

- (a) Firm control of expenditure. Thus, although the Treasurer indicated that it was inevitable that some branches of expenditure, such as Defence and Social Services, should increase, he emphasized that it would be wrong at a time when community spending as a whole was on a rise, to make large additions to public expenditure.
- (b) Although tax reductions costing £35 m. in 1954-55 were granted, these reductions were designed to provide the maximum incentive to effort and to save and to encourage some reduction in costs.
- (c) Balanced Budget. The Treasurer stated that he took care to ensure that the Budget for the year would balance, for there could be no thought, under current circumstances, of adding to the volume of spending power by the process of deficit financing. It should be noted also that the Treasurer provided for a balanced Budget after meeting the whole of the Commonwealth's (i.e. the Australian Federal Government's) own capital works programme from revenue.

The annual report issued by the Commonwealth Bank at about the same time as the Budget also emphasized the need for restraint during 1954-55. The report stated, for example, that it would be in the interest of economic stability if firms were for the present to plan to reduce their dependence on bank finances. The Commonwealth Bank also stressed the need for the trading banks to direct their policies to maintain an adequately liquid structure of assets and put forward the view that a ratio of liquid assets and Government securities to total deposits of about one-quarter would generally be appropriate.

In the event, the level of demand within the economy has increased during the current financial year. Nevertheless, although some strain has shown up in a few directions, supplies available have been generally adequate to meet demand. The level of supply has benefited from a fairly considerable

Increase in local output of most goods and services and this increase in local output has been supplemented by a large increase in imports. (During the first three-quarters of 1954-55 imports brought some £120 m. more goods on the local market than in the same period of the previous year.) In brief, demand and supply in the economy are at present broadly in balance and up to the present there has been little rise in price levels.

### Public Finance

The growth of demand during 1954-55 has come from several quarters. It is true that expenditure on goods and services by governments and their associated authorities has increased to some extent, but this increase does not appear to have been large.

Largely as a result of expenditure savings, it is now certain that the Commonwealth (i.e. Federal) Government will have a substantial budget surplus. It is impossible to predict with any certainty the Budget results of the Australian State Governments for 1954-55, but it appears that no State will run into substantial deficit whilst some States should have Budget surpluses. In the aggregate, the State Budgets should come close to balancing.

In the field of public investment the ceilings which have, in effect, been imposed on public investment of the various authorities in recent years continued to be reasonably effective in 1954-55. Such information as is available would suggest that the States' expenditure from loan moneys on works and housing will amount this year to rather less than £200 m. - i.e. slightly less than last year. Commonwealth expenditure on capital works and services will certainly fall short of the Budget estimate of £104.6 m. although it will probably exceed last year's figure of £94 m. During the last two years expenditure by all public authorities in Australia on new works and maintenance remained stable at about £408 m., and there seems no reason for supposing that this figure will be exceeded to any significant extent in the current financial year.

With regard to the financing of the Loan Council programme, total loan raisings in Australia for the year (including domestic raisings of about £9 m.) will amount to approximately £137 m. After taking account of funds accruing from overseas borrowings total loan raisings for the year will amount to about £165 m. This result compares favourably with the results achieved in any previous year. It is clear, however, that loan raisings will fall short of the figure of £180 m. on the basis of which the Commonwealth has been making monthly loan advances to the States. Although the Commonwealth did not undertake this year to underwrite the Loan Council programme, and although the Commonwealth gave no guarantee that loan raisings would reach £180 m. it has now been decided that the Commonwealth will arrange finance to meet the short-fall below £180 m. This short-fall - estimated at about £15 m. - will in effect be financed from the Budget surplus.

After meeting this commitment in relation to the States' works and housing programmes and after meeting the whole of its own capital works programme from revenue, it now seems clear that the Commonwealth (that is, the Federal Government) will finish the year with a cash surplus.

Consumption Expenditure

Although a firm estimate cannot be made at this state it is possible that total consumption expenditure in 1954-55 will prove to be about 7 per cent higher than in 1953-54. The rate of increase in consumption expenditure, during the first half of the financial year at least, was probably less than it had been earlier. This fact is illustrated in the following table:

Retail Sales (other than motor vehicles parts, petrol etc.)

| Quarter ended | <u>Percentage Change from Same Period in Preceding Year</u> |                  |                                       |
|---------------|---|------------------|---------------------------------------|
|               | <u>Retail Traders' Association</u>                          |                  | <u>Bureau Census &amp; Statistics</u> |
|               | <u>Sydney</u>   | <u>Melbourne</u> | <u>Australia</u>                      |
| 1953          |   |                  |                                       |
| June          | + 2   | + 2              | + 5                                   |
| September     | + 9   | + 12             | + 8                                   |
| December      | + 11  | + 15             | + 9                                   |
| 1954          |   |                  |                                       |
| March         | + 7   | + 11             | + 6                                   |
| June          | + 10  | + 9              | + 6                                   |
| September     | + 9   | + 8              | n.a.                                  |
| December      | + 7   | + 6              | n.a.                                  |

The increase in consumption expenditure this year has been stimulated in large part by the rapid expansion of consumer credit. Consumer credit has also been a significant factor in the striking increase in expenditure on motor vehicles which is referred to under the head of private investment. Some idea of the expansion in consumer credit can be seen in the fact that in the December quarter of 1954-55 the value of goods sold at retail on hire purchase was 21.6 per cent higher than in the corresponding quarter of 1953-54. With the cessation of Federal capital issues control, control of hire purchase has been a matter for the States.

Private Investment

During the calendar year 1954 activity in the building industry increased steadily and at the end of 1954 the industry was fully extended. The calendar year 1954 was marked by a sharp increase in non-residential building. There have been reports in recent months that the volume of new work reaching house builders is diminishing. Complaints about shortages of funds in this field are prevalent as some of the major financial institutions have reduced their lending for home building purposes. Simultaneously, it has been reported that the supply position of some building and construction materials has lately been easier, although there does not appear to be any real sign of slackening in the construction of buildings other than houses. The following figures show the value of buildings commenced in recent quarters:

Value of Commencements

£m.

| <u>Quarter ended</u> | <u>Houses</u> | <u>Other New Buildings</u> |
|----------------------|---------------|----------------------------|
| September, 1953      | 48.5          | 21.6                       |
| December, 1953       | 46.8          | 18.9                       |
| September, 1954      | 53.4          | 32.4                       |
| December, 1954       | 51.5          | 26.2                       |

In 1952-53 registrations of new motor vehicles were lower than in any post-war year since 1948-49. Since the beginning of 1953-54 new registrations have gradually accelerated and in 1953-54 were only slightly below the peak reached in 1951-52. During 1954-55 registrations of new motor vehicles have proceeded at a monthly rate of 13,305 for the first ten months - 27.6 per cent above the average monthly rate in 1953-54 - whilst the monthly rate for commercial vehicles was 5,566 in the first 10 months of 1954-55, as compared with 4,824 in 1953-54. Although firm figures are not yet available it is estimated that investment in private motor vehicles in 1954-55 will be some £30m. higher than last year, whilst investment in commercial vehicles may be about £10m. higher - thus giving a total increase of £40m. for the year.

Private investment in new plant and equipment appears to have been fairly stable. New capital expenditure (including building) by a sample group of firms in the private sector was at about the same level in 1954 as in 1953. A substantial increase is expected by the firms covered by this sample in the first half of 1955, but there has been an increasing tendency for the actual capital expenditure in this field to fall short of expectations.

By contrast, however, one other form of private investment has been making a considerably greater call on resources and that is investment in stocks. Preliminary estimates which have been made by the Australian Commonwealth Statistician indicate that the total value of non-farm stocks is expected to increase by at least £90m. in 1954-55 - that is 13 per cent higher than the value of stocks held at the end of 1953-54. Manufacturers are expected to add £60m. to stocks; wholesalers £15m., and retailers £15m. These figures must, of course, be regarded as tentative only.

In total, therefore, private investment in 1954-55 is expected to be considerably higher than in the previous year, mainly because of increased investment in motor vehicles and in stocks.

The Monetary Situation

The movements during the last year or so in the main assets and liabilities of the major trading banks are shown in the following table:

|             | <u>Total Deposits</u> | <u>Liquid Assets and Governmental securities</u> |               | <u>Special Accounts with Central Bank (a)</u> | <u>Advances</u> |
|-------------|-----------------------|--|---------------|---|-----------------|
|             | £m.                   | £m.  | % of Deposits | £m.   | £m.             |
| <u>1953</u> |                       |  |               |   |                 |
| December    | 1449                  | 384  | 27            | 283   | 735             |
| <u>1954</u> |                       |  |               |   |                 |
| June        | 1471                  | 318  | 22            | 352   | 778             |
| September   | 1429                  | 260  | 18            | 326   | 841             |
| December    | 1495                  | 294  | 20            | 295   | 873             |
| <u>1955</u> |                       |  |               |   |                 |
| March       | 1545                  | 359  | 23            | 295   | 867             |
| April       | 1527                  | 318  | 21            | 295   | 890             |

Note (a): The Central Bank may require trading banks to lodge amounts, not exceeding statutory maxima, in Special Accounts with the Central Bank. Withdrawals from Special Accounts can be made only with the consent of the Central Bank (i.e. the Commonwealth Bank of Australia).

The banking system commenced the year in a comparatively liquid position. In June 1954, the banks' holdings of liquid assets and Government securities represented about 22 per cent of their total deposits.

Particularly during the September quarter, however, the liquid position of the banks was subject to some strain. There was a marked fall in international reserves during the early months of 1954-55 and the effect of this fall on the banking system was only offset in part by releases from Special Accounts totalling £40m. during the September quarter and by a cash deficit on Government account which occurred during that period. In the March quarter the liquidity of the banking system improved (mainly on account of seasonal financing by the Government) but during the June quarter the banking system is passing through a period of falling liquidity.

The reduction in the liquidity of the banking system which began early in the financial year occurred at a time when the banks were under great pressure to increase advances to finance a higher level of inventories and to assist various types of primary producers adversely affected by marketing difficulties in overseas markets. The demand for finance was particularly pressing in the case of manufacturers, whose advances had declined some 16 per cent between December 1952 and June 1954 and who were faced with an urgent need to expand stocks in step with increasing production.

In the event the major trading banks increased advances by £95m. during the six months ended December 1954, of which probably something like half went to manufacturers and wholesalers. Much of the balance was advanced to the primary industries especially the rural industries. The result for the private banks was a further decline in their liquidity. The L.G.S. ratio (i.e. ratio of cash, Treasury Bills and Government Securities combined to total deposits) which had been at the level of 25 per cent in March 1954 and which had fallen to 19.9 per cent in June declined further to 16.3 per cent in September and recovered only slightly to 17.5 per cent by December.

During the quarter ended 31 March the drain on overseas reserves continued, The Government had a small cash deficit and bank advances declined. Indications are that in recent months, bank advances have tended to rise again while the substantial inflow of Government revenue has exerted considerable pressure upon the liquidity of the private banks.

#### Supply Position

Increases have been recorded in the production of practically all commodities in respect of which statistics are collected. The main exceptions were electrical appliances where the slowing down of production reflected some tapering off of demand. Details of production in secondary industry during 1954 are given in a recent report by the Division of Industrial Development of the Australian Department of National Development. This report states that factory output expanded by something like 5 per cent in the twelve months to April last. This is, of course, an average figure; the changes differed widely from one industry to another. This diversity is illustrated in the following paragraphs quoted from the report:

"The present level of output is higher than ever before in Australia's history. However, in line with the return of more normal and competitive conditions and particularly of seasonal influences, some industries are not as prosperous as previously.

"Comparing the level of manufacturing activity in April, 1955 with the level in the previous October, production increases of 10 per cent or more are shown by industries making rubber tyres, electric wires, cables and control gear, radio receivers, mechanical handling equipment, alkalis, fertilizers, cement and some types of plastic and paper.

"Many products of the engineering industries are being made at a rate roughly 5 per cent higher than six months ago; these include motor vehicles, metal working machinery, machine tools and hand tools, electric motors and copper products.

"Industries producing at much the same level as last October, or perhaps with a slight increase, include other general heavy engineering, makers of railway rolling stock and farm machinery, most foundries and suppliers of most building materials ranging from bricks to fibrous plaster.

"Output of galvanised iron has recently been at much the same level as last year. The small cutlery industry has continued to lose ground to imports.

"Turning to products whose output is markedly seasonal and should accordingly be compared on an annual basis, washing machines are being made at a rate more than 15 per cent higher than in April 1954, but output of refrigerators had dropped by a similar percentage.

"In total, production in the textile and clothing group of industries is somewhat lower than a year ago. Overall output of wool textiles and also of rayon piecegoods is appreciably lower, while the cotton textiles, hosiery and knitwear, clothing and leather footwear industries are in general working at much the same level.

"Minor differences in the changing output of various goods over a period of six or twelve months occur for a variety of reasons and are not necessarily significant in themselves other than as an indication perhaps of seasonal or temporary influences.

"It is of more general interest to notice the types of manufacturing industry that have been able to expand output during the last year. Predominantly, it is the chemical and engineering industries which have stepped up their output by more than the average. By comparison, industries making subsistence needs, such as textiles and clothing, have either fallen or have at best made only small gains.

"Following the decline in production in 1952, there was a general rise in the output of the majority of factories in almost every industry. By 1954, output in most industries had regained or surpassed the previous highest point reached in 1951. The producers of consumer goods were able to provide readily most of the everyday requirements of the Australian community, and the emphasis was once again on sales promotion."

### Employment

Employment continued at a very high level throughout 1954-55. Total civilian employees (excluding employees in rural industries and private domestic services) rose by 150,000 between June 1954 and February 1955. During 1954-55 unemployment has been virtually non-existent with less than 4,000 persons on average receiving unemployment benefits. Although there has been some pressure on labour supplies, the position in the labour market in the last few months has been relatively stable. In fact unsatisfied demands for labour are showing some signs of decreasing. In April 1955 the number of unfilled vacancies was 60,230 as compared with 64,453 in October 1954.

### Prices and Wages

Such increases as have occurred in prices and wages during the last twelve months have been relatively small.

During the period since the March quarter of 1954 the "C" series (retail price) index (six capital cities) has moved as follows:

|                |       |
|----------------|-------|
| March 1954     | 2,327 |
| June 1954      | 2,324 |
| September 1954 | 2,321 |
| December 1954  | 2,333 |
| March 1955     | 2,349 |

The wage level rose less during 1953-54 than for many years. The nominal (award) wage rate rose by 2 per cent during 1953-54 and by a further 0.5 per cent by 31 December 1954. Average weekly earnings per employed male unit were 3 per cent higher as at December 1954 than twelve months earlier. In November 1954 the Arbitration Court awarded increases margins for skill to employees in the metal trades to restore these margins broadly to pre-war proportions. This decision has since led to increases for many other groups of skilled workers. Although it is not yet possible to estimate precisely the full effects of these increases in margins the total addition to wages is expected to be in the vicinity of 3 per cent.

#### Present Situation

As indicated earlier, demand and supply in the economy are at present broadly in balance. Import restrictions will not begin to alter the supply side until late in 1955. Thereafter they will affect it fairly substantially although the significance of this will obviously turn on what happens to demand over the next few months.

At present the signs which might indicate the direction of movement of the economy do not all point in the one direction. There are some particular shortages - e.g. some types of skilled labour and steel - but shortages, either of locally produced or imported goods, are not evident to anything like a degree which could be called a general shortage of goods and services. One thing rather difficult to judge accurately is the prevailing general psychology of the business world. On the one hand, some concern is expressed about the "high cost" problem and this has been stimulated by the recent increases in salary and wage margins. This would suggest a pervading mood of caution and the decline in wool and other export markets could be expected to have an influence of the same nature. On the other hand, profits generally have been buoyant and there is evidence that private industry still has a substantial investment programme in hand and in prospect. There is, incidentally, no indication of any concerted move by private industry to expand local productive capacity to take advantage of the tighter import restrictions.

During the last quarter of 1954-55 certain factors have been operating to reduce liquidity in the economy. The seasonal tide of Government finance has now turned and during the last quarter of 1954-55 a substantial amount of Treasury Bills discounted with the Central Bank will probably be redeemed whilst further redemptions will probably be made in the early months of 1955-56. This action will, of course, reduce liquidity.

A further fall of some £40m. is expected during the last quarter of the financial year in our international reserves, and here again the fall may be expected to continue for a month or two beyond June.

Central Bank policy at the moment is to allow the trading banks to feel the liquidity squeeze without forcing them into excessive restrictions. Already one or two banks have had to borrow from the Central Bank or remit funds from London to safeguard their cash position. Some small releases from Special Accounts may have to be made during the coming months (the first release for six months was made on 1 June), but even with such releases the liquid assets in the hands of the banks can be expected to decline substantially. Although there is likely to be strong pressure on the banks for advances, this pressure will come at the same time as the ability of the banks to lend is being fairly sharply pared. It is fairly certain that monetary factors will be restrictive in their influence for some months ahead.

ANNEX C: SUPPLEMENTARY STATEMENT MADE BY THE  
AUSTRALIAN REPRESENTATIVE ON 25 JUNE 1955

1. The nature of the intensification of Australia's import restrictions has been described in documents L/350 and L/350/Add.1 circulated on 24 March and 13 April 1955 respectively. A general statement of the Australian position has now been circulated in IC/W/33 of 24 June 1955.
2. In 1951-52 imports into Australia rose to £1,050 million and reserves fell from £804 million in June 1951 to £373 million in June 1952 - a fall of some £430 million.
3. Drastic import restrictions had to be imposed and these, together with budgetary and other measures, reduced imports in 1952-53 to little more than £500 million.
4. The economy was effectively stabilized and, as international reserves improved, the Government progressively relaxed import restrictions. In March 1952, when comprehensive restrictions were first imposed, quotas for less essential commodities were fixed at 20 per cent of the value of similar imports in 1950-51. By April 1954, quotas for those commodities had been increased to 60 per cent of 1950-51 imports. In 1952 quotas for the more essential commodities were fixed at 60 per cent of 1950-51 imports; by April 1954 most of these commodities were being licensed freely without quota restriction.
5. Between April and October 1954, however, there was a very great increase in the value of licences issued for goods not subject to quota restrictions. In October 1954 the Government took precautionary action to bring back under control many of the commodities that had previously been freed from quota restrictions; but the quotas fixed still provided for rather more imports than in the previous licensing year.
6. By March 1955, it was evident that Australia would have a large trade deficit in 1954-55. It seemed that while exports would be valued at about £750 million, imports would rise to about £800 million, f.o.b. Net invisibles might cost between £100 and £150 million, which would mean a current account deficit of between £150 and £200 million.
7. The increased restrictions approved by the Government were designed to cut imports by roughly £100 million a year. Because of the average lag of some six months or so between the issue of licences and the arrival of goods in Australia, the restrictions could not much affect the rate of inflow of imports until some time near the end of 1955.

8. In the event, imports have been greater than was thought likely when the intensified restrictions were imposed. For 1954-55 they will probably be £840 to £850 million - and not £800 million which was the estimate accepted in March last. As a matter of fact, for the three months March to May 1955, imports have arrived at a rate of £924 million a year. The current account deficit is likely to be over £200 million and reserves are likely to fall by £140 to £150 million over the twelve months ending 30 June 1955 - that is from £570 million to about £420 or £430 million.

9. This would probably not be considered a dangerous level for the reserves, but it will be obvious the Government could not let them go on falling at the rate of about £150 million a year or they soon would be down to dangerous levels. Even with the intensified restrictions, imports in 1955-56 could be as high as £750 million, f.o.b., and exports are not likely on present indications to be more than £750 million. In these circumstances, the current account deficit for 1955-56 could exceed £100 million and reserves could fall by perhaps a further £50 to £100 million. There are so many unpredictable factors in estimating in this field, that no precision whatsoever can be attached to any of these figures; but they point the possibilities.

10. What the Government has done is not the be-all and end-all of the matter. It has taken holding action. In announcing the restrictions, the Acting Prime Minister said that the Government remained firm in its intention to reduce and finally to eliminate all import restrictions as soon as that could safely be done, and that its internal policies would be designed to assist towards that end.

11. The Acting Prime Minister also reiterated the point made on previous occasions that the restrictions were intended to protect the balance of payments and were not to be regarded as a substitute for, or adjunct to, protective tariffs. This is a firm point of Australian policy. We do not use quota restrictions for protective purposes and manufacturers are warned that they cannot rely on the continuation of any incidental protection temporarily afforded by restrictions imposed solely for balance of payments reasons.

12. I do not, in this statement, propose to go into the causes of the changes in Australia's balance-of-payments situation; that is covered in the paper circulated as IC/W/33 and will no doubt be the subject of discussion in the Working Party. In concluding, however, I should like to put some stress on the point that the Australian Government does not regard the intensification of import restrictions as a means it has been able to choose in preference to alternative measures. Rather, the restrictions are intended to slow down the drain on international reserves while measures are designed and made effective in other related fields of economic activity. In saying this I would remind delegates that Australia is a Federation; particularly in matters of internal economic policy, decisions may not rest wholly with the Federal Government, but may require acceptance by six State Governments as well.

ANNEX D: STATEMENT MADE BY THE REPRESENTATIVE OF  
THE INTERNATIONAL MONETARY FUND

The International Monetary Fund will soon be conducting its 1955 consultation with Australia under Article XIV of the Fund Agreement. It is anticipated that the results of this consultation, together with the background material prepared in connexion therewith, will be transmitted to the CONTRACTING PARTIES for use in your Article XIV:1(g) consultations at the Tenth Session.

Although the Fund's 1955 consultation with Australia has not yet been conducted, the Fund has prepared a paper on developments in the economic position and restrictive system of Australia. This paper has been distributed to the members of the Intersessional Committee. The data in this paper support the picture given by the representative of Australia.

In connexion with the requirements of Article XV:2 of the General Agreement, the general level of restrictions of Australia which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves.

The Fund has not yet considered any alternative measures which may be available to Australia. As I have said, the Fund expects shortly to be conducting its Article XIV consultations with Australia. The question of alternatives will be explored at that time. As I have indicated, the Fund expects to transmit the results of that consultation to the CONTRACTING PARTIES.

ANNEX E: BACKGROUND PAPER SUPPLIED BY THE  
INTERNATIONAL MONETARY FUND ON ECONOMIC  
DEVELOPMENTS AND CHANGES IN RESTRICTIVE  
SYSTEM IN AUSTRALIA

The text of this background paper, dated 13 June 1955, which constitutes Annex E to the Working Party report, is not reproduced. In accordance with established procedure, a limited number of copies was provided by the Fund and one copy was supplied to each contracting party. The following statement was submitted by the Fund representative on 27 June to supplement the data contained therein:

"In view of the shortness of time available to the Fund to prepare for the present consultation, it was not possible for the Government of Australia to supply certain requested information in time to incorporate the information in the Fund's paper of 13 June 1955. The response of the Government of Australia has now been received. This supplement indicates the resulting modifications in the Fund's paper of 13 June 1955.

"Since the Fund has not yet conducted its 1955 consultations with Australia, and since the representatives of Australia have submitted a paper to the Inter-Sessional Committee, this supplement does not attempt to duplicate, or to give the Fund's assessment of, certain matters of Australian policy and judgment. Reference can be made to IC/W/33 for the Australian Government's assessment of future private capital movements (p.3); the prospects for and importance of wool prices (pp.1 to 3); the prospects for an improvement in the reserve position (pp.2 and 3); and motivation of tax reduction policy (p.6 item b).

"The following should be substituted for the statements in the Fund's paper:

"Page 3, paragraph 2: "developing" should read "threatening to develop".

"Page 3, paragraph 4: More recent information indicates a budget surplus of around £A 50 million.

"Page 3, last paragraph: It is now estimated that there will be a shortfall of £A 15 million below the £ 180 million Loan Council Programme. This is to be met out of the budget surplus.

"Page 5, last paragraph: The November 1954 judgment related to the metal trade:

"Page 6, table: The latest estimates of trade for the year 1954-1955 are:

|                | <u>£A million</u> |
|----------------|-------------------|
| Exports f.o.b. | + 755             |
| Imports f.o.b. | - 845             |
| Trade balance  | - 90              |

"Page 14, first paragraph: The recent intensification measures have not been applied to dollar imports. Total spending on dollar imports has been increasing and the Australian Government thinks it likely that it will increase in the coming year.

"Page 14, second paragraph: The first three sentences should be revised to read as follows:

"The new import cuts bear most heavily on consumer goods such as textiles, assembled motor cars, cigarettes and tobacco, crockery, carpets, furnishings, cutlery and electrical goods. Of the essential goods in category A which are also further restricted are such commodities as timber, barbed wire, wire netting, hand tools, paper other than newsprint, and yarns. The twenty per cent cut in the administrative category affects such commodities as newsprint, chemicals, components for manufacture of motor vehicle, materials for tyre manufacture, tractors, and machinery including agricultural machinery. Unassembled motor vehicles, although in the administrative category, are licensed at 85 per cent of the base year. All petroleum products are licensed freely.' "